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ANC Research Project
A study of the application of the IFRS consolidation package

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Final Report

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This report is intended exclusively for internal use by the ANC (the French Accounting Standards Authority).

It falls within the scope of the research contract signed on 29 September 2017 between the ANC and the Université Jean Moulin Lyon 3.

Despite the full care and attention given to drafting the text, we apologise in advance to ANC readers for any potential misprints, errors or inaccuracies remaining in this report. The report was prepared in French and has been translated into English. In the event of any discrepancy between the French and English versions, the French text shall prevail.

We are extremely grateful to the various people who responded to our requests, and we thank them for their availability and their contributions: the accounting and accounting policy department heads who answered our online questionnaire, in particular those who agreed to be interviewed, and leading figures in the field (academics, accounting professionals, the corporate accounting directorate of the AMF and a former member of the IASB).

SUMMARY

Quantitative and qualitative studies confirm that, on average, the financial impact of the IFRS consolidation package on SBF 120 companies has been limited. The vast majority of entities applied the consolidation package in 2014. Overall, two-thirds of these entities recognised no material effects as a result of adopting IFRS 11. IFRS 10 affected only seven groups, including three banks, and the impacts were very minor. The new definition of control has not led to significant changes in scope in "corporate" entities. Impacts have been appropriately documented by all SBF 120 companies, with disclosures generally including numerical tables. These results are in line with the first studies performed five years ago by audit firms.

IFRS 12 has led entities to disclose additional information. The effort involved in collecting this information varies depending on the issuer, with some entities implementing specific monitoring processes. Quantitative analysis of the financial statements of CAC 40 companies shows that the provisions of IFRS 12 are being properly implemented on the whole, although there are some differences in presentation.

The shift from proportionate consolidation (PC) to the equity method (EM) for joint ventures is at the source of the main impacts arising from the application of IFRS 11.

Thirty-nine groups disclosed an impact as a result of applying IFRS 10 and 11. On average, consolidated balance sheet and income statement items relating to EM entities (investment and share in profit or loss) increased significantly for these groups. This rise was offset by a slight decrease in balance sheet and income statement items owing to the disappearance of contributions from joint ventures, as these entities are no longer consolidated. The main aggregates of the consolidated income statement were slightly affected, generally downwards, with the exception of net financial income (which rose). In the cash flow statement, cash flows from operating activities (cash flow from operations and WCR) and from financing activities (borrowings) declined slightly, as did cash and cash equivalents, with the exception of around ten companies. Applying the EM effectively excluded joint venture cash flows from the cash flow statement.

Despite these limited average impacts, the value relevance study of SBF 120 entities paradoxically suggests an improvement in the quality of financial information disclosed for investors and financial analysts.

The qualitative analysis of 21 entities indicates that the companies did not experience significant difficulties applying the package and that they have a generally positive opinion of its relevance, accuracy and completeness. Three interviews were conducted, providing positive assessments of the principles for analysing joint arrangements (IFRS 11), in one case, and for analysing control (IFRS 10), in another. However, the move from PC to the EM for joint ventures is seen by some as a regression in terms of monitoring joint venture performance. Entities' practices could potentially be adapted, particularly in terms of internal communication (maintaining PC for monitoring joint ventures) or external communication (classifying profit or loss from EM operating entities within or outside recurring operating profit).
Overall, most issuers do not seem to be in favour of a substantial change in the equity method, with the exception of the provision of certain clarifications not currently addressed by IAS 28.

The last part of the report outlines some potential avenues for the development of the IFRS consolidation package. These suggestions are the result of several observations: the existence of certain divergences between the provisions of IFRS 10 and 11 and those of the French standard CRC 99-02, which raise a number of questions; some clarifications regarding the application of IFRS 10 and 11 (and IAS 28) expected by stakeholders; and diverse presentation practices (e.g. classification of EM entities in the financial statements, methods for retrieving IFRS 12 data). However, in the context of optimising the completeness, standardisation and simplification of accounting standards, the formulation of such developments remains delicate and their content questionable.

ABBREVIATIONS AND ACRONYMS

B/S: balance sheet

CA: current assets

CC: French Commercial Code

CFS: cash flow statement

DT: deferred tax

EM: equity method

EPS: earnings per share

EQ: equity

FC: full consolidation (method)

JO: joint operation

JV: joint venture

MF: mutual fund

NA: net assets

NCA: non-current assets

NCI: non-controlling interest

Net P/L: net profit or loss (syn. net income or loss)

OCI: other comprehensive income

OP: operating profit (syn. operating income)

PC: proportionate consolidation (method)

P&L: profit and loss account (syn. income statement)

Rec. OP: recurring operating profit (syn. recurring operating income)

Share P/L: Share in profit or loss (syn. net income/loss) of entities accounted for using the equity method

SME: small and medium-sized enterprises

VRs: voting rights

WCR: working capital requirement

INTRODUCTION

In May 2011, the IASB published IFRS 10, 11 and 12, known as the "IFRS Consolidation Package", with amended versions of IAS 28 and IAS 27, now limited to separate financial statements. These standards followed the exposure drafts ED 10 Consolidated Financial Statements and ED 9 Joint Arrangements published in September 2007 and September 2008, respectively.[1]

Previous standards	New standards (IFRS consolidation package)
IAS 27 Consolidated and Separate Financial Statements* and SIC 12 Consolidation – Special Purpose Entities	IFRS 10 Consolidated Financial Statements
IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers	IFRS 11 Joint Arrangements
	IFRS 12 Disclosure of Interests in Other Entities
IAS 28 Accounting for Investments in Associates	IAS 28 Investment in Associates and Joint Ventures

* IAS 27 is now called "Separate Financial Statements".

These new standards were approved in the EU at the end of 2012 (EU Regulation 1254/2012) for entry into force on 1 January 2014 with early application permitted from 1 January 2013.
As the IASB noted in its press release of 12 May 2011, these new standards **broadly aligned the IFRS and US GAAP accounting treatment** for off balance sheet activities. This revision was also an "**important element of the IASB's comprehensive response to the financial crisis**" of 2008. In the words of the Chairman of the IASB, "These improvements tighten up the reporting requirements for the consolidation of subsidiaries and special purpose vehicles, and require the substance of joint arrangements to be revealed. [...] As a package, these changes will provide a check on off balance sheet activities and give investors a much clearer picture of the nature and extent of a company's involvement with other entities."
IFRS 10 identifies the concept of control as the determining factor for consolidation and provides additional guidance to assist in the determination of control in situations where this is difficult to assess.
IFRS 11 provides "a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form". In order to address certain inconsistencies in the way that arrangements were treated previously, the standard requires a single method to account for jointly controlled entities.
IFRS 12 is a new standard on the disclosure of interests in other entities, including joint ventures, associates, and consolidated or unconsolidated special purpose entities.

<u>Excerpts of comments published by Option Finance in May 2011:</u>[2]

Laurence Rivat, Deloitte partner and former IFRIC member, on IFRS 10: "In practice, banks and insurers will have to review their special purpose entities. Some might come back into the accounts and others might be derecognised. It will also be necessary to closely examine entities where ownership is less than 50% to assess the existence of de facto control, potential voting rights or the distribution of powers in public-private joint arrangements."

Gilbert Gélard, former IASB member, on IFRS 11: "Several industry sectors will be affected, such as construction, oil and public works. Companies that want to maintain proportionate consolidation will have to use contractual arrangements providing for rights to assets rather than creating joint entities."

[1] Exposure drafts ED 9 and ED 10 generated more than 100 comment letters each. Barring errors on our part, we identified 115 comment letters for ED 9 and 148 for ED 10 on the website site archive.ifrs.org.
[2] Article by O. Dufour on the IASB's consolidation reforms, "*L'IASB réforme la consolidation*", *Option finance*, n°1126, Monday 23 May 2011, p. 12.

RESEARCH CHALLENGES AND THEMES

I/ PROJECT RESEARCH QUESTION

Following the deferred introduction of the IFRS consolidation package in the European Union for financial years starting on or after 1 January 2014, we question how companies have implemented the package in terms of transition procedures, management choices, and the interpretations and practices adopted by preparers of the accounts.

An initial review of the 2013 and 2014 financial statements of SBF 120 companies, excluding banks and insurers, reveals that the transition to IFRS 11 has had a significant impact (30%), while that of IFRS 10 has been less marked (8%). The change in the definition of control under IFRS 10 does not appear to have significantly altered the practices of industrial and commercial companies, unlike the banking and insurance sector perhaps. On the other hand, the transition under IFRS 11 from proportionate consolidation to the equity method for joint ventures has had consequences for industrial and commercial companies, requiring them to adjust their accounting practices and financial reporting.

Implementing these new standards inevitably poses practical difficulties both for preparers of the accounts (e.g. distinction between joint ventures and joint operations) and for analysts attempting to understand and interpret the financial statements (e.g. integration into operating profit of the share in the profit or loss of equity method entities as an extension of operating activities).
The aim is to analyse the overall application of the consolidation package of IFRS 10, 11 and 12 in listed companies by means of an impact study and to assess the cost/benefit ratio stemming from adoption of these new standards with a view to identifying possible areas for improvement in light of the current economic and regulatory context.

II/ A BRIEF REVIEW OF EXISTING RESEARCH ON THE TOPIC

A review of the recent scientific literature reveals very little output from researchers on the topic of consolidation, and even fewer studies addressing the IFRS consolidation package (see the references section).

Based on our recent review of accounting research in France conducted for the French accounting journal *Revue Française de Comptabilité* (published by the *Ordre des experts-comptables*, the organisation representing chartered accountants in France), [3] it appears that studies on consolidated accounts are relatively marginal. We observed the same state of affairs in late 2016 at the first France Master CCA accounting workshop that we organised at iaelyon on the theme of “IFRS standards: past or future evolution or revolution”. The only original contribution on the topic of IFRS consolidated financial statements was a paper by Frédéric Pourtier, associate professor at IAE Bordeaux, relating to the implications of the consolidation package. The paper was published with three other selected articles in an IFRS special edition that we coordinated as guest editors.[4]

In his article on the enshrining of the entity model within IFRS, Frédéric Pourtier extends his previous work, adopting a historical approach to consolidated accounts to discuss the notions of group control and scope. [5] The revision of IFRS 3, effective from 2009, and the IFRS 10, 11 and 12 consolidation standards, mandatory

[3] E. Tort, “*Quelques éléments concernant la recherche comptable en France*”, *Revue Française de Comptabilité*, n°472, January 2014, p. 5.
[4] E. Tort & F. Lantin, guest editors of “*Normes IFRS : évolution ou révolution passée ou à venir*”», *Revue Management & Avenir*, IFRS special edition, n°92, March 2017, pp. 109-112.
[5] F. Pourtier’s article on the scope of control, and the control of scope, with respect to groups’ accounting information systems, “*Contrôle du périmètre et périmètre de contrôle – réflexion sur le système d’information comptable des groupes*", *Comptabilité-Contrôle-Audit (CCA),* tome 19, volume 3, December 2013, pp. 117-146.

in the EU since 2014, make the entity concept highly relevant in light of the new concept of control set out in IFRS 10, the mandatory application of the equity method to joint ventures (IFRS 11) in addition to associates, and the full goodwill option under IFRS 3. His original analysis highlights, in function of the criteria used (capitalist, contractual versus substantial), the relative complexity of using the entity concept to define a group that is in fact similar to a real system, in a systemic sense, with its own borders and areas of influence.

In the field, the other contributors are generally professionals with strong IFRS experience[6] sharing their view of the challenges arising from the consolidation package (IFRS 10, 11 and 12), in the banking sector in particular, where the impacts are potentially substantial.
From an international perspective, a number of articles on the consolidation package have been published in recent months in foreign journals with a national or international audience. The results of these papers are relatively uneven. In general, they tend to focus on a specific point from one or two standards. We identified two articles, for example, dealing with users' resistance to change on the one hand, and the consistency of the control concept with economic principles on the other.
In their article in *The British Accounting Review,* Warren Maroun and Wayne van Zijl focus on the conflict between IFRS application and users of IFRS. Regarding the implementation of IFRS 10 and 12, they emphasise the resistance to change shown by preparers of financial statements, which may affect the way these standards are applied in companies.
In their article published in the *Australian Accounting Review*, Danny Ben-Shahar, Eyal Sulganik and Desmond Tsang note that the control concept introduced by IFRS 10 contradicts generally accepted economic principles, in particular those resulting from the mechanisms of power games. They use several applicative examples in their attempt to reveal these contradictions, employing the results of Shapely-Shubik and Banzhaf's power indices.
Finally, we note the studies performed by the major audit and consulting firms on the implementation of the consolidation package in companies in France and abroad. These contributions are generally in the form of application guides, in some cases in question/answer form, although impact studies examining the implementation of the new consolidation standards have also been issued (see Appendix 13).

III/ RESEARCH THEMES

Our work is divided into three in-depth studies designed to meet the expectations identified in the ANC 2017 call for projects.

1) <u>STUDY 1: Procedures and implementation of IFRS 10, 11 and 12</u>

The first research theme examines the operational consequences of implementing the IFRS consolidation package for preparers of the accounts. The question is firstly to determine the extent to which the consolidation standards have changed accounting practices. In addition, it is important to determine whether this wholesale change in consolidation standards, unprecedented in recent decades, has led to simple adjustments or to genuinely significant developments. We study the way that entities put in place and apply the IFRS consolidation package, as well as the impacts on the IFRS consolidated financial statements and groups' key indicators.

The results of this study are intended to contribute to a better understanding of the operational consequences of applying the consolidation standards by quantifying the financial impacts and by seeking influencing factors and difficulties perceived by the preparers of consolidated financial statements when preparing and disclosing their group's financial information.

[6] For example, C. Marion's article on the challenges of applying IFRS 11: "*IFRS 11 : subtilités et difficultés d'application*", *Revue française de comptabilité*, n°473, February 2014, pp. 20-22.

2) **STUDY 2: Impact of the IFRS consolidation package on the quality of financial information available to users of the accounts**

The objective of this second research theme is to study the extent to which changes in practice related to adopting the consolidation package improve the financial information available to users of the accounts, whether they are investors or financial analysts.
This work should help standard-setters to assess whether the consolidation package has improved the quality of financial reporting for users of the accounts, namely investors and financial analysts, thereby contributing to the IASB's objective of developing and promoting a high quality accounting framework.

3) **STUDY 3: Potential improvements to the IFRS consolidation package**

The general objective is to study possible ways of addressing the difficulties encountered by preparers and users of the accounts. In view of the results obtained in the first two studies, we formulate proposals for developing the consolidation standards with a view to improving their operational application and the quality of consolidated information. The following questions arise:

- Should it be mandatory to classify the group's share in the profit or loss of joint ventures within operating profit as an extension of the group's operating activities?
- Should proportionate consolidation be reintroduced as an option (alternative method) for joint ventures in order to better reflect the group's overall activity?
- Would it be beneficial to have a standard format for the disclosure of the information required by IFRS 12 for reasons of practicality and comparability?
- Would it be useful to have a simplified industry-specific version of IFRS 10 for industrial and commercial groups outside the banking or prudential sector?

The deliverable is list of operational recommendations designed to contribute to the potential development of IFRS consolidation practices (best practice) and to serve as a basis for reflection for the accounting standard-setter when updating the provisions contained in the current consolidation standards.

PART 1
THEORETICAL PRESENTATION OF IFRS 10, 11 and 12

SUMMARY OF THE IFRS CONSOLIDATION STANDARDS: IFRS 10, 11, 12 AND IAS 28[7]

In May 2011, the IASB published IFRS 10, 11 and 12, the new standards relating to consolidated financial statements, joint arrangements, and disclosure of interests in other entities, respectively. The old standards were either amended (IAS 27 and 28) or withdrawn (IAS 31).[8] Appendices 1 and 2 of this study present the transitional provisions of the IFRS consolidation package and the main normative changes that have occurred since their entry into force.

I/ IFRS 10 – CONSOLIDATED FINANCIAL STATEMENTS

The objective of IFRS 10 is to define principles for the presentation and preparation of the financial statements of an entity (the parent) that controls one or more other entities (subsidiaries). The standard addresses the requirement to present consolidated accounts, the definition and application of the principle of control, and accounting requirements (§. 2).

1) Requirement to consolidate

The requirement to present consolidated accounts does not apply to a parent company that is not listed, nor in the process of becoming listed, if it is the subsidiary of another entity that publishes consolidated financial statements complying with IFRS and if the external shareholders do not object to there being no intermediate-level consolidation (§. 4).

2) The three control criteria

These are, cumulatively, power over the entity (investee); exposure, or rights, to variable returns from the investee; and the ability to affect the amount of the investor's returns (§. 5-7). The investor's power is defined by the "existing rights that give it the current ability to direct the *relevant activities*" (§. 10). In principle, power arises from voting rights but it may also result from other factors, such as contractual arrangements (§. 11). If there are multiple investors, power is held by the investor that has the ability to direct the activities that most significantly affect the returns of the investee (§. 13). Other investors, including those exerting significant influence, may also have existing rights that only give them the ability to participate in the direction of the investee's activities (§. 14). Holding protective rights does not constitute a right of control over the entity. The parent company's returns can be either positive or negative, varying in function of the investee's performance (§. 15). Holders of non-controlling interests can share in the profits or distributions of an investee (§. 16). The third control criterion is the investor's ability to use its power to affect the returns from its involvement with the investee (§. 17). In this sense, an "agent" investor's delegated decision-making rights do not enable it to fulfil this criterion (§. 18).

3) Accounting requirements

Entities must use uniform accounting methods to prepare their consolidated financial statements (§. 19). The dates an entity enters into and exits the scope of consolidation correspond respectively to the dates of acquisition and loss of control (§. 20). "Non-controlling interests" should be presented separately within equity (§. 22). Changes in ownership interest that do not result in the parent losing control are classified as equity transactions (§. 23). A loss of control results in the following: the entity will be derecognised from

[7] Adapted from the article on the new IFRS consolidation package by E. Tort, "*Les nouvelles normes de consolidation en IFRS*", *Option finance*, n°1141 of 26 September 2011, pp. 32-33. See also E. Tort's pocket guide to IFRS, "*IFRS en poche*", *Gualino*, 2017-2018, 48p.

[8] Partially replaced by IFRS 10, the scope of IAS 27 is now limited to separate financial statements. The amended version of IAS 28 relating to investments in associates and joint ventures is not presented here. See the article on IAS 28 by E. Tort, "*IAS 28 : participations dans des entreprises associées et co-entreprises*", *Option finance* n°1147 of 7 November 2011, p. 37.

the consolidated balance sheet, the associated gain or loss will be recognised, and any investment retained will be recognised at its fair value (§. 25).

II/ IFRS 11 – JOINT ARRANGEMENTS

IFRS 11 establishes principles for financial reporting by entities that have an interest in joint arrangements (§. 1), in other words, "arrangements" that are controlled jointly (§. 4). IFRS 11 defines joint control and specifies that entities should determine the type of joint arrangement in which they are involved in order to apply different recognition methods (§. 3). Joint arrangements are characterised by the existence of a contractual arrangement between the parties giving them joint control (§. 5). A joint arrangement is either a joint operation or a joint venture (§. 6).

1) <u>Joint control</u>

Joint control is defined as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control (§. 7). It must be a form of joint control where the parties act together to manage the activities that significantly affect the returns of the arrangement (§. 8). Without controlling the arrangement on its own, a party can nonetheless "block" another party from taking control (§. 10). An arrangement can also include parties that have no joint control (§. 11).

2) <u>Type of joint arrangement</u>

The classification of a joint arrangement depends on the distinction between a joint operation and a joint venture, which depends on the rights and obligations of the parties to the arrangement (§. 14 - §. 16), taking into account the structure and legal form of the arrangement, the terms of the contractual arrangement, and other facts and circumstances (§. 17).[9]

Type of joint arrangement	Rights and obligations	Parties
Joint operation (arrangement)	Rights to the assets and obligations for the liabilities	Joint operators
Joint venture (separate vehicle)	Rights to the net assets	Joint venturers

A joint venture is theoretically a separate vehicle with an autonomous existence by virtue of its legal form, where the parties only have the right to its net assets.[10]

3) <u>Recognition</u>

Accounting for a joint operation (arrangement) is similar, in a way, to the proportionate consolidation method; we refer to it here as "line-by-line recognition". A joint operator effectively recognises the assets, liabilities, revenues and expenses relating to its interest in the joint operation (§. 21). Overall, this includes the joint operator's own accounting items and its share of items from the joint operation, such as assets held jointly (§. 20).
A joint venturer will account for its interest in a joint venture using the equity method in accordance with IAS 28, unless it is exempted (§. 24). In the absence of both joint control and significant influence, the party will apply IFRS 9 to account for its interest in the joint venture (§. 25). In its separate financial statements,

[9] NB: Appendix B33 to IFRS 11 provides a flow chart setting out the process to follow to determine this classification.
[10] That being said, it must not sell the majority of its production to its parties or depend on them to settle its liabilities (see Appendix B).

the joint operator's interest in a joint operation is accounted for as described above, while IAS 27 (Separate Financial Statements) is applied for a joint venturer's interest in a joint venture (§. 26).

III/ IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES

To enable users to evaluate the nature of, and the risks associated with, an entity's investments in other entities and the resulting effects on the entity's financial statements (§. 1), IFRS 12 requires the entity to disclose appropriate financial information (§. 3 & 4) concerning its subsidiaries, its joint arrangements (joint ventures and joint operations) and associates, and its investments in unconsolidated structured entities (§. 2 & 5).[11] This involves disclosing the **significant judgements and assumptions** made in determining the nature of its interests (control, joint control conjoint, significant influence) and the type of joint arrangement (joint operation or joint venture) (§. 7).

Disclosures required for subsidiaries (§. 10)

Items	Information to be disclosed
Composition of the group Interest that non-controlling interests have in a subsidiary's activities and cash flows	Name, principal place of business, proportion of voting rights and ownership interests, profit or loss allocated and accumulated non-controlling interests (§. 12).
Significant restrictions on the ability to use assets, and settle liabilities, of the group	E.g.: the nature of restrictions on transfers of cash between entities, on the payment of internal dividends, and on the payment of loans and advances within the group (§. 13).
Risks related to consolidated structured entities	E.g.: financial support provided to a subsidiary, specifying the type, amount, reason and intention (§. 14-17).
Changes in ownership interest with no resulting loss of control	Schedule showing the effects on the equity attributable to owners of the parent (§. 18).
Losing control of a subsidiary	Indication of the gains and losses on derecognition (see IFRS 10 §. 25) (§. 19).[12]

Disclosures required for joint arrangements and associates (§. 20)

Items	Information to be disclosed
Nature, extent and financial effects of interests	Name, nature of the relationship, principal place of business, proportion of ownership interest and of voting rights. For material investments, the measurement method (equity method or fair value), summarised financial information, and the fair value where the equity method is used (§. 21). Nature and extent of any significant restrictions (as above), the date and reason if the end of the reporting period is different from that of the group and, where applicable, the unrecognised share of losses in accordance with the equity method (§. 22).
Nature of, and changes in, associated risks	Separate disclosure of commitments relating to its joint ventures and of contingent liabilities relating to its joint ventures and associates (§. 23).

Disclosures required for unconsolidated structured entities (§. 24)

[11] IFRS 12 does not apply to post-employment benefit plans covered by IAS 19, separate financial statements addressed in IAS 27, parties without joint control or significant influence in a joint arrangement, and, broadly, interests accounted for in accordance with IFRS 9 (§. 6).

[12] Including, where applicable, the gain or loss arising from recognising the investment interest retained at its fair value.

Items	Information to be disclosed[13]
Nature and extent of interests	Nature, purpose, size, activities, and financing method (§. 26).
Nature of, and changes in, associated risks	Table showing the carrying amounts of the assets and liabilities and maximum exposure to loss (§. 29).

IFRS 10, 11 and 12 each contain four appendices, which are integral parts of the respective standards. The appendices include defined terms (Appendix A) and application guidance (Appendix B).

IV/ IAS 28 – INVESTMENT IN ASSOCIATES AND JOINT VENTURES[14]

Revised by the IASB in May 2011, the amended version of IAS 28 supersedes the previous version, *Investments in Associates*. The objective of IAS 28 is "to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures" (§. 1). It therefore applies to the consolidated accounts[15] of entities that have joint control (joint venture) or significant influence (associate) over another entity (§. 2).[16]

1) Definitions

According to IAS 28 (§. 3), significant influence "is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies".
Under the equity method, an investment is initially recognised at cost and adjusted subsequently for the post-acquisition change in the investor's share in the investee's net assets. The investor's net profit or loss (and other comprehensive income) includes its corresponding share in the investee.

2) Significant influence

An entity is presumed to have significant influence if it holds, directly or indirectly, 20% or more of the voting power of the investee[17] (§. 5). Significant influence is usually evidenced by a position on the board of directors, participation in policy-making processes, including decisions about dividend distributions, and interchanges (transactions, managerial personnel, and technical information) with the associate (§. 6). An entity loses significant influence when it loses the power to participate in decisions, which may coincide with a change in the percentage of control.

3) Equity method

Under this method, the carrying amount of the investment, classified as a non-current asset (§. 15), includes the investor's share in post-acquisition profit or loss and its share of changes in the investee's other comprehensive income (e.g. revaluation of property, plant and equipment) as well as changes in the investor's proportionate interest;[18] dividends received reduce the carrying amount of the investment (§. 10).

[13] NB: there are specific disclosure requirements if an entity has sponsored an unconsolidated structured entity (§. 27 and 30).
[14] See the article on IAS 28 by E. Tort, "*IAS 28 : participations dans des entreprises associées et co-entreprises*", *Option finance* n°1147 of 7 November 2011, p. 37
[15] IAS 27 applies to the separate financial statements (§. 44).
[16] See IFRS 11 for the definitions of joint venture, joint venturer and joint control.
[17] Including potential voting rights that are exercisable or convertible (e.g. convertible bonds) (§. 7 and 8).
[18] Potential voting rights are theoretically not included when calculating the proportionate interest (§. 12-13).

Apart from certain exemptions[19] (§. 17-19), the equity method is used to account for investments where there is significant influence (associates) or joint control (joint ventures) (§. 16). Investments that meet the criteria to be classified as held for sale must be treated in accordance with IFRS 5 (§. 20). Certain changes in an investment will require an entity to discontinue its use of the equity method as shown below (§. 22 and 24):[20]

Change in investment	Standard and applicable requirements
Associate or joint venture --> Subsidiary	IFRS 3 and IFRS 10
Associate or joint venture --> financial asset	IFRS 9 - measure retained interest at fair value and recognise in profit or loss any difference in fair value between initial recognition and the change
Associate <--> joint venture	Continue to apply IAS 28, no remeasurement of retained interest

4) Equity method procedure

Many of the procedures described in IFRS 10 and IFRS 3 in relation to subsidiaries also apply to associates and joint ventures (§. 26).
The entity's share of gains and losses resulting from internal transactions between the entity and the associate or joint venture are eliminated in function of the ownership interest (§. 28) unless they provide evidence of a reduction in the net realisable value of an asset (§. 29). Goodwill is determined on acquisition date. This goodwill, which cannot be amortised and which is an integral part of the carrying value of the investment, is the difference between the cost of the investment and the entity's share of the fair value of the investee's identifiable assets and liabilities (§. 32).
The investor must use:[21]
- uniform accounting policies (§. 35), which may mean making restatements to ensure conformity if local policies differ from those of the group (§. 36);

- recent financial statements, prepared as of the same date as the financial statements of the investor, or failing that, with a closing date no more than three months earlier, after potential adjustments to take into account intervening events (§. 33-34).

[19] See the IFRS 10 consolidation exemptions. See also the application of IFRS 9 when investors include investment funds, venture capital organisations, etc. (§. 18-19).
[20] See §. 25 regarding a reduction in ownership interest in an associate or joint venture.
[21] See §. 38, 39 and 40 to 42, which concern, respectively, losses of the investee provided for by the investor and potential impairment losses to be recognised with respect to the entity's investment in an associate or joint venture.

BRIEF SUMMARY OF THE AMF RECOMMENDATIONS ON APPLICATION OF THE CONSOLIDATION PACKAGE[22]

In 2013, the AMF (the *Autorité des Marchés Financiers*, the French stock market regulator) drew issuers' attention to the disclosures required as a result of changes stemming from the "consolidation package". In 2014, the AMF published its recommendations for the first-time adoption of these new consolidation standards.

I/ CONSOLIDATION PACKAGE (AMF RECOMMENDATION 2013)

1) Analysis of control under IFRS 10 and impacts

In view of the changes in the analysis of control under IFRS 10, the AMF recommends that issuers complete all steps in the analysis process and take all relevant facts into consideration before concluding on the existence of control. In the event of a material change in control as a result of the new provisions of IFRS 10, issuers are advised to disclose the specific factors relevant to the change in the relationship with the entities concerned.

Qualitative and quantitative information, as per IAS 8, is required regarding the expected impact in the 2013 accounts of the new consolidation standards.

2) Disclosure (IFRS 12)

In terms of disclosure, the AMF recommends that issuers:

- provide relevant explanations of their analysis of control, including judgements and assumptions;
- assess the appropriateness of disclosing the relevant information required by IFRS 12 in the interim (half-yearly) financial statements when there is an anticipated material impact;
- anticipate the collection and summarising of data for communicating the various disclosures required by IFRS 12;
- assess the level of detail (granularity) and relevance of the information to be disclosed on non-controlling interests.

II/ CONSOLIDATION PACKAGE (AMF RECOMMENDATION 2014)[23]

In late October 2014, the AMF published its recommendations on the 2014 financial year end under IFRS. These are similar to the recommendations of the European Securities and Markets Authority, ESMA, on the new consolidation standards applicable in the EU from 1 January 2014.

1) Consolidated financial statements and control (IFRS 10 & 12)

The AMF recommends that issuers update their assessment of de facto control in accordance with the criteria of IFRS 10. When this analysis concerns material entities, information should be disclosed in the notes to the financial statements.
For first-time adoption of IFRS 12, given the highly detailed nature of the provisions, the AMF encourages issuers to prioritise the relevance of information, while ensuring that the information disclosed meets the objectives of IFRS 12 (nature of interests and risks, financial impacts, etc.).

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[22] Partial extract of E. Tort, "*Recommandations 2010-2015 de l'AMF en vue des arrêtés des comptes en IFRS*", *Revue Française de Comptabilité*, n°502, October 2016, 5 pp.
[23] Adapted from our entry in *Option finance* n°1294 of 24 November 2014.

For subsidiaries with material non-controlling interests, the AMF draws issuers' attention to the provisions of IFRS 12 requiring comprehensive information to be disclosed,[24] including, where appropriate, allocation of non-controlling interests to the relevant operating segment.

The AMF also recommends that companies indicate in the notes to the financial statements how materiality of non-controlling interests was assessed.

Referring to the corresponding provisions of IFRS 12, the AMF finishes by reminding companies that:

- the summarised financial information presented must be before elimination of intercompany accounts and operations;
- significant restrictions limiting the ability of a group to access assets or settle liabilities of a subsidiary must be disclosed in the notes to the financial statements; and
- the risks associated with interests held in consolidated or unconsolidated entities should be disclosed appropriately in the notes to the financial statements if material.

2) <u>Joint ventures and joint operations (IFRS 11 & 12)</u>

In terms of distinguishing between joint ventures and joint operations, the AMF recommends that issuers refer to the conclusions of the IFRS Interpretations Committee, the IFRS IC, relating to the case of project entities in order to update their analyses of this type of joint arrangement.

Turning to disclosures relating to associates and joint ventures, the AMF recommends that the quantitative elements used to determine whether the entities disclosed are material should be included in the notes to the financial statements. It also draws issuers' attention to the need to present additional information for material joint ventures beyond that shown on the balance sheet and income statement (e.g. cash and cash equivalents, depreciation and amortisation, etc.), where applicable, in the notes to the financial statements.

3) <u>Impacts relating to first-time adoption of IFRS 10 & 11 and contractual amendments</u>

IFRS 11 introduced the mandatory application of the equity method to account for joint ventures. The AMF stresses the importance of accurately describing the impacts of these accounting changes (e.g. the transition from proportionate consolidation to equity accounting) as well as the analysis and judgements adopted in the event of a change in the nature of control (e.g. modification of contractual arrangements for joint arrangements).

Regarding presentation of the share in the profit or loss of entities accounted for using the equity method, the AMF refers readers to its recommendation IFRS 2013 (DOC-2013-19) on the classification of this income within or outside operating profit (see below).

ANC recommendations 2013-03 of 7 November 2013 and 2013-01 of 4 April 2013[25]

Superseding recommendation 2009-R.03, recommendation 2013-03, applicable to financial years beginning on or after 1 January 2013, concerns the formats for presenting companies' consolidated financial statements prepared in accordance with IFRS standards.

This new version takes into account the revision of IAS 27 in 2008 and the amendments to IAS 1 and IAS 19 in June 2011. Accordingly, the statement of "net income and gains and losses recognised directly in equity" has been modified by distinguishing between items that can be "recycled", or reclassified, into net income in the future and items that cannot (IAS 1 amendment: Other comprehensive income - OCI).

The recommendation makes limited changes in terminology and adds specific lines in the cash flow statement and the statement of changes in equity. A more significant item is noted in paragraph 4.5.5.3, relating to other financial income and other financial expenses in the income statement, which highlights the option provided

[24] Namely dividends and balance sheet, income statement and cash flow statement aggregates relating to non-controlling interests.

[25] Partial extract of E. Tort's article on the ANC's 2013 recommendations, "*Les recommandations publiées en 2013 par l'ANC*", *Option finance* n°1252 of 13 January 2014, p. 29.

by IAS 19 allowing entities the choice of classifying the financial component of defined benefit costs as either financial or operating income.

Recommendation 2013-03 also integrates ANC recommendation 2013-01 of 4 April 2013 relating to the presentation of the share in the profit or loss of equity-method investments. For companies choosing to present this share in operating profit (OP) as an extension of the group's operating activity, paragraph 4.5.6 thus reiterates the recommendation to classify this share after OP and before a new aggregate entitled "Operating profit after the share in the profit or loss of entities accounted for using the equity method". Entities typically accounted for using the equity method are entities under significant influence and, as of 1 January 2014, joint ventures, following the entry into force of IFRS 11, which withdrew the proportionate consolidation option for these entities.

DÉCISIONS PUBLISHED BY ESMA ON THE IFRS CONSOLIDATION PACKAGE[26]

We identified the decisions relating to the consolidation standards, namely IFRS 10, 11 and 12, from the list of decisions published by ESMA on 31 October 2017. We include below eight of the ten decisions identified,[27] on the various control and presentation/classification issues faced by entities.
The cases published by ESMA include complex accounting issues or cases with different applications under IFRS; issues that are relatively common among issuers in certain activities or of interest to certain parties; and issues with no previous or significant feedback or that are not covered by accounting standards.

List of the ten decisions published by ESMA on IFRS 10, 11 and 12[28]

Number	Decision	Financial year end	Title	Standards concerned
165	0114-06	31-12-2013	Change of presentation of the share in the profit or loss of associates and joint ventures accounted for using the equity method	IFRS 11 (and IAS 1 & 8)
192	0215-05	31-12-2013	Control of an entity without holding any equity interest	IFRS 10
193	0215-06	31-12-2013	De facto control	IFRS 10
199	0116-02	31-12-2014	Classification of a separate vehicle as a joint operation based on “other facts and circumstances”	IFRS 11
211	0216-02	31-12-2014	Disclosure of significant judgements and assumptions in determining the existence of significant influence	IFRS 12
216	0216-07	31-12-2014	Legal requirements that prevent a shareholder from exercising its rights	IFRS 10
217	*0216-08*	*31-12-2014*	*Determining whether an entity is an investment entity (*)*	IFRS 10
225	0117-02	31-12-2014	Assessment of joint control	IFRS 10, 11
227	0117-04	31-12-2016	Assessment of joint control	IFRS 10, 11
230	*0117-07*	*31-12-2014*	*Assessment of control over investment funds (*)*	IFRS 10

(*) See Note 27.

Details of the eight ESMA decisions selected here (see below) are shown in Separate Appendix 15, including a description of the case being examined, the enforcement decision taken by the regulator and the rationale for this enforcement decision.[29]

I/ CHANGE OF PRESENTATION OF THE SHARE IN THE PROFIT OR LOSS OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD (0114-06)

According to the regulator, **classifying the profit or loss of a joint venture in a start-up phase to “non-operating” result** would not provide more relevant information to the users of financial statements.

II/ CONTROL OF AN ENTITY WITHOUT HOLDING ANY EQUITY INTEREST (0215-05)

The regulator confirmed that the issuer **controlled entity B, even though it did not hold any equity interest.** Entity B should therefore be fully consolidated.

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[26] For a summary in French, see E. Tort, “*Décisions publiées par l’ESMA relatives au package consolidation IFRS*”, *Revue française de comptabilité,* n°520, May 2018, 5 p.
[27] The two decisions on investment entities/funds are not addressed here. For more detail see “Determining whether an entity is an investment entity” (0216-08) and “Assessment of control over investment funds” (0117-07).
[28] We have not included the decisions published by ESMA on IAS 27, including “Extinguishment of debt” (0115-01) and “Presentation and disclosure of discontinued operations in separate financial statements” (0215-10).
[29] N.B. in the French version of this report we provide a summary of these decisions.

III/ DE FACTO CONTROL (0215-06)

The regulator considered that H had the practical ability to direct the relevant activities unilaterally and therefore had **de facto control over entity A**, which should be consolidated.

IV/ CLASSIFICATION OF A SEPARATE VEHICLE AS A JOINT OPERATION BASED ON "OTHER FACTS AND CIRCUMSTANCES" (0116-02)

The regulator agreed that the **separate vehicle** should be classified as a **joint operation**.

V/ DISCLOSURE OF SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS IN DETERMINING THE EXISTENCE OF SIGNIFICANT INFLUENCE (0216-02)

The regulator asked the issuer to disclose the considerations that led to the conclusion that it did not exercise significant influence over entity X.

VI/ LEGAL REQUIREMENTS THAT PREVENT A SHAREHOLDER FROM EXERCISING ITS RIGHTS (0216-07)

Based on the specific facts and circumstances of the case, the regulator agreed that the issuer **did not control** entity B.

VII/ ASSESSMENT OF JOINT CONTROL (0117-02 & 0117-04)[30]

1) **First case studied (0117-02)**

The regulator considered that entity B was not under the joint control of issuer A, but was instead **an associate of issuer A**.

2) **Second case studied (0117-4)**

The regulator concluded that the issuer had **joint control** over entity X (rather than significant influence) as both the issuer and entity Y have to agree on the restricted matters that involve decisions on entity X's relevant activities.

[30] See also a selection of regulators' decisions on the EU IFRS framework, "*Référentiel IFRS UE : sélection de décisions des régulateurs*", *Revue fiduciaire comptable*, n°456, January 2018, pp. 9-11 and Didier Rimbaud's article on ESMA's discussion of joint control, "*L'ESMA rappelle certains points relatifs à la notion de contrôle conjoint*", *Option finance* n°1452, Monday 5 March 2018, p. 46.

PART 2
PROCEDURES AND IMPLEMENTATION OF IFRS 10, 11 AND 12

QUANTITATIVE STUDY OF IFRS 10 AND 11

I/ PRESENTATION OF THE SAMPLE

The initial sample comprises the French groups listed on the SBF 120 stock market index as of 30 March 2016. We examined the 120 registration documents for the year of transition to the IFRS consolidation package and identified 39 companies (including 23 CAC 40 companies) disclosing an impact caused by application of IFRS 10 and/or IFRS 11.

The results show that **42% of the CAC 40 groups and 67% of the SBF 120 groups disclose no material impact on their annual financial statements from the application of IFRS 10 and 11**. This is explained by the **option to apply the equity method for joint ventures early**, prior to implementation of the consolidation package, **and/or by the low weight of joint ventures in the group's financial statements.**

Our study focuses on the 39 companies that did not simply mention that no significant impacts were identified. The following descriptive statistics relate to this final sample.

Only six companies (Alcatel-Lucent, ArcelorMittal, Bolloré, Renault, Unibail-Rodamco and Veolia Environnement) out of the 39 applied the consolidation package from 1 January 2013. Accordingly, more than **84% of the 39 groups used the European option to postpone application of the consolidation package until 1 January 2014**.

The study of industry sectors shows that the following five areas are overrepresented (61.5% of the sample):

- **Transport industry** (automotive, rail, aeronautics and aerospace): eight companies (i.e. 20.5% of the sample);
- **Construction, real estate management and hotels**: five companies (12.8%);
- **Banking and insurance**: five companies (12.8%);
- Chemical industry, gas and oil: three companies (7.7%);
- Logistics services and environment: three companies (7.7%).

II/ RESEARCH METHODOLOGY

We began our research by downloading the 2013 and 2014 registration documents of the groups listed on the SBF 120 in order to identify the year of transition to the IFRS consolidation package. We then read the financial reports in order to identify all references to IFRS 10, 11 and 12.

We prepared a comprehensive list of financial indicators for the IFRS balance sheets, income statements and cash flow statements in order to integrate all the financial information included in the registration documents. As these line items are not presented consistently across all groups, we needed to reclassify items in the initial list. The number of occurrences varies from one item to another because not all groups disclose the same level of detail, depending on whether they adopt complete or simplified transition tables.

For each group and each item, the impact of the transition to the consolidation package is calculated:

- by value (€m), showing the difference between the amount initially published (i.e. with no impact) and the restated amount; and
- as a percentage change compared to the amount initially published.

The overall impact of the consolidation package for each company corresponds to the differences identified:

- for IFRS 10 and IFRS 11, presented separately; or
- for IFRS 10 and 11 directly aggregated in the financial report.

The summary table of results presents the following information for the 39 SBF 120 groups:
- the cumulative restated amounts in values (€m) ;
- the mean, median and standard deviation of the individual differences identified (and not the total difference across the whole sample);
- the statistical significance of the mean if the number of occurrences is greater than 10 using a Student's t-test to identify whether the mean variations are statistically different from zero or not. Any statistical significance is highlighted with an error rate of 10% (*), 5% (**) or 1% (***). If there are fewer than 10 occurrences, the acronym "NT" meaning "not tested" is indicated.

Given the size of some sub-samples, and based on examination of the initial results, we eliminated extreme values to avoid distorting the means on which the statistical tests are performed. All individual percentage changes greater than or equal to the absolute value of 100% were therefore deleted. These differences are often due to the initial amount published being very small, which leads to variation rates of up to 8,900%. They are not however excluded from the analysis because we provide individual comments on these items. This approach also provides greater consistency between the means and medians of each item studied.

The objective is to discuss these overall results and to analyse the impacts for each group on a case-by-case basis in order to identify mean, median and maximum levels of impact as well as possible sector-specific characteristics.

III/ QUALITATIVE STUDY OF REGISTRATION DOCUMENTS (Appendix 3)

As noted above, 39 groups disclosed quantified impacts stemming from application of the IFRS consolidation package. Our study of these registration documents reveals a certain degree of homogeneity in the explanatory steps, but not in the level of information presented.

4) Footnotes to the annual financial statements

Almost **half of the groups in the sub-sample (19 out of 39) indicate, from the beginning of their registration document, that the key indicators and financial statements for years N and N-1 have been restated as a result of the consolidation package**. The reports all use a footnote with a starred reference (*) specifying that "figures have been restated following the application of IFRS 10 and IFRS 11".

5) Theoretical reminders of the new accounting methods applied

At the beginning of their explanatory notes on accounting principles, the groups mention any new standards applicable, including IFRS 10, 11 and 12.

For example, a short explanatory text may be provided to present the new definition of control under IFRS 10: "IFRS 10 supersedes IAS 27 – *Consolidated and separate Financial Statements* and SIC 12 – *Consolidation – Special purpose entities.* This standard introduces a new definition of control. An investor (the Group) controls an entity and therefore must consolidate it as a subsidiary, if it has all the following:
- the ability to direct the relevant activities of the entity;
- rights to variable returns from its involvement with the entity;
- the ability to use its power over the entity to affect the amount of the investor's return."[31]

[31] Engie (formerly GDF-Suez) 2014 registration document (English version).

IFRS 11 is often described in more detail in two stages: the distinction between joint operations and joint ventures and then the change in consolidation method applicable to the latter, as seen in this example: IFRS 11 "supersedes IAS 31, Interests in joint ventures, and SIC 13, Jointly controlled entities – non monetary contributions by venturers. [...] Joint arrangements are the entities over which the Group has joint control. [...] A joint arrangement is classified either as a joint operation or as a joint venture. The classification is based on the rights and obligations of the parties to the arrangement, taking into consideration the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances. [...] The Group accounts for its interests in associates and joint ventures under the equity method."[32]

6) **Application of IFRS 10**

Companies report that they have carried out reviews to assess the consequences of the new definition of control under IFRS 10. For example, one of the most detailed reports states that "The Group undertook an analysis of the control in all the companies held with other shareholders and the companies in which it holds options, in accordance with the criteria of these new standards. The analysis focused firstly on legal documents, covenants, articles of association, other contracts governing the functioning of decision-making bodies of the entities in question, and then if applicable, it reviewed the facts and circumstances, specific to each of these companies, which could have an effect when defining the level of control." [33]

Following their reviews, **all the SBF 120 groups reported that no significant impact arose from applying IFRS 10, with only seven groups (including three banks) noting very limited impacts**, namely:

- Airbus: five subsidiaries previously fully consolidated now excluded from the scope of consolidation
- BNP Paribas: two subsidiaries now fully consolidated
- Bolloré: one subsidiary now fully consolidated
- EDF: two subsidiaries now treated as associates and no longer controlled and, conversely, one subsidiary now fully consolidated
- Engie: disclosed modification of "the consolidation method used for a very limited number of entities"
- Natixis: six subsidiaries now fully consolidated
- Société Générale: two subsidiaries now fully consolidated
- Thales: one subsidiary previously accounted for using proportionate consolidation now fully consolidated

In view of their initial reactions prior to the proposed amendments to IAS 27, banks were expected to be overrepresented among companies experiencing IFRS 10 impacts; however, in the end, BNP Paribas and Natixis are the only banks to disclose separate tables showing the impact on their financial statements. The only significant impacts on balance sheet assets relate to an increase in the item "Loans and receivables due from customers" of 0.7% for BNP Paribas and 2.5% for Natixis. Balance sheet liabilities show an increase in "debt securities" of 2.7% for BNP Paribas and 5.0% for Natixis. There was no impact on the income statement.

7) Application of IFRS 11

Some groups specify their classification criteria for joint ventures and joint operations, newly defined by IFRS 11. EDF, for example, indicates that, "the Group examined whether the partners benefit from

[32] Alstom 2014/15 registration document (English version).
[33] Bolloré 2013 registration document (English version).

substantially all economic benefits of the assets and are substantially continuously responsible for settlement of liabilities. A joint arrangement is classified as a joint operation when both these conditions are fulfilled, and as a joint venture otherwise".[34]

Few companies disclose that they have classified their joint arrangements as joint operations under IFRS 11 and the number of joint operations identified is very low: one for Renault and seven for Safran. However, registration documents very often indicate the **number of joint ventures previously accounted for by proportionate consolidation and now accounted for using the equity method**. The information disclosed is either very precise, referring the reader to the list of subsidiaries concerned in the notes to the accounts, or only gives the number of key companies concerned, often citing their names if there are fewer than ten such companies. The number of subsidiaries concerned in our sample **varies from one** for Natixis **to 137** for JC Decaux, **with a significant majority of individual cases involving fewer than 15 key companies**.

The **small number of joint ventures** affected by a change in method, which is not systematically directly related to their economic and financial weight in the group, **is often sufficient to justify the immaterial impact of the consolidation package** on the financial statements of SBF 120 groups.

Many groups thus clearly indicate that the changes have had **no impact on total net profit or loss for the current and previous accounting periods or on the shareholders' equity attributable to the group**.

The application of IFRS 11 led six groups (Bolloré, Engie, Renault, Safran, Suez and Valeo) to directly comment on presentational changes to indicators, for example **including the "share in the profit or loss of operating companies accounted for using the equity method" within operating profit or loss** distinct from the "share in the profit or loss of non-operating companies accounted for using the equity method".

Conversely, **two groups indicate that they have continued to use the proportionate consolidation method for joint ventures in their presentation of certain financial management indicators**. According to Icade, IFRS 11 "does not allow it to fully reflect the business of Property Development".[35] Furthermore, Nexity notes that "For operational reporting and management purposes, Nexity continues to apply proportionate consolidation to its joint ventures, which in its view provides a more accurate reflection of the Group's performance and risks as measured by revenue, operating profit, working capital and debt."[36]

8) <u>Notes to the financial statements specifying the impacts of the IFRS consolidation package</u>

35 of the 39 groups in our sample **disclosed tables showing the impact of the consolidation package in order to reconcile the figures in their "published" and "restated" financial statements.** The four other groups (Korian, L'Oréal, M6 and TF1) limited their disclosures to highlighting the restated accounts, which nevertheless allowed users to calculate the impact in relation to the financial statements published in the previous year's registration document.

16 groups, or **46% of the 35 groups, presented the IFRS 10 and IFRS 11 impacts in aggregate form**, while 19 annual reports separately disclosed the consequences of IFRS 11 as there was no IFRS 10 impact. Only four companies (BNP Paribas, Crédit Agricole, Natixis and Veolia) out of the 19 disclosed quantified impacts, but only for changes in the types of control now applicable under IFRS 10.

[34] EDF 2014 registration document (English version).
[35] Icade 2014 registration document (English version).
[36] Nexity 2014 registration document (English version).

The tables reconciling the published accounts to the restated accounts include **25 full balance sheets and 10 simplified balance sheets presenting the main aggregates only**. The proportion is similar for the income statement with **23 full income statements and 12 simplified income statements**.

Differences in the level of disclosure are also seen regarding the **impact on the consolidated cash flow statement, presented by only 23 groups** in their registration documents. Of these statements, 14 are presented in their full form and nine in a simplified form limited to the effects on total net cash flows from operating, investing and financing activities and changes in cash and cash equivalents.

Finally, **ten companies present a consolidated statement of comprehensive income or a statement of net income and changes in assets and liabilities recognised directly in equity**. This sample is too small to conduct a study on these summary statements, especially since they are based on the detailed income statements. A few companies add transition tables for key performance or debt indicators.

The 35 impact tables present different levels of information on the restatement of the accounts for years N-1 and N-2 compared to year N, the year of transition to the IFRS consolidation package:

- 19 present the impacts on all their restated summary documents for N-1 only;
- 13 disclose the published and restated balance sheets for N-1 and N-2, but only restate the income statement and cash flow statement for N-1 in accordance with IAS 8;
- 3 disclose all of the restated documents for both N-1 and N-2.

9) Statutory Auditors' report

Finally, our examination of the registration documents shows that many statutory auditors specifically mention the application of the consolidation package in their opinion on the consolidated financial statements. Without qualifying their opinion, they draw shareholders' attention to the information or note presented in the notes to the financial statements relating to changes in accounting policies resulting from the application of IFRS 10, IFRS 11 and IFRS 12.

IV / IMPACT OF IFRS 10 AND 11 ON THE CONSOLIDATED BALANCE SHEET (Appendix 4)

The transition from the proportionate consolidation method to the equity method for jointly controlled entities leads to **an increase in the item "Investments in entities accounted for using the equity method"** on the consolidated balance sheet, **offset by a decrease in the other net asset items**. These other items no longer include the parent company's share in the joint venture, i.e. the proportion of its ownership interest.

Our study of the groups' balance sheets presents items in the order they appear on the balance sheet and aims to detail and analyze the impacts of:

- the highest mean differences in values (>10%);
- the most significant differences (> +/- 1% and *** or **); and
- the key indicators, regardless of their level or statistical significance.

1) Non-current assets:

- **Goodwill: -3.09%*****

With very few exceptions, the amount of goodwill systematically decreased by between -0.23% and -18.42% with a mean of -3.09%***. There is a real impact, but its overall amount is limited, reflecting the small amounts of goodwill paid for joint ventures compared to fully controlled subsidiaries.

To explain this reduction, certain groups, such as Valeo, note that "the portion of **goodwill allocated to cash-generating units (CGUs) comprising joint ventures [...] was reallocated and reclassified within investments in equity-accounted joint ventures**. Goodwill was reallocated based on the carrying amounts of the joint venture and group of CGUs concerned at January 1, 2013."[37] In this context, groups performed impairment tests for goodwill, leading some groups to recognise impairment losses.

- **Intangible assets: -4.60%****

The mean variation of -4.60%** diverges from the median of -1.02% due to the large differences disclosed by Veolia (-47.48%), Lafarge (-35.54%) and Maurel & Prom (-20.18%). The median level of impact is close to that for goodwill, but the level observed individually for each group is not so consistent.

- **Property, plant and equipment: -4.72%*****

The mean of -4.72%*** is similar to that observed for intangible assets. Virtually all of the changes are between 0 and -10% confirming that the share in the property, plant and equipment of joint ventures is now included in the item "investments in entities accounted for using the equity method". The most significant impacts are seen in Veolia (-31.17%), Lafarge (-18.32%) and Rubis (-16.64%).

- **Investments in entities accounted for using the equity method: +29.54%*****

The mean difference is +29.54%*** significantly different from 0 with an error rate of 1%. This result takes into account the removal of 12 extreme values higher than 100%, including the differences disclosed by Icade, Klépierre, M6, Plastic Omnium and Technip, which exceeded +1,000% as the initial values were close to zero. The mean is more consistent with the median (+38.13%), reflecting a **mean increase of nearly +30% in the value of investments accounted for using the equity method**.
The strong change in this item, the largest seen on the balance sheet, was expected since IFRS 11 requires the equity method to be used for joint ventures. By the same token, this variation is lower than it could have been because some groups in the sample, such as PSA, had already **anticipated use of the equity method**, taking advantage of certain conditions under IAS 31.

- **Total non-current assets: -0.67%****

The weak mean variation of -0.67%** for total non-current assets does not reflect the degree of stability of its components. This mean results from the decreases in its main items – **goodwill (-3.09%***), intangible assets (-4.60%**), property, plant and equipment (-4.72%***)** and deferred tax assets (-8.57%) – being largely offset by the rise in investments in entities accounted for using the equity method (+29.54%***).

2) <u>Current assets:</u>

- **Inventory and work in progress: -4.44%*****

The mean fall in inventory of -4.44%*** fairly accurately reflects the negative changes recorded by all 25 groups specifying the separate impact of the consolidation package on their inventory levels. Again, Lafarge (-12.09%), and Veolia (-39.62%) in particular, stand out in terms of the particularly large impacts disclosed.

- **Trade loans and receivables: -2.44%****

[37] Valeo 2014 registration document (English version).

Trade receivables, which fell by -2.44%,** merit discussion here because the adjusted published amount is the most significant item on the balance sheet in terms of value, amounting to €1,426,185 million. Almost 90% of this balance relates to loans due from customers for the three banks in the sample: BNP, Crédit Agricole and Société Générale. This feature does not significantly change the mean because the corresponding rates of change are less than +/- 1%. The most significant impacts are for Lafarge (-19.85%), JCDecaux (-12.51%) and Nexity (-10.74%). The individual differences of the other groups are below -10%. The unexpected +8.93% increase in Rubis' trade receivables as a result of IFRS 11 is not explained.

- **Other receivables: -14.01% NT (not tested as n<10)**

Only four groups disclose a decrease in other receivables, meaning that we should be extremely careful about generalising this result. The largest change is Plastic Omnium (-28.69%), although Lafarge and Veolia also show a change in the region of -15%.

- **Total current assets: -3.19%***

Total current assets fell by -3.19%, mainly due to significant average decreases in a few key components: **inventory (-4.44%***), trade receivables (-2.44%**) and current financial assets (-3.82%**).** Overall, the differences are less than -10% with the exception of three groups that disclose major impacts: -21.22% for Veolia, -14.04% for Plastic Omnium and -12.06% for Lafarge.

3) <u>Total assets:</u>

- **Assets / liabilities classified as held for sale: -26.70%** / -24.62% NT**

Analysis of the results for the sub-sample of assets held for sale reveals two observations: nine out of 14 groups disclose no impact, leading to a zero median. Conversely, four groups (EDF, Engie, Valéo and Véolia) disclose a sharp drop in the region of -70%. Crédit Agricole is an isolated case due to its aggregated presentation of the impact of IFRS 10, IFRS 11 and IFRS 5. The latter standard relates to non-current assets held for sale and could alone justify the fall of -93.21%.

- **Total assets: -1.92%***

All of the components of total assets decreased, bar one, however these decreases were partially offset by the only item to have increased, namely investments accounted for using the equity method, which increased because it now includes the corresponding shares from the other items. The amounts **are not fully offset at this stage since investments accounted for using the equity method also include the share in the non-current and current liabilities of jointly controlled entities.** Overall, the average decrease in total assets was -1.92%, with the same groups affected by the most significant corrections: Veolia (-13.72%), Thales (-13.22%) and Plastic Omnium (-7.08%).

4) <u>Shareholders' equity:</u>

- **Non-controlling interests: -2.95%***

The mean difference is distorted by the figure for Thales, whose non-controlling interests increased by 696.66%. Once we have adjusted for this extreme value, the mean is -2.95%* due in particular to the large variations for Plastic Omnium (-61.00%) and Veolia (-29.18%). Non-controlling interests are in fact unchanged in half of the cases (17 groups out of 33).

- **Total shareholders' equity: -0.39%***

Half of the sample companies disclose no impact from IFRS 10 and 11 on their level of equity. The weakness of the mean -0.39%* is representative of the individual results, marked only by the effects, as highlighted above, on non-controlling interests for Plastic Omnium (-6.20%) and Veolia (-4.97%).

5) **Non-current liabilities:**

- **Non-current financial liabilities: -3.21%*****

Non-current financial liabilities, which reflect the groups' level of bank and bond debt, are sometimes detailed in the registration documents via the impacts of IFRS 10 and 11 on debt ratios. **Excluding the group's share of debt in its joint ventures** has enabled some groups to reduce the financial debt shown on their balance sheet, in particular M6 (-27.27%) and L'Oréal (-10.46%). Although variations are frequent, their intensity is generally limited to between -0.1% and -5% with a mean of -3.21%***.

- **Total non-current liabilities: -1.62%*****

The level of significance of total non-current liabilities is explained by the intensity and statistical significance of the differences identified for its main components: **non-current provisions (-2.48%**), non-current financial liabilities (-3.21%***) and non-current deferred tax liabilities (-6.20%**)**. Individual differences identified are all less than -7%, with the exception of Veolia (-10.42%).

6) **Current liabilities:**

- **Trade payables: -4.59% *****

Trade payables are a particularly sensitive item on the liabilities side of the balance sheet and, by definition, they are included in all joint ventures' balance sheets. It is therefore not surprising that we observe a very significant mean decrease of -4.59%***, influenced by the most significant cases: Lafarge (-17.72%), Icade (-12.01%), Rubis (-11.48%) and JCDecaux (-10.56%).

- **Other current liabilities: -5.01% *****

Other current liabilities are strongly affected downwards by the IFRS 11 restatements for Maurel & Prom (-26.31%) and Veolia (-17.55%). The difference compared to the median (-1.83%) is largely due to these two extreme cases, which explain half of the difference.

- **Total current liabilities: -3.55%*****

The average fall in current liabilities of -3.55%*** is comparable to that seen for current assets, which fell by -3.19% *** and which is also highly statistically significant. The **trade payables (-4.59%***), other current liabilities (-5.01%***) and deferred tax liabilities (-2.06%**)** items reflect the fact that the investment in entities accounted for using the equity method is now included in non-current financial assets.

7) **Total shareholders' equity and liabilities: -1.86%*****

The four financial institutions in the sample account for more than 70% of the total restated amounts disclosed, although the variations are not significant. The individual differences for the groups are very small overall and less than -4% with the exception of Veolia (-13.76%), Thales (-13.22%) and Plastic Omnium (-7.08%).

V / IMPACT OF IFRS 10 AND 11 ON THE CONSOLIDATED INCOME STATEMENT (Appendix 5)

The expected theoretical impact on the income statement from the change in the accounting method for joint ventures under IFRS 11 is **an increase in the item "Share in the profit or loss of entities accounted for using the equity method", which is offset by a decrease in all other income statement items and aggregates except for "Net profit or loss",** since the items are theoretically fully offset.

The detailed analysis of the income statement components again focuses only on the highest (>10%) and/or most significant (***/**) means, as well as on the balances most frequently presented in companies' registration documents. Our analysis presents items in the order they appear on the income statement.

1) <u>Operating profit</u>

- **Revenue/Turnover: -3.98%***

Revenues from joint ventures, which no longer appear as such in the income statement because they are now directly included in the share in the profit or loss of entities accounted for using the equity method, fell sharply and very significantly by -3.98%. All groups experienced a fall in their revenue in the range of -0.5% to -10%, with the exception of Veolia (-21.60%), Plastic Omnium (-15.40%), Lafarge (-13.86%), JC Decaux (-12.48%) and Thales (-10.54%). It is therefore essential that these companies provide precise information regarding the impact of IFRS 11 for investors sensitive to this indicator.

- **Cost of sales: -4.63%****

For the sub-sample of 11 groups, cost of sales fell by 4.63%** following the restatement for IFRS 11. The **fall in revenue from joint ventures is therefore offset by the reduction in their cost of sales**. Plastic Omnium, for example, reported a €695m (-16.01%) decrease in its cost of sales for revenues that fell by €789m (-15.40%). Similarly, it is interesting to compare the €2,107m, i.e. -13.86%, decrease in Lafarge's revenue with the corresponding fall in its cost of sales (€1,796m, i.e. -15.30%). **The impact of IFRS 11 on the income statement is almost entirely neutral at the gross margin level** (+0.19%). This may reflect the poor performance of the joint ventures concerned.

- **Selling expenses: -3.70%****

The groups' share of joint venture selling expenses led to an average reduction in this item of -3.70%**. This improvement in operating profit is particularly significant for Lafarge (-12.51%) and Plastic Omnium (-11.13%). The differences are quite heterogeneous, which explains why the median is three times smaller (-1.18%) than the mean of the individual differences.

- **Depreciation, amortisation and provision expense: -2.71%*****

The change in depreciation, amortisation and provision expenses is limited to -2.71%***, with no individual variation exceeding -10% (-9.56% for JC Decaux). Moreover, from a statistical point of view, they are very significantly different from 0 since all these expenses are on a downward trend.

- **Total operating profit: -3.46%****

The ANC recommendation 2013-01 of 4 April 2013, which recommends distinguishing between the share in the profit or loss of operating entities accounted for using the equity method (before recurring operating profit) and the share in the profit or loss of non-operating entities accounted for using the equity method (after recurring operating profit), was only followed by the Bolloré Group. Five other groups only present operating profit after the share in the profit or loss of entities accounted for using the equity method (Arcelor, Engie, Icade, Safran and Technip). In this case, the impacts of IFRS 10 and 11 are by nature very limited and less than 1% since the offsetting with the share in profit or loss has already been achieved.

The other groups only present operating profit before the share in the profit or loss of entities accounted for using the equity method by maintaining the old presentation rules and/or because they consider these subsidiaries not to be an extension of the group's business according to ANC recommendation 2013-01. Certain impacts are very high, such as Veolia (-36.10%), JCDecaux (-35.43%) or Nexity (-11.44%), reflecting an **operating performance significantly underpinned by that of their joint ventures**.

Overall, the mean difference observed is -3.46%**, reaching -4.26% (not tested) if the calculations are based solely on operating profit before the share in the profit or loss of operating entities accounted for using the equity method. For the sample of 34 groups, the decrease in operating profit reflects an average situation in which the fall in revenue (-3.98%) is barely offset by the contraction in operating expenses. This is not the case for the ten groups analysed above, where we see a significant decline in operating expenses (cost of sales, selling expenses, depreciation, amortisation and provisions, etc.).

2) <u>Net financial income: +2,62%</u>**

Changes in net financial income were on average +2.62%** in line with their being directly integrated into the share in the profit or loss of joint ventures. This trend is particularly related to the fall in borrowings recorded in the balance sheet under non-current financial liabilities (-3.21%***). This impact led to a **significant reduction in financing costs of -3.93%***** with maximum values of -20.62% for L'Oréal and -13.25% for JC Decaux. These two groups disclose interest income that varies significantly but in opposite directions (+8.66% and -20.47%, respectively), confirming the key impact of joint ventures on the groups' net financial income.
However, **almost two thirds of the groups (10 out of 16) disclose only a small individual impact on their net financial income of less than -1%**.

3) <u>Profit or loss before corporate income tax: -1.28%*</u>

The **mean difference in net profit or loss before corporate income tax is lower than expected at only -1.28%***. Although six groups already include the share in profit or loss of entities accounted for using the equity method in this aggregate, thus justifying the small difference, this is not the case for the majority of the other 20 groups who disclose the restated value of this indicator.

4) <u>Share in the profit or loss of entities accounted for using the equity method: +16.96%*</u>

The mean is adjusted for several extreme values, related in particular to some of the initial amounts published being very small. More than half of the sub-sample of 22 groups disclose a total share in the profit or loss of entities accounted for using the equity method of less than €15m, generating very high individual differences that are not representative of the sample (between -933.33% and +3,434.35%) as a result of the slightest change stemming from IFRS 10 and 11.
The means and medians of the differences for the 15 companies are limited to +16.96%* and +9.59%, respectively. Nevertheless, this item remains **extremely volatile, explained by the fact that it previously**

included only associates and now also includes the profits of joint ventures. In nearly 30% of cases, comprehensive income decreases reflecting the absence of joint venture losses now included at the percentage of interest held by the group's parent company.

5) Consolidated profit or loss: -0.53%

There is theoretically **no IFRS 11 impact on the net profit or loss** of the SBF 120 groups since this item already takes into account the share in the profit or loss of entities accounted for using the equity method. The only exceptions are Lafarge (-€29m, i.e. -16.02%) and Véolia (+€78m, i.e. +57.35%). These groups do not explain these differences in the comments to their registration documents.

On the other hand, the **impact of IFRS 10 on net profit or loss may be more significant**. Thales' net income attributable to non-controlling interests, in particular, rises very strongly from -€0.4m to +€35.6m (i.e. +8,900%, an extreme value neutralised to calculate the mean). This effect is due to the change in consolidation methods applied to two 67%-owned subsidiaries previously accounted for by proportionate consolidation and now fully consolidated according to the new definition of control.

VI / IMPACT OF IFRS 10 AND 11 ON THE CONSOLIDATED CASH FLOW STATEMENTS (Appendix 6)

The **cash flows from joint ventures accounted for using the equity method are no longer taken into account at a group level**. The expected impact is therefore a decrease in total cash flows from the operating, investing and financing activities of joint ventures.

1) Cash flows from operating activities: -2.97%**

- **Share in the profit or loss of entities accounted for using the equity method: +6.04% NT**

The share in the profit or loss of entities accounted for using the equity method corresponds to the amount reported in the income statement and mentioned by certain groups, including Airbus, as one of the "restatements to reconcile net profits for the year to cash flows from operating activities".[38] The mean difference of +6.04% differs from that seen for the income statement (+16.96%*) because the cash flow statement sample tested is 3 times smaller. The other groups rely directly on the net profit or loss of their consolidated subsidiaries, which does not need to be adjusted.

- **Cash flow from operating activities: -2.15%***

After adjusting for Alcatel's -1,100% change, which stems from the very small amount initially published (€1m), the average difference is -2.15%, representing the share of cash flow from operating activities generated by joint ventures. Nexity and Plastic Omnium disclose the largest falls, close to -10.20%.

- **Change in WCR: -7.70%**

One of the first key lessons from the study of cash flow statements relates to the mean decline in working capital requirements of -7.70%, a long way from the median of 0.43%, despite the elimination of two extreme values: 212.71% for Maurel & Prom and 135.13% for Nexity. This difference **is linked to the group share of the WCR components of joint ventures (trade receivables, inventories, trade payables, etc.) directly included in the balance sheet in the item "investments in entities accounted for using the**

[38] Airbus 2014 registration document (English version).

equity method". Nearly half of the sub-sample shows a change of more than +/- 30% in absolute terms, reflecting the generalised nature of this decrease or increase depending on the sign of the change in WCR generated over the year by the group's joint ventures.

- **Total net cash flow from operating activities: -2.97%****

The mean decline in net cash flows from operating activities of -2.97%** **mainly includes decreases in operating cash flow, potentially relating to the joint ventures that generate operating cash flows**. Conversely, there are several increases (Arcelor, JCDecaux, PSA, Rubis, LVMH and Solvay) of between 0.87% and 18.10%.
The direction of the impact depends on the cash flow variation from investing activities and from the financing of joint ventures. For example, gains from the sale of non-current assets are now taken into account in the share in profit or loss, i.e. in operating cash flows, which therefore increase, offset by the decrease in investing cash flows.
There are offsetting entries within operating profit since the **decreases in cash flow from operating activities (-2.15%*) are partly offset by the reductions in WCR (-7.70%) and in interest and taxes paid (-2.57%*)**. The reduction in this last item is related to the decrease in financial expenses resulting from the fall in borrowing reported on the groups' consolidated balance sheets.

2) <u>Cash flows from investing activities: +1.19%</u>

The mean of the individual impacts was initially distorted by two extreme values: +193.96% for Klépierre and +412.67% for Véolia. Once corrected, the mean of +1.19% aligns with the median of +1.36%. This does not mean that the impacts on investing cash flows are limited. On the contrary, **the individual variations are quite significant, but in opposite directions** (17 positive variations versus eight negative variations), generating a mean close to zero. The cash flows themselves are also in the opposite direction, making it difficult to interpret the results.

Acquisitions of intangible assets and property, plant and equipment decreased by -2.33% and acquisitions of financial assets fell by -7.25%**. These effects are directly related to the transfer of the share in these joint venture assets to investments in entities accounted for using the equity method. In addition, **income from disposals was significantly reduced with a mean of -4.85%*, offsetting the impact on acquisitions**. The final impact on the level of cash flows from investing activities therefore depends on these total or partial offsets.

3) <u>Cash flows from financing activities: -3.50%</u>

Removing the extreme percentage changes for Thales (+529.55%) and Veolia (+155.11%) significantly modifies our analysis of the mean, which is then calculated as -3.50%, closer to the median of -1.01%.
Cash flows from financing activities were improved by the **fall in interest paid (-4.37%), offset by the loss of new loans from joint ventures (-3.08%**)**. This reduction in the level of debt, already observed on the balance sheet and in cash flows from operating activities, appears to be a key point in our study of the impacts generated by the application of IFRS 11.
The removal of joint venture borrowing from the calculation of cash flows from financing activities leads to an **overall fall in financial cash flows**. Unlike operating activities, the **distribution of the direction of the impacts is not balanced: 20 decreases compared to only six increases** after correction for extreme values.

4) <u>Net cash and cash equivalents at the end of the year</u>: -4.59%***

The **mean variation in cash and cash equivalents at the end of the year of -4.59%*** is mainly due to the -3.32%** fall in cash and cash equivalents at the beginning of the year** as the change in cash and cash equivalents for the year was virtually neutral: -0.55%. The impact of IFRS 11 reached -18.07% for Nexity, -15.22% for Thalès and -13.22% for Klépierre, with these groups experiencing the highest impact on their opening cash and cash equivalents balance.

SUMMARY

Our study of the impact of IFRS 10 and 11 based on our analysis of SBF 120 companies leads to the following conclusions:

- The deferral of the application of the IFRS consolidation package for European financial statements until 1 January 2014 was overwhelmingly adopted by French groups (84%).

- Two-thirds of the companies in the SBF 120 index report no significant impact from IFRS 11 in their consolidated financial statements following early application of the equity method for joint ventures permitted by IAS 31 and/or because of the low economic weight of these subsidiaries at group level.

- Only seven groups, including three banks, from the remaining third of the SBF 120 sample report very limited impacts related to the new definition of control under IFRS 10.
  35 groups presented quantified tables showing the impact of IFRS 10 and 11 in the notes to the financial statements in addition to their comments in their registration documents. The groups disclosing the greatest impact on their financial statements from the IFRS consolidation package are Veolia, Lafarge, JCDecaux, Plastic Omnium, Maurel & Prom, Nexity, Icade, Klépierre, M6 and Thales. There is therefore no obvious sector-related effect.

- Our analysis of the impact tables reveals a strong and significant increase (+29.5%***) in the item "investments in entities accounted for using the equity method" on the consolidated balance sheet, which now includes the group share in joint ventures. This is offset by a significant decrease in certain key balance sheet items: goodwill, intangible assets, property plant and equipment, and WCR components (inventories, trade receivables, trade payables and other current liabilities). On the liabilities side, however, the expected lack of changes in shareholders' equity is at odds with the decline in debt due in more than one year (-3.2%***).

- A number of performance indicators have been modified in the groups' consolidated income statements, starting with operating profit (-3.5%**), revenue (-4.0%***) and all expense items, which fell by the same proportion: cost of goods sold, selling expenses, and depreciation and amortization expense.

- The increase in net financial income (+2.6%**) is mainly due to the reduction in the financing costs (-3.9%***) of joint ventures, linked to the fall in their borrowings, which no longer appear in the group's financial statements.

- The reconciliation of the proportionate consolidation and equity-accounting methods occurs at the level of net profit or loss, which includes the "Share in the profit or loss of entities accounted for using the equity method". This item rose very strongly by +17.0% since it is no longer limited to associates.

- Cash flows from joint ventures are no longer included in the consolidated cash flow statement. The main effects of the change in method under IFRS 11 are the decreases in cash flow from operating activities and in the change in WCR, linked to the changes mentioned above. Overall, cash flows from operating activities fell by -3.0% **.

- Cash flows from investing activities are relatively stable (+1.2% not significant) due to the offsetting effects of the decreases in acquisitions by joint ventures and their disposal proceeds.

- The groups report a decrease in cash flows from financing activities of -3.5%, which arises because the elimination of the new loans contracted by joint ventures is not completely offset by the elimination of the financing costs of their overall financial liabilities.

- Finally, while the variations in cash and cash equivalents during the year were small, this is not the case for cash and cash equivalents at the beginning of the year, and therefore at the end of the year, with this item falling by an average of -4.6%** for the groups in the sample.

QUANTITATIVE STUDY OF IFRS 12

The objective of IFRS 12 is to encourage entities to disclose information that enables users of its financial statements to evaluate the nature of, and the risks associated with, their interests in other entities and their effects on the entity's financial position, financial performance and cash flows. In order to study the impact of the application of IFRS 12 on companies' financial statements, we first collected CAC40 companies' registration documents for the year of application of the consolidation package, giving a sample composed of 39 entities. In a second step, we analysed these financial statements with reference to the provisions of IFRS 12.

The main results are presented in a summary table at the end of this section. Appendix 4 presents data on the volume of the notes to the financial statements before and after application of the IFRS consolidation package.

I/ INFORMATION ON THE GROUP

1) <u>Information on the composition of the group</u>

IFRS 12 (§. 10) requires entities to disclose **information on the composition of the group**. Our results show that **this information is disclosed by virtually all of the companies in our sample (97%).** In addition, our analysis highlights that **the information is disclosed in a consistent manner**. It is always **presented in tabular form and organised according to the influence exercised by the company**.

2) <u>Information on significant judgements and assumptions</u>

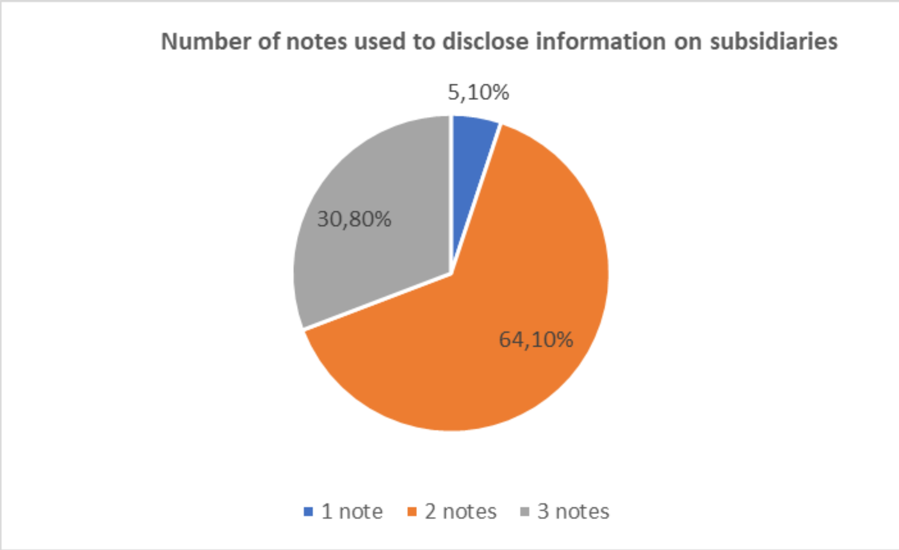
In accordance with **IFRS 12 (§. 7), an entity shall disclose information about significant judgements and assumptions it has made** (and changes to those judgements and assumptions) **in determining that is has control of another entity, that it has joint control or significant influence, and the type of joint arrangement**. Our results show that this information is disclosed by **almost two-thirds of companies**. The information disclosed relates to the application of the concepts of control, joint ventures, associates and joint arrangements. **The remaining 38% of companies limit their disclosure to reproducing the IFRS 10 and 11 definitions.**

II/ INFORMATION ON SUBSIDIARIES

IFRS 12 devotes a large portion of its provisions to the information on subsidiaries to be disclosed in the notes to the financial statements. We analysed the groups' registration documents in order to identify the information on subsidiaries disclosed in the notes to the financial statements of CAC 40 companies.

1) <u>Differences in the disclosure of information on subsidiaries</u>

The results indicate that all companies publish information on their subsidiaries. However, we observe **a certain disparity in the way this information is assembled** in the notes to the financial statements. **5% of companies present** this information in **a single note**, compared to **almost two-thirds who prepare two notes and one-third who prepare three notes.**



2) <u>The nature and extent of significant restrictions of subsidiaries</u>

Information on the **nature and extent of significant restrictions** of subsidiaries **is rarely disclosed** in the notes to the financial statements. Only **12.8% of CAC 40 companies disclose this information.** 87.2% provide no information on significant restrictions. The question is whether this lack of disclosure effectively implies that there are no restrictions.

3) <u>The nature of, and changes in, associated risks</u>

According to IFRS 12 (§. 13), **entities shall disclose significant restrictions (statutory, contractual and regulatory)** on their ability to access or use the assets and settle the liabilities of the group.[39] **This information is disclosed by 23% of CAC 40 companies, while 77% disclose no information** on this topic.

4) <u>Consolidation method for subsidiaries</u>

All of the entities disclosed this information **either in the table on the composition of the group**, **or in the first note, "judgements and assumptions"**

5) <u>Information on the interest that non-controlling interests have in the group's activities and cash flows</u>

IFRS 12 (§. 10.a(ii)) requires entities to disclose information enabling users to understand the interest that non-controlling interests have in the group's activities and cash flows. **Our analysis shows divergent disclosure approaches, with 54% of companies disclosing this information compared to 46% who refrain from doing so.**

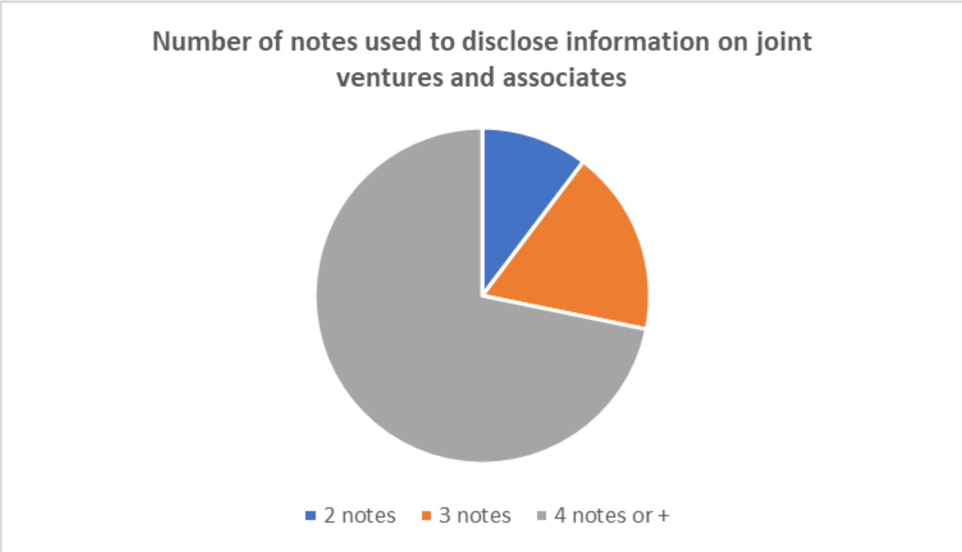
III/ INFORMATION ON ASSOCIATES, JOINT VENTURES, JOINT ARRANGEMENTS AND NON-CONTROLLING INTERESTS

[39] (i) those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group, (ii) guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.

The information disclosed on associates, joint ventures and non-controlling interests also meets the specific requirements of IFRS 12.

1) Differences in the disclosure of information on joint ventures and associates

The CAC 40 entities invariably disclose information on associates and joint ventures in the notes to their financial statements; however, **this information is scattered among the different notes**. 10% of companies disclose this information in two notes, **18% in three notes** and **72% in four or more notes.**



2) Information on the nature and extent of interests and the financial effects of material associates and joint ventures

In this section, we present the overall information disclosed by entities on the nature and extent of interests and the financial effects of **material associates and joint ventures**.

- **Information on the accounting method used for associates and joint ventures**

Information on the **accounting method** used for associates and joint ventures is provided by **all the entities** in our sample

- **Information on principal material associates and joint ventures**

Our analysis of the registration documents shows that **the CAC 40 companies comply with the requirement to disclose the list of names of the principal material associates and joint ventures**.

- **Summarised financial information on associates and joint ventures**

IFRS 12 (§. B.12) stipulates that, "For each joint venture and associate that is material to the reporting entity, an entity shall disclose: (a) **dividends received from the joint venture or associate**" (emphasis added). Our review of the registration documents reveals that **one third of CAC 40 companies do not disclose this information**.

Entities must then disclose **summarised financial information** for the joint venture or associate.[40] In this case, more than **three-quarters of the CAC 40 companies (79.5%) disclose the summary financial information required by IFRS 12 (§. B. 12)**.

- **Reconciliation of the financial information presented to the carrying amount of the interest in the joint venture or associate**

IFRS 12 (B. 14) requires entities accounting for their interest in a joint venture or associate using the equity method to provide a **reconciliation of the summarised financial information presented to the carrying amount of their interest** in the joint venture or associate. Regarding compliance with this disclosure requirement, **36% of companies disclose the reconciliation.**

- **Information on materiality criteria used to identify material associates and joint ventures**

Materiality criteria are designed to distinguish between material and non-material associates and joint ventures. IFRS 12 requires companies to disclose the information necessary to enable users to better understand the basis on which these entities are consolidated into the group's accounts or not. 28% of CAC 40 companies do not provide any information on the **materiality criteria** for including associates and joint ventures in the company's scope of consolidation. For the **72% of CAC 40 companies disclosing information on materiality, the criteria are relatively diverse and are presented with varying levels of detail**. Examples include percentage of voting rights, impact on shareholders' equity, contributions to revenue from ordinary activities or to operating profit, balance sheet items, etc.

- **Information on acquisitions and disposals of material associates and joint ventures**

97% of the companies in our sample disclose **information on acquisitions and disposals** for their main transactions, which they present in paragraph form. The main information disclosed is: the name of the entity, the proportion of ownership interest acquired or sold, the entity's activity, the country of establishment, changes in the number of joint ventures and associates, the transaction amount (disposal or acquisition) and the accounting method.

- **Information on the total commitments for unconsolidated associates and joint ventures that may give rise to a future outflow of cash**

Data on commitments for unconsolidated associates and joint ventures that may give rise to a future outflow of cash are disclosed by **38.5% of CAC 40 companies.**

3) **<u>Information on the nature of interests in, and the financial effects of, immaterial joint ventures</u>**

IFRS 12 (§. B.16) indicates, that "An entity shall disclose, **in aggregate, the carrying amount** of its interests in all **individually immaterial joint ventures or associates** that are accounted for using the equity method" (emphasis added). This information is **disclosed by 44% of companies**.
Similarly, **54% of companies** disclose the information referred to in § B.16 of IFRS 12 concerning the disclosure of the **aggregate amount of the share in the income statement items of joint ventures or associates.**[41]

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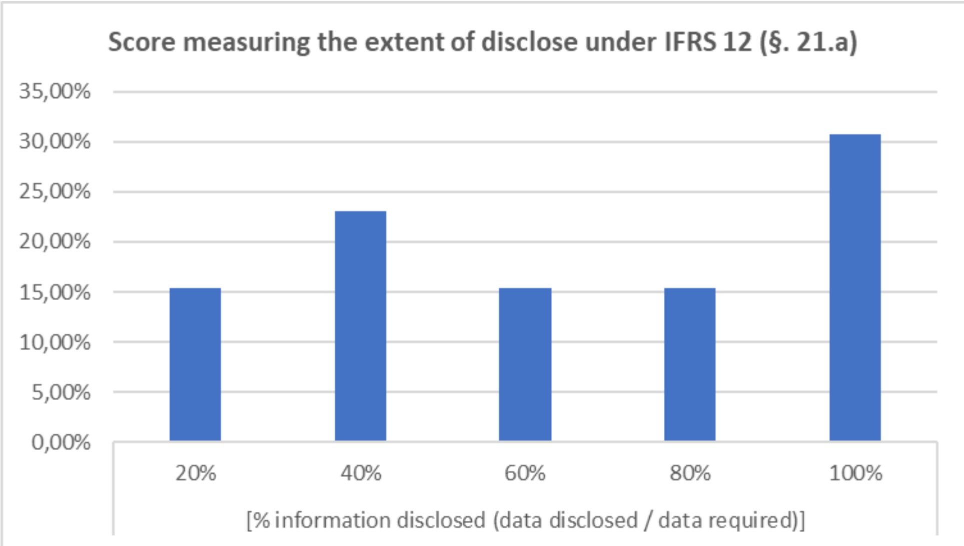
[40] This includes, but is not necessarily limited to: (i) current assets, (ii) non-current assets, (iii) current liabilities, (iv) non-current liabilities, (v) revenue, (vi) profit or loss from continuing operations, (vii) post-tax profit or loss from discontinued operations, (viii) other comprehensive income, (ix) total comprehensive income. (See paragraphs B14 and B15.)
[41] Namely profit or loss from continuing operations, post-tax profit or loss from discontinued operations, other comprehensive income and total comprehensive income.

4) **<u>Information concerning other investors with joint control or significant influence</u>**

IFRS 12 (§. 21.a) specifies the information that entities need to disclose for each **material joint arrangement and associate**, i.e. name and principal place of business of the joint arrangement or associate, and the nature of the entity's relationship with the joint arrangement or associate. **One-third of companies publish this information**, although it is diverse and sometimes incomplete.
Of these companies, **roughly one-third provide all of the information required** and **close to one-third present more than 50%**. The remaining companies, **slightly more than one-third, disclose two out of the five pieces of information required**.



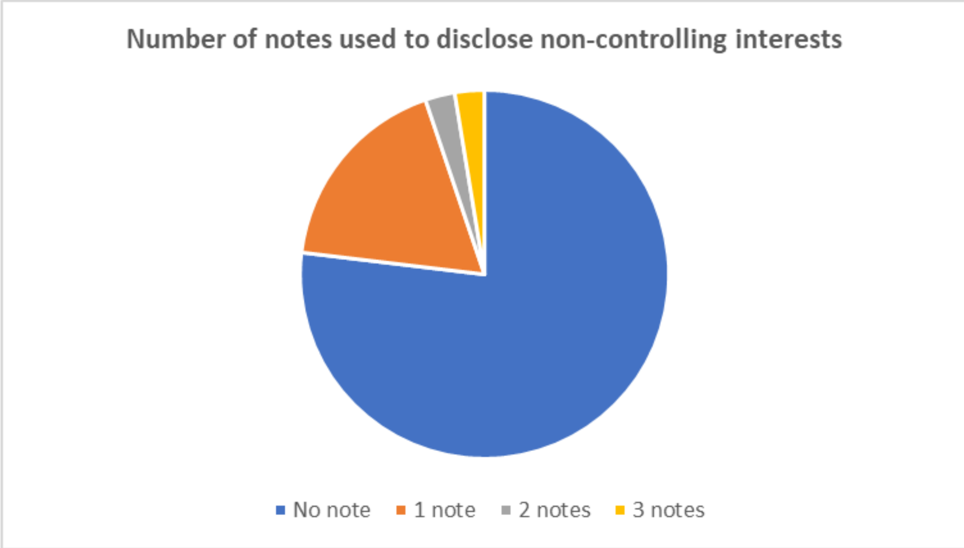
5) **<u>Nature and extent of risks associated with an entity's interests in joint ventures and associates</u>**

IFRS 12 (§. 23.a) requires the disclosure of **commitments relating to its joint ventures separately from the amount of other commitments**, as specified in paragraphs B18 to B20. **44% of companies disclose this information**.
IFRS 12 (§. 23.b) also requires **contingent liabilities** relating to the entity's interests in joint ventures and associates **to be disclosed separately from the amount of other contingent liabilities.** This information is disclosed by **39% of the CAC 40 companies**.

6) **<u>Information on non-controlling interests</u>**

- **Disclosure of information on non-controlling interests**

Entities are required to disclose non-controlling interests (previously known as "minority interests") **to users of the financial statements.** Our analysis shows that **77% of companies fail to publish this information, although it is not possible to say whether this is an omission or whether it is actually due to the absence of non-controlling interests.** When this information is presented, it is generally disclosed in one of the notes to the financial statements.



- **Summarised financial information for immaterial subsidiaries, joint ventures and associates**

IFRS 12 (§. B10.a) prescribes the disclosure of **dividends paid to non-controlling interests** for subsidiaries that have non-controlling interests that are material to the reporting entity. This information is provided **by less than half (46%) of the CAC 40 companies**.

IFRS 12 (§. B10.b) also requires **summarised financial information** about the **assets, liabilities, profit or loss and cash flows of the subsidiary** to help users to **understand the interest that non-controlling interests have in the group's activities and cash flows**.[42] **44% of the CAC 40 entities** comply with this disclosure requirement.

IV/ INFORMATION ON UNCONSOLIDATED STRUCTURED ENTITIES

As structured entities concern only a limited number of CAC 40 groups, **the frequency of disclosure of the corresponding information required by IFRS 12 remains somewhat low**.

1) Dispersion of information in the notes

Disclosures on **unconsolidated structured entities are rare**, with only 23% of companies publishing this information. Of the nine entities concerned, seven present the information **in a single note**.

2) Nature and extent of interests in unconsolidated structured entities

Little information is disclosed by companies on the nature and extent of their interests in unconsolidated structured entities. This information is disclosed by 13% of the CAC 40 companies. Of the five companies publishing this information, four disclose it in **a single note**.

3) Nature of, and changes in, the risks associated with these interests

[42] This information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income

IFRS 12 (§. 29) sets out the information to be provided on **the nature of, and changes in, the risks associated with these interests**, in tabular format, or another format if more appropriate.[43] **This information is disclosed by 20% of companies.** Of the nine entities concerned, four disclose all of the information in a single note in the notes to the financial statements.

4) <u>Information disclosed on financial support</u>

IFRS 12 (§. B.26.a) specifies that an entity that has provided, without contractual obligation, financial or other support to an **unconsolidated structured entity** in which it has or has had an interest,[44] should indicate **the nature and the amount of the support**.[45] **13% of entities** disclose this information.

IFRS 12 (§. B.26.b) stipulates that the entity must inform users of the financial statements of **the reasons** for providing the support. **Of the 39 entities, three (8%)** disclose this information.

V/ INFORMATION ON INVESTMENT ENTITIES

Like information on unconsolidated structured entities, information on investment entities is **rarely included by the companies in our sample, with only 5% providing disclosures on these entities**.

SUMMARY

Our analysis of the registration documents of CAC 40 entities shows that the normative provisions of IFRS 12 are generally being satisfactorily applied.

This is particularly true with regard to information on the group such as its composition and the formulation of judgements and assumptions, even if the latter could have been more complete in one-third of cases, where groups simply reproduced the definitions from the standard.

In this respect, the AMF made a number of recommendations in 2013 and 2014 (see Part 1) designed to explain the analysis of control in terms of the assumptions and judgements adopted and to focus on the relevance and consistency of disclosures by emphasising useful information (risks, restrictions, assessment of the materiality of non-controlling interests, etc.).

Issuers do disclose key information on subsidiaries, but with diverse presentation practices (e.g. one or more different notes). Information on risks and restrictions remains rather limited.

The same applies to information on joint ventures and associates where there is broad disclosure of essential information (e.g. accounting method, summary information) but diverse presentation practices and often limited disclosure on certain items (e.g. commitments, non-controlling interests). For the latter, it is difficult to know whether this is an omission or whether it is actually due to the absence of such items.

Finally, it should be noted that the financial statements of CAC 40 companies are only slightly affected by the provisions of IFRS 12 relating to investment entities and unconsolidated structured entities.

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[43] Namely, the carrying amounts of the assets and liabilities recognised relating to its interests in unconsolidated structured entities; the line items in the statement of financial position in which those assets and liabilities are recognised; the amount and the method of determining the entity's maximum exposure to loss from its interests in unconsolidated structured entities; a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.

[44] For example, by purchasing the structured entity's assets or securities issued by the entity.

[45] Including cases where the company helped the structured entity to obtain financial support.

Summary table of the results of our sample of 39 CAC 40 entities

	Disclosure in the notes to the financial statements in accordance with IFRS 12	Included	Not included
G	Information on the composition of the group (§. 10.a.i)	97.4%	2.6%
G	Information on significant judgements and assumptions (§. 7)	61.5%	38.5%
S	Nature and extent of significant restrictions of subsidiaries (§. 10.b.i)	12.8%	87.2%
S	Nature of, and changes in, associated risks (§. 13)	23.1%	76.9%
S	Consolidation method for subsidiaries	100%	-
S	Interest that non-controlling interests have in the group's activities and cash flows (§. 10.a.ii)	53.8%	46.2%
NS	Accounting method used for material associates and joint ventures (§. 21.b)	100%	-
NS	Information on principal material associates and joint ventures (§. 21)	94.9%	5.1%
NS	Information on dividends received from associates and joint ventures (§ B12.a)	66.7%	33.3%
NS	Summarised financial information for associates and joint ventures (§ B12.b)	79.5%	20.5%
NS	Reconciliation of the financial information presented to the carrying amount of the interest in the joint venture or associate (§. B14)	35.9%	64.1%
NS	Information on the materiality of associates and joint ventures	71.8%	28.2%
NS	Information on acquisitions and disposals of associates and joint ventures	97.4%	2.6%
NS	Information on the total commitments for unconsolidated associates and joint ventures that may give rise to a future outflow of cash (§. B18-23.a)	38.5%	61.5%
NS	Information, in aggregate, on the carrying amount of the entity's interests in all individually immaterial joint ventures or associates (§. B16)	43.6%	56.4%
NS	Information on the aggregate amount of the share in certain income statement items of these joint ventures or associates (*) (§. B16.2)	53.8%	46.2%
NS	Information concerning other investors with joint control or significant influence (**) (§. 21.A)	33.3%	66.7%
NS	Information on commitments relating to the entity's joint ventures and associates (§. 23 a)	43.6%	56.4%
NS	Information on contingent liabilities relating to the entity's interests in joint ventures and associates (§. 23 b)	38.5%	61.5%
NS	Summarised financial information for immaterial subsidiaries, joint ventures and associates:		
	- dividends paid to non-controlling interests (§. B10.a)	46.2%	53.8%
	- assets, liabilities, profit or loss and cash flows (§. B 10.b)	43.6%	56.4%
NS	Information disclosed when financial support is provided to structured entities (§. B 26.a)	12.8%	87.2%
	Reasons for this financial support (§. B 26.b)	7.7%	92.3%

(*)Profit or loss from continuing operations, post-tax profit or loss from discontinued operations, other comprehensive income and total comprehensive income (**) Name and principal place of business of the joint arrangement or associate, and nature of the relationship.

G = information on the group; S = information on subsidiaries; NS : Information on non-subsidiary entities

QUALITATIVE STUDY BASED ON QUESTIONNAIRE AND INTERVIEWS

I/ SURVEY OF HEADS OF COMPANY ACCOUNTING / CONSOLIDATION / ACCOUNTING POLICY

The objective of our survey of 120 preparers was to better understand the main procedures involved in the transition to the IFRS consolidation package, extending our study beyond the documentary analysis of the financial statements affected by this transition in 2013/2014. The 120 preparers contacted were essentially group heads of consolidation and/or accounting policy, largely from the SBF 120. The table below summarises the methodology for preparing and managing the questionnaire.

Exchanges with three university professors specialising in IFRS (P. Dumontier, R. Obert, B. Raffournier) with the aim of formalising an interview guide containing a list of questions (see Appendices 8 and 9)
Drafting a standard questionnaire (around 75 questions) and an interview guide on the IFRS consolidation package
Creating a panel of 120 contacts in listed groups, mainly heads of consolidation and/or accounting policy
Online administration of the questionnaire on LimeSurvey by the research assistant
Online circulation of the questionnaire from 30 November 2017 and weekly reminders from the research assistant until 31 March 2018
Questionnaire posted on the APDC website and on the DFCG's Vox-fi blog[46]
Online questionnaire transmitted to the ACTEO[47] association by the ANC
Collection and summary of responses by the research assistant

1) Characteristics of the sample used for the qualitative study

At the end of the process, we managed to collect 22 **usable questionnaires**, including 19 complete and three partial responses. Of these 22 questionnaires, two relate to the same group. The results presented below are therefore based on 21 questionnaires.

The response rate is thus around 17% if we take into account the 20 responses received from the sample of 120 companies contacted and the one additional response received via ACTEO. This rate seems to us to be relatively consistent with that expected in this type of survey

Given the population targeted, **respondents' profiles** are broadly evenly split between **consolidation heads/managers**, on the one hand, and personnel in charge of **accounting standards/principles** (18%) or accounting heads/managers (18%) on the other.

- **Some data on the sample of 21 companies**

Almost two-thirds of the companies belong to a group. At the transition date, **nine of them were listed on the CAC 40**. Five companies were listed on the SBF 120, one on Alternext, which has since become Euronext Growth, and two were unlisted. More than half of the sample entities are therefore large companies with revenues in excess of €1.5 million and a headcount of more than 10,000 employees. Various industry sectors are represented, including one bank and one insurance company. Roughly one-quarter of the companies in the sample feature in our quantitative study panel of 39 companies identified as having experienced significant impacts (see previous section).
(See Appendix 7 for distribution of sample by revenue and by listing type).

[46] APDC: *Association des Professionnels et Directeurs Comptabilité et Gestion*, French Association of Accounting and Management Directors. DFCG: *Association Nationale des Directeurs Financiers et de Contrôle de Gestion*, the French National Association of Financial and Management Control Directors.
[47] ACTEO is an association dedicated to the participation of French companies in international accounting harmonisation.

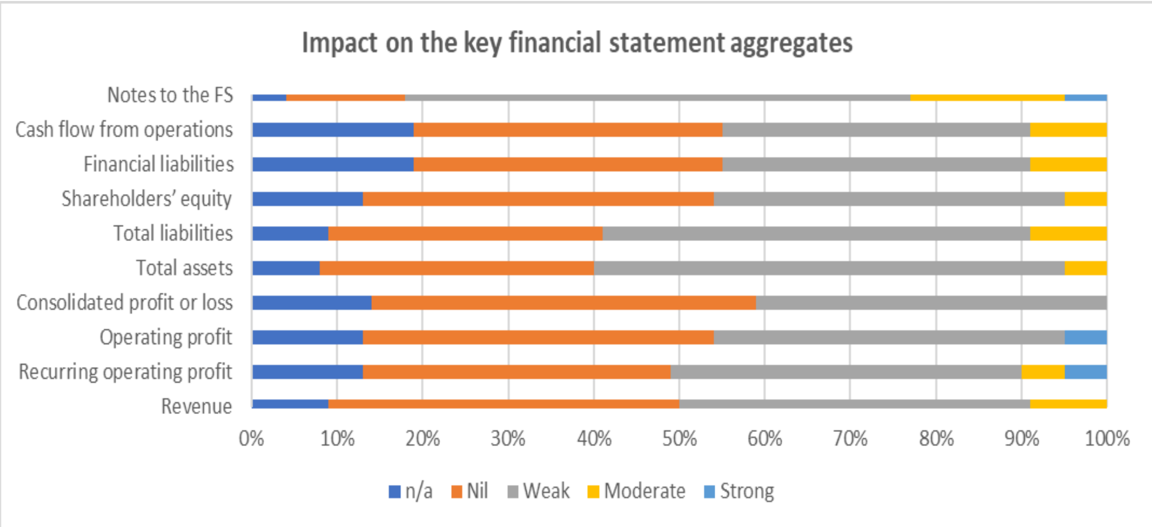
2) <u>Financial impact and procedures for transition to the IFRS consolidation package</u>

- **Early adoption, or not, of IFRS 10, 11 and 12**

95% of respondents applied the IFRS consolidation package in 2014 compared to 5% in 2013. This rate is lower than that found in our quantitative study (about 15%) or in the audit firm impact studies (Mazars 2013, around one-third).
Seven companies specified the reasons for transitioning in 2014: four stated that, as a rule, they were not early adopters of IFRS; two mentioned a lack of impact or interest; one entity (subsidiary) indicated that it was a group decision. One entity justified this choice by referring to "early adoption work very far upstream and disconnected from the progress of the project and the market position".
One company justified its early application of the IFRS consolidation package **in 2013** in order to be in tune with the AMF in anticipating the options and directions adopted and to have comparative data available as soon as possible for forecasting.

- **Key financial impacts**

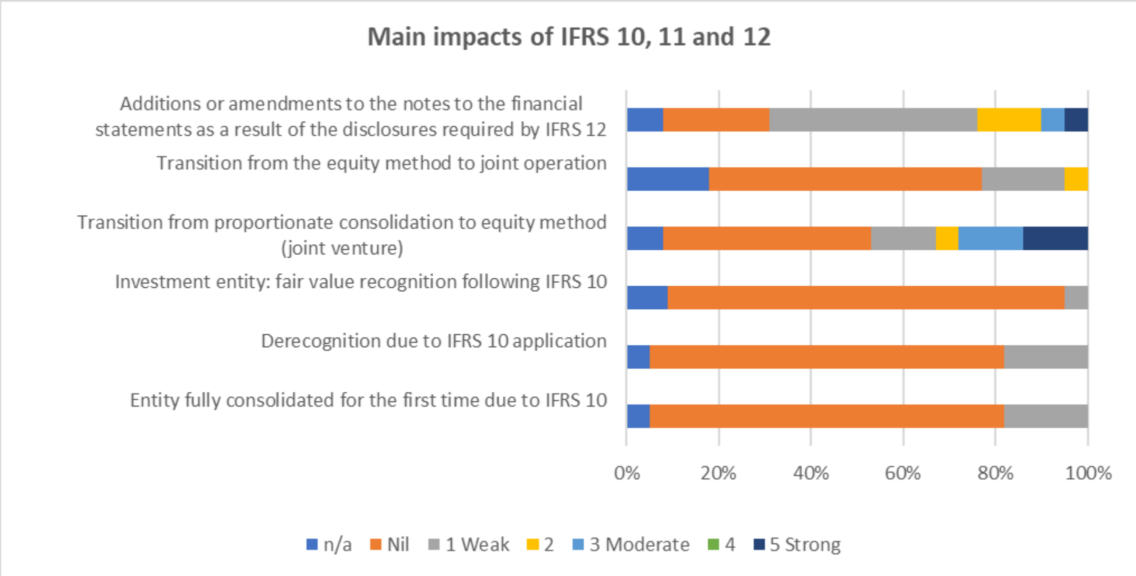
In line with the results of our quantitative study, **fewer than 10% of respondents report either a moderate impact on the consolidated balance sheet and cash flow statement or a moderate/strong impact on the consolidated income statement.**



On the other hand, most respondents report no impact or an impact of less than 2.5% on their key financial statement aggregates (income statement, balance sheet and cash flow statement). It should be noted that a large number of respondents (around 40% on average) did not answer these questions, which may suggest that there is no significant impact. **Overall, only three groups reported relatively significant impacts.**
In the notes to the financial statements, the frequency rates are higher, with the following rates: weak (59%), moderate (18%) and strong (5%).
In terms of other impacts mentioned, we note here the following three disclosures concerning IFRS 11 and IFRS 12: disconnect between IFRS and internal monitoring of material joint ventures included at 50% in terms of revenue and operating profit in the management accounts; removal of proportionate consolidation method for a JV; inability to quantify the IFRS 12 impact. We will find later, particularly in interviews with three of the companies, that observations often converge with those discussed here in relation to the relevant standards, i.e. IFRS 11 and 12.

- **Main impacts on consolidation scope and methods**

The main changes reported by respondents after commencing the transition process for the IFRS consolidation package are summarised in the following chart:



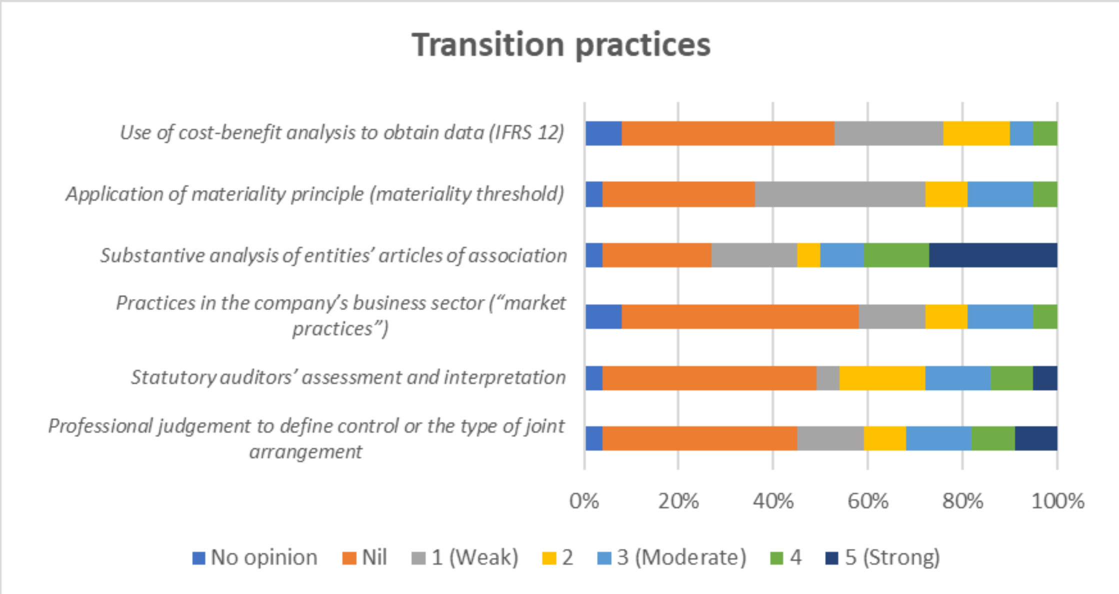
Overall, when they actually exist:
- impacts are considered weak except for the impact of the transition from proportionate consolidation to the equity method for joint ventures, which is ranked as weak/moderate (19%) and average/strong (28%); and
- the impacts are highly concentrated: three items for IFRS 10, relating mainly to consolidation scope, and two items for IFRS 11 relating to the change in consolidation method. None of the respondents mentioned any other items in the open-ended question on the topic.
Although weak, most respondents identify some impact from IFRS 12 in terms of additions or amendments to the notes to the financial statements.

- **Practical difficulties that have altered management decisions (or not)**

Three-quarters of respondents report that they encountered no practical difficulties that altered their management decisions (or not). **Only two groups mention some difficulties, related mainly to the transition from proportionate consolidation to the equity method for joint ventures** with grievances including: loss of reliability of intercompany accounts following the abandonment of intra-group reconciliations, "loss of vision of the business of commercial JVs" and "pollution" of operating profit with financial and corporation tax items when incorporating the net profit or loss of operating entities accounted for using the equity method.

- **Extent of use of professional judgement, benchmarking and materiality**

The majority of respondents acknowledged more or less significant use of the six practices shown in the chart below.



In terms of analysing control and joint arrangements, respondents cited a **moderate to strong use of substantive analysis in 50% of cases, ahead of professional judgement (33%)**.
More than 50% of respondents stated that they had made moderate or strong use of market practices and the position of the statutory auditors, with frequency rates of 28% and 19% respectively.
The use of the materiality principle or cost-benefit analysis remains rather weak with estimated moderate or strong use in only 20% of cases.

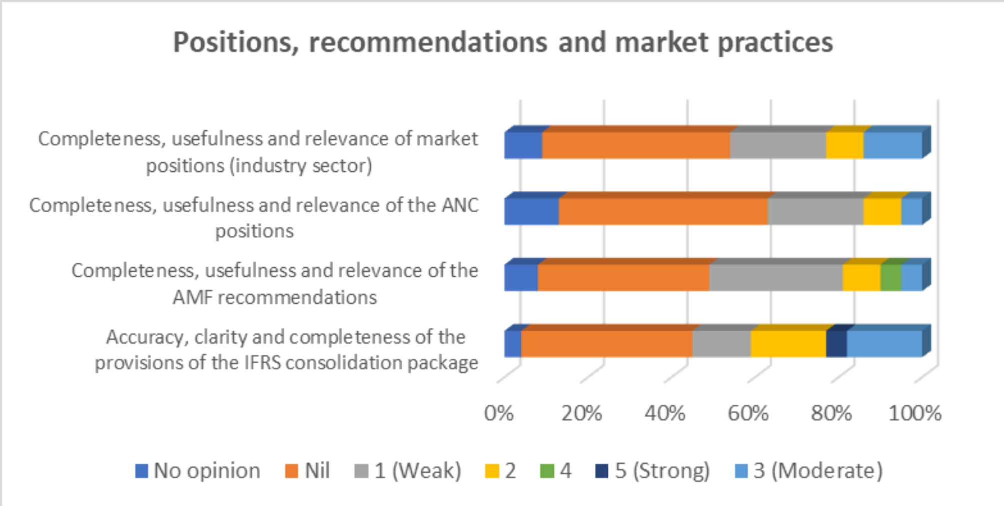
- **Completeness and relevance of the IFRS consolidation package**

46% of respondents consider the transitional provisions of the IFRS consolidation package **to be sufficient**, compared with 9% who consider them insufficient without providing any specific explanations for their opinion. 45% expressed no opinion.
64% of respondents stated that, for any given subject, they had not been in a situation where the IFRS framework failed to provide specific treatment. 27% expressed no opinion. **Only two groups answered** this question **in the affirmative**. One of the two specified that they had sought the opinion of the statutory auditors and consulted an IFRS specialist in order to establish a position internally (management estimate).
Overall, respondents have a **relatively positive opinion on the relevance, accuracy and completeness of the IFRS consolidation package**. Not surprisingly, the IFRS are considered interpretative (41% of responses) rather than directive (5% of responses).

Assessment of the IFRS consolidation package (frequency rate)	
23% Accurate	0% Inaccurate
23% Complete	5% Incomplete
23% Easy to understand	9% Difficult to understand
41% Interpretative	5% Directive
18% Relevant	5% Ill-adapted
14% Easy to apply	0% Difficult to apply

- **Difficulties applying the IFRS consolidation package**

In terms of applying the consolidation standards, the responses indicate a positive influence (with generally variable intensities) from the standard-setter's positions (37%), the regulator's recommendations (19%) and market practices (23%).

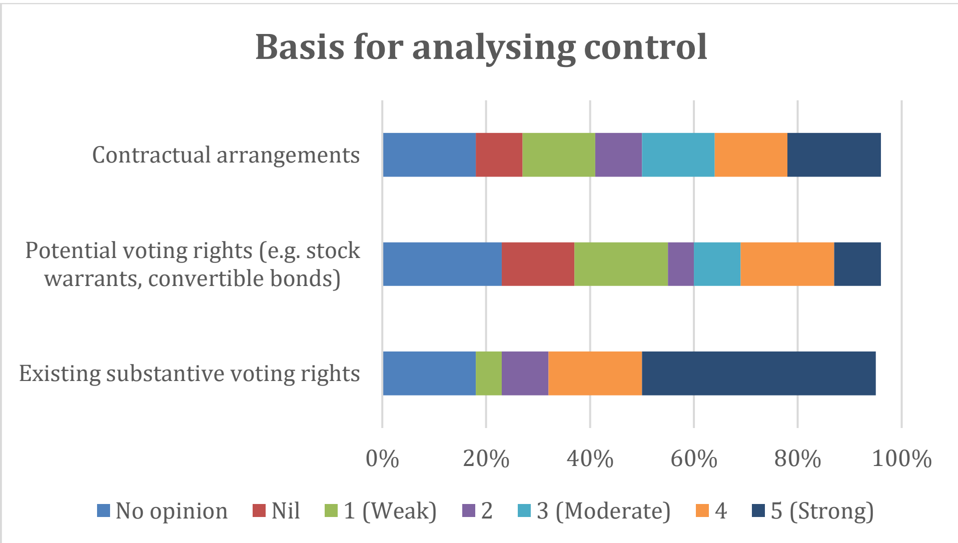


The main difficulties cited are the principal-agent situation with respect to management agents, the impact on revenue and operating profit or loss of the transition to the equity method for joint ventures, and "the interpretation of IFRS 10 §.13 and B13[48] in light of a case that could more appropriately be analysed as joint control".

3) <u>IFRS 10 Consolidated Financial Statements</u>

- **Analysis of power in traditional (unstructured) entities**

The analysis of power based on existing substantive voting rights (VR) dominates the responses.



[48] If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee (IFRS 10 §.13). When two or more investors have the current ability to direct relevant activities and those activities occur at different times, the investors shall determine which investor is able to direct the activities that most significantly affect those returns consistently with the treatment of concurrent decision-making rights (IFRS 10 B13).

Respondents moderately or strongly base their analysis of control on the following: **63% use existing substantive VR, 36% use potential VR and 45% look to contractual arrangements**. One group emphasizes the contracts and commitments inherent in joint arrangements (see below, IFRS 11).
A minority of respondents stated that they specifically assessed the **substantive nature of the potential VRs** granted by stock warrants or stock call options (18%) and convertible/mandatory convertible bonds (5%).
Finally, only one group refers to de facto control in answer to the question of "other facts and circumstances".

- **Identification of structured entities (substantive control)**

Only one group indicates the existence of **structured entities consolidated** as joint ventures. Neither the banking institution nor the insurance company in our sample mention this type of entity, either by replying in the negative or through the absence of a response.

- **Criteria and control situations**

Respondents are divided as to whether IFRS 10 requires greater use of professional judgement than the former IAS 27, with 27% answering in the affirmative versus 36% in the negative. 36% have no opinion on the matter.
Only 9% of respondents reassessed the nature of control of an entity in the light of facts and circumstances that led to a change in the three cumulative elements of control. One of the two groups concerned specified that this was due to a change in consolidation method.
With regard to specific control situations, we find the cases addressed in the decisions published by ESMA (see Part 1), namely **control without holding the majority of VR (36%) and de facto control (14 %)**. We also find the situation where an entity **holds the majority of VR without control (23%).**

Control situations in which:	Yes	No	DK
The investor holds the majority of voting rights (>50%) but does not have control (power)	23%	64%	14%
The investor does not hold the majority of voting rights (>50%) but has control (power)	36%	50%	14%
An entity's economic dependence on the investor gives the investor power	5%	73%	23%
There is de facto control because the investor holds the largest block of shares	14%	73%	14%

These are specific control situations that are not exceptional within the groups studied.

4) IFRS 11 Joint Arrangements

- **Previous consolidation method for joint ventures - IAS 31**

Almost one-quarter (23%) of groups stated that they had applied the EM, i.e. the alternative method, under IAS 31 to account for their joint ventures before the application of IFRS 11. This rate is relatively consistent with that seen in previous studies (e.g. KPMG, 2013: 15% for the CAC 40). Around half (45%) of respondents stated that they used the PC method, bearing in mind that one-third of respondents did not reply to the question.

- **Change in practices resulting from the classification and recognition of joint arrangements introduced by IFRS 11**

The question here aims to determine the operational consequences of the **classification of joint arrangements introduced by IFRS 11**, which sets out the distinction between joint ventures and joint operations and the related differences in accounting treatment.

50% of companies confirmed that they had needed to raise awareness among operational staff about the issues involved when structuring projects in order to avoid a retrospective challenge to the project's structure as a result of IFRS. In addition, 9% stated that they had modified or adapted existing arrangements, while 5% acknowledged having created dedicated structures for certain joint arrangements with the aim of classifying the joint arrangement as a joint venture. 36% made no comment.

Using the EM to account for joint ventures led a certain number of companies to modify their practices. Almost one-quarter of companies classified the profit or loss from operating joint ventures within recurring operating profit (compared to the six entities out of 39 identified in our quantitative study). 18% continued to use the PC method to account for joint ventures in their internal reporting and/or in their segment reporting.

Consequences of using the EM for joint ventures	Yes	No	DK	No response
Does the entity continue to circulate internal reporting based on the old method (proportionate consolidation), with this method also being used to prepare the non-GAAP segment reporting disclosed in accordance with IFRS 8?	18%	59%	5%	18%
Does the entity disclose non-IFRS pro forma financial statements, using proportionate consolidation to account for joint ventures in addition to IFRS financial statements?	14%	64%	5%	18%
Does the entity use non-GAAP financial indicators in its financial communication, maintaining use of proportionate consolidation for joint ventures?	5%	73%	5%	18%
Does the entity include figures relating to the share in revenues and in operating profit or loss in the notes to the financial statements?	32%	45%	5%	8%
Does the entity use the option to classify the share in the profit or loss of joint ventures (operating entities) within operating profit as an extension of its business activity, in line with ANC recommendation 2013-01?	23%	55%	5%	18%

- **Improving the presentation of the operating performance of EM entities**

In order to better reflect operating performance in the income statement, we note that:
- one-third of companies are in favour (versus 27% not in favour) of classifying the profit or loss of operating joint ventures within recurring operating profit **after restatement of non-operating items** (e.g. financial and tax);
- one-quarter of companies are in favour (versus one-third not in favour) of **introducing a mandatory exemption to permit the use of PC for certain joint ventures (e.g. project entities).**

Presentation of the share in profit or loss of EM entities	Yes	No	No opinion
Splitting the share in profit or loss of joint ventures and of associates over two lines	14%	36%	50%
Including a line item on the income statement for the "share in revenue of joint ventures" and another for "share in operating expenses of joint ventures"	0%	50%	50%
Adopting the ANC's recommendation (2013-01) to classify the share in the profit or loss of joint ventures within operating profit as an extension of the business activity but after restatement of financial expenses, taxes and other non-operating items (e.g. gains or losses, impairment of EM investments)	32%	27%	41%
Introducing an exception (mandatory exemption) to allow proportionate consolidation (or at least line-by-line accounting) for certain joint ventures, to be defined (e.g. project entities), but not for all such entities, as was the case under IAS 31	23%	32%	45%

Only 14% of companies were in favour of **splitting the share in the profit or loss** of joint ventures and of associates separately over **two lines in the income statement.**

In our quantitative study, it appears that very few companies distinguish between the share in the profit or loss of joint ventures and that of associates or between the share in the profit or loss of operating and non-operating entities.

- **Development of the equity method**

Overall, most companies **are not overwhelmingly in favour of changing the EM**, with the possible exception of the possibility of clarifying certain aspects not covered by IAS 28. In any case, the majority of respondents are **reluctant to withdraw the EM**, particularly for joint ventures.

Opinion on development of the equity method	Associates			Joint ventures		
	Yes	No	No opinion	Yes	No	No opinion
Simplification of the EM, for example by:	14%	18%	68%	0%	27%	73%
- Withdrawing the elimination of inter-company profit or loss	23%	27%	50%	9%	36%	55%
- Clarifying certain aspects not currently covered in order to improve the consistency of practices	27%	18%	55%	14%	18%	68%
Withdrawal of the EM in order to adopt a cost measurement approach based on a "measurement method", rather than a consolidation method, by abandoning:	0%	45%	55%	0%	45%	55%
- the determination of goodwill	14%	45%	41%	0%	55%	45%
- accounting adjustments made to ensure consistency	18%	41%	41%	9%	50%	41%
- elimination of inter-company profit or loss	18%	41%	41%	9%	50%	41%

- **Relevance and completeness of the provisions of IFRS 11**

To classify joint arrangements as either joint ventures or joint operations, companies need to examine the parties' rights to, and obligations for, the entity's assets, liabilities and net assets based on the structure of the joint arrangement and, for entities structured as a separate vehicle, the legal form, the terms of the contractual arrangement, and other facts and circumstances. Around one-third of companies consider the corresponding provisions of IFRS (application examples, decision trees, etc.) to be sufficient and relevant as opposed to 18 % who state the opposite. Half of the companies provided no opinion.

5) IFRS 12 Disclosure of Interests in Other Entities

Most companies considered the level of difficulty involved in collecting the information required by IFRS 12 to be weak (36%) or moderate (27%), as opposed to 19% who considered it nil or not applicable. 18% provided no opinion. To manage these difficulties, certain companies collected new data from joint arrangement contracts or consolidation reporting packages after having identified all non-controlling interests and partners. Only 18% of companies indicated that they had put in place a standardised internal reporting system to collect and compile the data required by IFRS 12 (two-thirds did nothing).

Procedures implemented to collect the information required by IFRS 12	Yes	No	No Opinion
Set up or modify the consolidation reporting packages for entities accounted for by the equity method	14%	41%	45%
Prepare risk mapping	0%	50%	45%
Establish an inventory of unconsolidated structured entities prior to IFRS 12	14%	32%	50%
Identify the role of non-controlling shareholders and partners	23%	27%	50%
Collect additional information such as joint arrangement contracts, etc.	32%	23%	45%

With respect to the overall objective of IFRS 12, namely to require entities to disclose information on the nature of, and risks associated with, their interests in other entities, 68% of companies indicated that they had not disclosed additional information beyond that required by IFRS 12. One group mentioned "major balance sheet and income statement aggregates for material joint ventures".

II/ INTERVIEWS WITH CONSOLIDATION/ACCOUNTING POLICY DEPARTMENTS FOR A SELECTION OF COMPANIES

Our objective here was to use one-to-one interviews to deepen our understanding of the procedures used to apply the IFRS consolidation package. The aim was to meet three or four company accounting departments that were representative of the industry sectors most affected (e.g. energy). To this end, we prepared an interview guide (see Appendix 8) that enabled us to ask additional questions. The interviews were organised as follows:

We invited consolidation/accounting departments from our panel of 120 mainly SBF 120-companies using the questionnaire's online administration
We made individual contact with a number of consolidation/accounting policy directors after they expressed a positive interest in the interview
We organised one-to-one interviews with the people who had accepted our invitation
Prior to the interviews, we sent a list of targeted questions tailored to the company's case
We drafted reports of the one-to-one interviews with the interviewees

Following our invitations, we were able to set up interviews with three of the companies from our sample. These interviews were conducted in February and March 2018 by telephone and lasted between 30 minutes and one hour.

After each interview, we prepared a two or three-page report in the form of questions and answers, which we submitted to the interviewee for validation.

Company	Contact
A	Accounting director
B	Head of accounting standards and policies
C	Head of accounting standards

We summarise below the main lessons learned from these interviews. Company names are identified by the **letters A, B and C for reasons of confidentiality**.

- **Company A**

T**he impact of the IFRS consolidation package** is limited, particularly given that IFRS 11 is not an issue at A as it used the EM before 2014.
On the other hand, the number of companies makes the **application of IFRS 12** more delicate, requiring significant identification and monitoring work by lawyers. The statutory auditors helped to improve the disclosures in the notes to the accounts. With respect to IFRS 12, a significant amount of information on JVs has been added in the notes to the accounts: 100% amount and shares in revenue, profit or loss, net debt; specific notes (table of changes, commitments); notes on non-controlling interests (share in balance sheet and income statement items and dividends due to NCIs); and the list of companies accounted for using the EM.

For A, the **AMF recommendations** could have been more concrete and pragmatic, like those of IFRS 15 and 16. Guidance and presentation models would have been useful, for example: aggregating disclosures on material JVs or not, and applicable thresholds.

A favours the **legal analysis of control** on the basis of agreements and contracts in order to safeguard its analysis and to limit potential sources of dispute. Lawyers are involved. The analysis of control can be documented in some cases on the basis of **potential VRs** (e.g. call option to obtain the majority of VRs).
Operational staff's awareness of IFRS 11 was raised through internal bulletins and information sharing with corporate teams (M&A, accounting department) and the statutory auditors.
A mentions a **case where the VRs held > 50%** but where it concluded there was **no control** as a result of its analysis of governance and decision type.

A is in favour of grouping all of the assessment indicators specific to structured entities in a dedicated IFRS 12 paragraph. A has no **structured entities**.

For A, the **choice of the EM** well before 2014 was justified by the existence of a specific joint arrangement (annual variation in the percentage interest and multiple investors). In one business line, A's development of joint ventures has led it to **maintain proportionate consolidation internally** (revenue managed and contribution to performance).

As the EM entities have the same business activity as the group, **the results of EM entities are recorded above recurring operating profit** but with no reference to ANC recommendation 2013-01. The benchmark performance indicator is still **recurring operating profit from consolidated companies**.

- **Company B**

From a control analysis perspective, two interesting cases are noted here:
- a case where VR held > 50% without control relating to a "regulated" activity where the issuer has very limited influence on returns. B notes that the IFRS do not specifically address the case of regulated activities.
- a case where VR held < 50% with control. The entity is considered to be under exclusive control because of the governance (right of veto over relevant decisions) and contractual arrangements (supply of energy to the issuer with guarantee). IFRS are considered relevant and appropriate for this control analysis.
Finally, B has **specific mutual funds (reserved for the issuer) considered as non-controlled within the meaning of IFRS 10** and measured at fair value due to their characteristics, the rights exercised by the managers and the terms of the management strategy.

In terms of joint ventures, B considers **the transition to the EM to be a step backwards** given the group's development model. It is **at odds with the group's internal performance analysis**, which is based on joint arrangements' revenue and operating profit (**ad hoc reporting close to proportionate consolidation**): not included in the consolidated aggregates and **at odds with the managerial approach required by IFRS 8**.
It should be noted that certain "internal" joint ventures are considered as joint operations in the consolidated financial statements of their division. Difficulties transitioning from the scope of IFRS 10 to IFRS 11 are noted in the case of "joint ventures" held by a wholly owned subsidiary of the issuer.

Prior to the standard's entry into force, B **raised awareness of IFRS 11 on a very wide scale** (governance, legal, etc.), and through various methods (presentations, training courses, studies). In order to limit the impact of the standard, the group **restructured existing joint arrangements** (shifting to 51% ownership for half of them and 49% for the other half); **joint arrangements in progress** culminated in either exclusive control or significant influence depending on the outcome of negotiations. The notion of "other facts and circumstances" is currently useful for dealing with particular schemes where 100% of the entity's output is repurchased by the issuer.

B faced **technical difficulties with a change in consolidation method** for American joint arrangements, which were initially proportionately consolidated and then fully consolidated as they were considered to

be more like lenders. The specificity of certain topics relevant to B makes external recommendations/positions less useful than those of its statutory auditors.
B is **not in favour of classifying EM income within recurring operating profit** because of the issue of the consistency of this aggregate, unless it is possible to break down operating profit, financial items and taxes. On the other hand, it is **not opposed to splitting EM profit or loss from joint ventures vs. associates across two lines**, but a current technical problem in its consolidation software prevents it from doing so.

With regard to the EM, B would consider certain clarifications useful, including: elimination, % to be retained for the share in profit or loss, variations in non-controlling interests often complex with eliminations at different levels (e.g. sale of assets to an EM entity resulting in a variation in operating profit taken against the value of the EM investment).

Overall, B would like **normative stability with targeted improvements** (e.g. the transition from joint operation to joint venture, and vice versa).

- **Company C**

Although IFRS 10 had no impact on C, IFRS 11 required C to analyse its joint arrangements in order to identify its **various joint ventures and joint operations**. To perform this analysis, C developed its **own internal mapping tool** to cross-reference operating profit before full consolidation eliminations and revenues with partners, which allowed it to identify **criteria for the two main categories of joint arrangement**:
- Joint operations → revenue with partners almost 100% and low profitability (group-based activities);
- Joint ventures → few connections with other group entities and higher profitability (entities with a certain degree of autonomy).

The specificity of the cases encountered makes **external benchmarks ineffective** at C, with the group therefore using internal analysis. A presentation was made to operational staff, distinguishing between **"external" joint arrangements (EM) and "internal" joint arrangements (line-by-line accounting)**.

C acknowledges the **benefits of the IFRS consolidation package in terms of analysing joint arrangements and the principles set out,** but **regrets the disappearance of proportionate consolidation**, which does not reflect the significant volume of activity performed in certain sectors.

When asked about **creeping takeovers**, C acknowledged the appropriateness of revaluing previously held shares in the context of acquiring exclusive control, but remained doubtful about its interest in the case of joint control.

The **share in the profit or loss of joint ventures** judged to be an extension of the group's business activities is classified **within recurring operating profit** while the **profit or loss of associates** is **not recognised within recurring operating profit**. **The absence of an intermediate aggregate** as recommended by the ANC (rec. 2013-01) is justified here as it is of little interest in the context of the financial information disclosed (small contribution). C **does not adjust the profit or loss of joint ventures recognised within operating profit** as there is no requirement to do so and the amount is immaterial (small financial income).

C **would like to see changes in the EM** in order to resolve the debate between the **consolidation and measurement methods**. While noting the impossibility of returning to proportionate consolidation (although it would like to), C regrets the **reduced importance given to the financial data of EM entities** compared to the previous situation where they were recognised using PC.

SUMMARY

Our qualitative study highlights the following key lessons:

- very little early application of the IFRS consolidation package by issuers in 2013, probably due to a lack of interest in early application or because companies expected there to be no significant financial impact and perhaps, in some cases, because of the increased disclosure requirements of IFRS 12;
- a very small minority of groups experienced impacts from IFRS 10 and 11 but, with some exceptions, this generated only a small financial effect on the financial statement aggregates;
- an IFRS 11 impact is observed, related mainly to the transition from PC to the EM; there is a marginal IFRS 10 impact on corporates;
- additional disclosures are made in the notes to the financial statements as a result of IFRS 12, leading to more or less significant collection work depending on the issuer, sometimes with the implementation of specific monitoring processes.

In general, issuers encountered no significant difficulties implementing the IFRS consolidation package, which they considered to be fairly relevant, precise and complete overall, with some exceptions. Interviewees positively assessed the principles for analysing joint arrangements (IFRS 11), in one case, and control (IFRS 10), in another.

However, the transition from PC to the EM is seen by some as a regression in terms of monitoring the performance of joint ventures. This can potentially result in different practices such as:

- modifying the structure of joint arrangements ("work-around") beyond simply raising the awareness of operational staff;
- continuing to use PC internally to monitor joint ventures (disconnection with GAAP data and external communication);
- reclassifying the share in the profit or loss of operating EM entities as operating profit, with or without reference to ANC recommendation 2013-01.

Overall, the majority of issuers do not seem to be in favour of a substantial change in the equity method, with the exception of certain clarifications that would be welcome but that are currently addressed by IAS 28. One interviewee mentioned several points (e. g. elimination) while another would like to see the debate between the measurement and consolidation methods resolved.

PART 3
IMPACT OF THE IFRS CONSOLIDATION PACKAGE ON THE QUALITY OF FINANCIAL INFORMATION AVAILABLE TO USERS OF THE ACCOUNTS

The objective of this second research theme is to study **the extent to which changes in practice related to the adoption of the consolidation package improve the financial information available to users of the accounts.**
The IASB's conceptual framework defines the qualitative characteristics for financial information. Accounting information is considered useful for the user's decision-making purposes when it possesses the characteristics of relevance and faithful representation. Information is relevant when it is capable of making a difference in the decisions made by users, in particular by facilitating the production of forecasts. It is faithful if it presents a faithful representation of the situation. The impact of the consolidation package on the quality of information disclosed is tested from the point of view of investors (I) and financial analysts (II).

IMPROVEMENT IN THE INFORMATION CONTENT OF THE FINANCIAL STATEMENTS FOR INVESTORS

Value relevance methodology can be used to assess the improvement, from an investor perspective, in the information content of the financial statements prepared using the consolidation package. The aim is to study the relationship between market data and book values. **Value relevance can be used to assess the extent to which the consolidation package produces data that are more representative of the events incorporated in market values.**
For the year 2013, we have accounting data both before and after application of the consolidation package. In the 2014 annual reports, the 2013 data are either restated for comparative purposes to show the impact of applying the consolidation package, or these impacts are detailed in the notes to the financial statements, thus allowing the 2013 accounting information to be restated. Having the same accounting data, for a given year, before and after application of the consolidation package, allows us to test whether the relationship between the company's share price and accounting data has improved after implementation of the consolidation package. If this is found to be the case, then the new IFRS can be said to increase the information content of the financial statements by providing data that are more representative of the events incorporated in the market values.

I/ PRESENTATION OF THE SAMPLE

As in the previous study, the sample corresponds to the French groups listed on the SBF 120 stock market index on 30 March 2016. As the relationship between prices and book values may vary over time, companies whose financial year end is not 31 December were eliminated from the sample. In order to ensure data consistency, companies that applied the consolidation package in 2013 were also removed. Finally, data were missing for ten companies (companies listed after 2013 or acquired since 2013).

Table 1 – Sample composition

SBF 120 companies	**120**
Companies applying the consolidation package in 2013	(18)
Companies whose year end is not 31/12	(6)
Companies with missing data	(10)
Sample companies	**86**

In total, 86 companies are included in the sample (an impact arising from the consolidation package is observed for 29 of these companies) (see the list in Appendix 10). In order to have sufficient data, we ran regressions on these 86 companies.

Share prices and accounting data (before application of the package) were extracted from the DATASTREAM and WORLDSCOPE databases. The 2013 accounting data after application of the package were obtained by consulting the 2014 annual reports

II/ PRESENTATION OF THE MODELS

Two types of model are used: a basic model and a model based on the differentials generated by the consolidation package.

1) Basic model

We use one of the models advocated by Barth and Kallupur (1996) in order to express all of the variables on a per share basis and to take into account the size effect by including shareholders' equity per share as an independent variable. This particular model is routinely employed for studies of this type. It examines the relationship between the share price (P) and the carrying values of earnings per share (EPS) and shareholders' equity per share (EQPS). We extend the model by adding the carrying value per share of the company's share in the profit or loss of companies accounted for using the equity method (SHPS) and of investments accounted for using the equity method (EMPS) as these line items were affected by the application of the consolidation package. In order to isolate each element of accounting data, earnings per share (EPS) and shareholders' equity per share (EQPS) are adjusted for items already integrated in another variable of the model.

$$P_i = a_0 + a_1 EPSj_i + a_2 EQPSj_i + a_3 SHPS_i + a_4 EMPS_i + \varepsilon_i \qquad [1]$$

Where:
P_i: the price of one share of company i at the end of 2013;
$EPSj_t$: company i's group earnings per share for the year 2013, adjusted for the net profit or loss of entities accounted for using the equity method;
$EQPSj_i$: company i's carrying value per share of group shareholders' equity at the end of 2013, adjusted for equity method investments per share and earnings per share;
$SHPS_i$: company i's carrying value per share of the share in the profit or loss of companies accounted for using the equity method at the end of 2013;
$EMPS_i$: company i's carrying value per share of investments accounted for using the equity method at the end of 2013.

The regression was run for the year 2013 using data before application of the consolidation package and then with the data that apply the consolidation package. This enables us to compare the relevance, for investors, of the information content transmitted by the consolidation package for the same companies and over the same period. We compare the explanatory power of the two regressions (R^2) using the Clarke test in order to determine whether the consolidation package provides higher information content. We also test whether the coefficients obtained for the different variables vary depending on whether the consolidation pack is applied or not.

2) Differential-based model

We add to this model by drawing inspiration from the models developed by Amir et al. (1993). We therefore incorporate the differential that arises from application of the consolidation package:

$$P_i = a_0 + a_1 EPSj_i^A + a_2 EPSj_i^{DIF} + a_3 EQPSj_i^A + a_4 EQPSj_i^{DIF} + a_5 EMPS_i^A + a_6 EMPS_i^{DIF} + a_7 SHPS_i^A + a_8 SHPS_i^{DIF} + \varepsilon_i \qquad [2]$$

Where:

P_i: the price of one share of company i at the end of 2013;
$EPSj^{A}_{i}$: company i's group earnings per share for the year 2013 before application of the consolidation package, restated for the net profit or loss of entities accounted for using the equity method;
$EPSj^{DIF}_{i}$: the difference in company i's adjusted earnings per share for the year 2013 with or without application of the consolidation package (for the year 2013: EPSj restated for the consolidation package – published EPSj);
$EQPSj^{A}_{i}$: company i's carrying value per share of group shareholders' equity at the end of 2013 before application of the consolidation package, adjusted for equity method investments per share and earnings per share;
$EQPSj^{DIF}_{i}$: the difference in company i's carrying value per share of adjusted shareholders' equity for the year 2013 with or without application of the consolidation package;
$SHPS^{A}_{i}$: company i's carrying value per share of the share in the profit or loss of companies accounted for using the equity method at the end of 2013, before application of the consolidation package;
$SHPS^{DIF}_{i}$: the difference in company i's carrying value per share of the share in the profit or loss of companies accounted for using the equity method at the end of 2013 with or without application of the consolidation package;
$EMPS^{A}_{i}$: company i's carrying value per share of investments accounted for using the equity method at the end of 2013, before application of the consolidation package;
$EMPS^{DIF}_{i}$: the difference in i's carrying value per share of investments accounted for using the equity method at the end of 2013 with or without application of the consolidation package.

This model is implemented using 2013 data. Turning our attention to coefficients a_2, a_4, a_6 and a_8, we note that a coefficient significantly different from zero indicates that the difference in amount resulting from application of the consolidation package provides additional information that is relevant to the investor.

III/ RESULTS

Before presenting the results of the models used, we analyse the different variables retained for 2013 in order to assess the financial impact of the consolidation package.

1) Descriptive statistics

Table 2 presents the descriptive statistics of the accounting data with and without application of the consolidation package on the entire sample.

Table 2 – Descriptive statistics

Variables	Mean	Median	Standard deviation
Before consolidation package			
EPSj	2.05	1.85	2.92
EQPSj	19.13	14.11	21.00
EMPS	2.48	0.29	10.12
SHPS	0.04	0	0.20
After consolidation package			
EPSj	2.02	1.75	2.92
EQPSj	18.86	13.65	21.04
EMPS	2.77	0.45	10.11
SHPS	0.07	0	0.18

We note that **adjusted earnings per share and shareholders' equity per share (EPSj and EQPSj) fall after the consolidation package is applied, while equity method investments and the share in the profit or loss of companies accounted for using the equity method (EMPS and SHPS) increase.** As earnings per share and shareholders' equity per share are adjusted, their fall is a direct result of the increase in EMPS and SHPS. The differences generated by application of IFRS 10 and 11 appear to be weak. They are nevertheless significant at the 10% level for earnings per share and the share in profit or loss per share and at the 1% level for shareholders' equity and equity method investments per share (Student's test). **The increase in equity method investments and the share in the profit or loss of companies accounted for using the equity method after application of the consolidation package is explained by the withdrawal of the proportionate consolidation method for joint ventures, which has been replaced by the equity method.**

2) Model results

Table 3 presents the results of the modelling of securities prices.[49]

Table 3 – Results of model [1]

Variables	Before application of consolidation package	After application of consolidation package
Number of observations	86	86
Constant	15.58**	15.58**
EPSj	6.86***	6.90***
EQPSj	0.88***	0.88***
EMPS	1.01***	1.01***
SHPS	-3.68	-8.65
Adjusted R^2	54.88%	55.09%
Coefficient equality test:[a]		
Difference between the EPSj with or without consolidation package		0.00 (p = 0.95)
Difference between the EQPSj with or without consolidation package		0.01 (p = 0.94)
Difference between the SHPS with or without consolidation package		0.00 (p = 0.99)
Difference between the EMPS with or without consolidation package		0.00 (p = 0.99)

*: significant at the 10% level **: significant at the 5% level ***: significant at the 1% level.

[a] Wald test. The critical probabilities are shown in brackets.

Regardless of which accounting data are used for 2013 (with or without application of the consolidation package), earnings, shareholders' equity and equity method investments per share are positively associated with the share price. All of the coefficients are significant at the 1% level (variables EPSj, EQPSj and EMPS). In other words, **these variables appear to provide useful information to investors regardless of whether this is before or after application of the consolidation package.**

In addition, the Wald test shows that these accounting data do not present statistically different weighting coefficients before and after application of the consolidation package. Finally, the increase in the explanatory power of the model when using data restated for the consolidation package, which rises from 54.88% to 55.09%, is not statistically significant. These initial results do not demonstrate any particular improvement related to the application of IFRS 10, 11 and 12.

The results of the model integrating the differentials are shown in Table 4:

[49] The various regressions were conducted by correcting the heteroscedasticity of the residuals and by integrating variables for the different industry sectors (ICB sector breakdown). In order to limit the weight of extreme values, the data were winsorized at 1%.

Table 4 – Results of model [2]

Variables	Coefficients
Number of observations	86
Constant	14.79**
$EPSj^{A}$	6.91**
$EPSj^{DIF}$	236.17***
$EQPSj^{A}$	0.911***
$EQPSj^{DIF}$	-25.84
$EMPS^{A}$	1.00***
$EMPS^{DIF}$	-23.69
$SHPS^{A}$	-11.97
$SHPS^{DIF}$	185.51**
Adjusted R^2	55.84 %
Coefficient equality test:[a]	
Difference between $EPSj^{A}$ and $EPSj^{DIF}$	7.02 (p = 0.009***)
Difference between $EQPSj^{A}$ and $EQPSj^{DIF}$	0.24 (p = 0.62)
Difference between $SHPS^{A}$ and $SHPS^{DIF}$	6.13 (p = 0.01**)
Difference between $EMPS^{A}$ and $EMPS^{DIF}$	0.19 (p = 0.66)

*: significant at the 10% level **: significant at the 5% level ***: significant at the 1% level.

[a] Wald test. The critical probabilities are shown in brackets.

This model confirms the previous results (EPSj, EQPSj and EMPS positively associated with share price). It also highlights that **the differences in the amounts from the consolidation package relating to earnings per share and the share in the profit or loss of companies accounted for using the equity method per share provide useful additional information ($EPSj^{DIF}$ and $SHPS^{DIF}$ variables).** The Wald test shows that the coefficients of the differentials of EPS and SHPS are significantly different from the coefficients of EPS and SHPS before application of the consolidation package.

We ran the same regressions to measure the relationship between stock returns and carrying values. However, these regressions were not statistically significant and we do not present them here.

In order to obtain a more complete view of the impact of the consolidation package on the quality of financial information, we now attempt to assess the improvement in the information content of the financial statements from the perspective of financial analysts.

IMPROVEMENT IN THE INFORMATION CONTENT OF THE FINANCIAL STATEMENTS FOR FINANCIAL ANALYSTS

This analysis involves assessing the **impact of IFRS 10, 11 and 12 on the information environment of financial analysts by using traditional earnings per share (EPS) measures (analysts' EPS forecast errors and dispersion of forecasts)**. If application of the consolidation package improves the quality of the information environment for financial analysts, their ability to forecast future results should improve.

I/ PRESENTATION OF THE SAMPLE

We begin with the sample used in the previous study. Financial analysts' forecasts were extracted from the IBES database. We eliminate two companies where no IBES data were available and two other companies that are followed by fewer than three financial analysts. The final sample comprises 82 companies (See Appendix 11).

We use panel data over a period of several years (2011 to 2016) with two phases:

- 2011 to 2014 with forecasts based on financial statements prepared before application of the consolidation package;
- 2015 to 2016 with forecasts based on financial statements prepared after application of the consolidation package.

There are theoretically 492 observations in total (82 * 6). However, observations may be missing for some periods (for example, company not listed for the entire period or followed by fewer than three financial analysts). The study therefore covers a sample of 484 observations.

II/ MODÈL TESTED

We propose the following model to analyze whether the analysts' information environment is modified by application of the consolidation package:

$$IE_{i,t} = c_0 + c_1 POST_i + c_2 CHANGE_i + c_3 POST_i * CHANGE_i + \sum_{m=1}^{n} c_{4,m} CONTROL_{m,i,t} + \sum_{j=1}^{h} c_{5,j} ACTIVIT_{j,i} + \sum_{p=1}^{z} c_{6,o}\, YEAR_p + \varepsilon_{i,t} \qquad [3]$$

Where:

- **Dependent variables**

$IE_{i,t}$: the information environment of company i at date t using traditional measures, namely analysts' EPS forecast errors and dispersion of forecasts:
$AFE_{i,t,N} = \left|(EPS_{i,N} - FEPS_{i,t,N})/P_{i,t-1}\right| * 100$: absolute forecast error, the absolute value of the difference between the EPS (earnings per share) actually generated by company i for financial year N and the financial analysts' average EPS forecasts for company i at date t for year N, divided by the share price of share i at the end of the previous month. We retained the financial analysts' forecasts prepared at the end of May because at that date, the financial analysts have access to the previous year's financial statements.[50]
$DISP_{i,t,N}$: standard deviation of financial analysts' EPS forecasts for company i for financial year N at date t divided by the share price at the end of the previous month.

[50] The tests were also run using financial analysts' forecasts prepared at the end of April. There were no major impacts on the results.

- **Independent variables**

$POST_i$: takes the value 1 if the forecasts for group i are prepared after application of the consolidation package and 0 if not.
$CHANGE_i$: takes the value 1 if the consolidation package has a quantitative impact on the accounting data and 0 if not.
$POST_i \times CHANGE_i$: interaction variable that can be used to test whether changes related to application of the consolidation package affect financial analysts' information environment.

- **Control variables**

We employ the control variables traditionally used by authors examining the information environment of financial analysts (Lys and Soo, 1995; Lang and Lundholm, 1996; Barron et al., 2002; Gu and Wu, 2003; Jones, 2007; Byard et al., 2011): the size of the group, the number of financial analysts following the company, the volatility of stock market returns, the variation in earnings per share over two years, the level of debt, a group loss, and growth opportunities measured by the market-to-book ratio. We measure these variables as follows :

$SIZE_{i,t-1}$: ln of market capitalisation at the end of the year preceding the forecast;
$NBANA_{i,t}$: number of financial analysts forecasting the company i's EPS at date t;
$VOLAT_{i,t-1}$: standard deviation of the monthly stock market returns of company i over the 36 months preceding t;
$VAREPS_{i,t} = \left|(EPS_{i,t} - EPS_{i,t-1})/EPS_{i,t-1}\right|/P_{i,t-1}$: the absolute value of the relative change in company i's EPS over two consecutive years, divided by the share price of i at the end of the previous year;
$DEBT_{i,t-1}$: total debts/total assets at the end of the previous year;
$LOSS_{i,t-1} = 1$ if company i makes a net loss for year t-1, 0 if not;
$M/B_{i,t-1}$: the market-to-book ratio at the end of the previous year.

We also include industry and year fixed effects in the regression (based on the ICB industry sector breakdown). The information required for these regressions comes from the IBES (financial analysts' EPS forecasts, dispersion of forecasts, number of financial analysts and actual EPS) and WORLDSCOPE (stock prices, stock market capitalisations, debt, market-to-book ratios) databases and from examining companies' registration documents (CHANGE variable).

Analysing the c_3 coefficient for the interaction variable POST with CHANGE should enable us to identify the impact of the consolidation package on the improvement in financial analysts' information environment. If c_3 is significantly different from zero, it means that groups that have experienced a change because of the consolidation package have also experienced a change in their information environment.

The results obtained are presented in Table 5:

Table 5 – Results of model [3]

Variables	AFE	DISP
Number of observations	484	484

CONSTANT	1.63	4.05*
POST	1.31*	0.7**
CHANGE	0.46	2.61
POST*CHANGE	-1.29**	-0.54*
SIZE	-0.24	-0.27**
VOLAT	27.31***	7.32*
VAREPS	-0.82	-1.14
DEBT	1.15	0.79
LOSS	3.38***	0.94***
M/B	-0.14	-0.07
Adjusted R^2	32.22%	31.29%

***: significant at the 1% level; **: significant at the 5% level; *: significant at the 10% level.
Due to the strong correlation between the variables relating to group size and to the number of analysts following the group (nearly 80%), we ran the regressions without the number of analysts variable.

Table 5 shows that the forecast errors and forecast dispersions are significantly higher for the 2015/2016 period than for the previous 2011/2014 period (POST variable). However, **in groups where implementation of the consolidation package has had a significant quantitative impact, the deterioration of forecast errors and forecast dispersion (POST * CHANGE variable) is curbed.** For these groups, we obtain a total impact of +0.02 (sum of the coefficients POST of +1.31 and POST * CHANGE of -1.29) relating to forecast errors and of +0.16 (sum of the coefficients POST of +0.7 and POST * CHANGE of -0.54) relating to the dispersion of forecasts. **The consolidation package therefore appears to improve the information content of the financial statements for financial analysts.**

SUMMARY

In this study we attempt to assess the effects of the consolidation package on the quality of financial information available to investors and financial analysts. The analysis is based on a sample from the SBF 120.

By applying value relevance methodology, we observe that the per share values of earnings, shareholders' equity and investments accounted for using the equity method are positively associated with share prices, regardless of the data used (before or after application of the consolidation package). Nonetheless, the differences in amounts due to the consolidation package associated with earnings per share and with the share in the profit or loss of entities accounted for using the equity method per share appear to provide additional information. This means that, overall, IFRS 10 and 11 provide accounting data that are more representative of the events incorporated in share prices.

We then attempted to assess the impact of the consolidation package on financial analysts' information environment. We note less deterioration with respect to financial analysts' forecast errors and forecast dispersion in the groups for which the consolidation package had a quantitative impact.

The various tests therefore appear to show that the consolidation package improves the quality of financial information available for users of the accounts (investors and financial analysts). These initial results should, however, be confirmed using a larger sample.

PART 4
SOME AVENUES FOR THE DEVELOPMENT OF IFRS 10, 11 and 12

STUDY METHODOLOGY

I/ ANALYSIS OF THE DIFFERENT RESOURCES (EXPERT OPINIONS, IMPACT STUDIES, etc.)

Our study methodology is based on analysing different "resources" in order to identify difficulties applying the IFRS consolidation package and potential avenues for improvement. We proceeded as follows:

- We summarised IFRS 10, 11 and 12 and IAS 28 amended
- Brief summary of the AMF/ESMA recommendations for 2013 and 2014 that give advice on the IFRS consolidation package as well as the recommendations issued by the ANC (2013-01 & 03)
- Synopsis of the impact studies performed by audit firms, on corporates and banks in particular: MAZARS (2013, 2014) and KPMG (2013) studies
- Compilation of expert opinions by consulting around twenty French publications in professional journals and roughly fifteen audit firm publications/conferences
- Review of the ten or so decisions published by ESMA on IFRS 10, 11 and 12 cases
- Consideration of the results of our quantitative and qualitative studies (see Part 2)

II/ IDENTIFICATION OF AVENUES FOR IMPROVEMENT IN THE IFRS CONSOLIDATION PACKAGE

The identification of avenues for improvement was based on the following:

- Development of around ten areas for improvement in the IFRS consolidation package based on the different resources consulted (expert opinions, recommendations, impact studies, etc.)
- Preparation of a list of questions, interview guides & future questionnaires
- Interview in Q3 2017 with P. Danjou, former member of the IASB
- Interview in Q3 2017 with M. Seiller, Executive Director of the AMF Corporate Accounting Directorate
- Request sent to IFRS specialists in firms based in Paris (E&Y, PWC) and in the regions (KPMG, Mazars, Odiceo)*

* Despite our requests, we received no positive responses. ODICEO, Mazars and KPMG (Rhône-Alpes) informed us that the IFRS consolidation package had no material impact on their clients, with the exception of one company that responded to our request. Listed SMEs/mid-sized companies appear to have experienced little or no effects from the IFRS consolidation package.

The aim is to identify several **operational recommendations**, which comprise:
- presenting **IFRS consolidation best practices** sourced from available benchmark studies (see Appendix 13), our own quantitative and qualitative study (see Part 2) and the recommendations of French and European regulators (see Part 1);
- identifying **potential avenues for improvement in the application of the IFRS consolidation package** in relation to implementation difficulties and with a view to improving disclosure (relevance and comparability).
These avenues for improvement are designed to fuel the French accounting standard-setter's reflections as part of the process of updating the provisions contained in the consolidation standards, and in particular the upcoming PIR (post-implementation review).

These recommendations are the result of our analysis of the IFRS consolidation package, based on a review of the texts, previous work, studies performed by audit & consulting firms and the opinions of certain experts published in the trade press or delivered at conferences.[51]

[51] References to the work or positions of experts are mentioned in the text, footnotes and reference citations. In particular, we refer on numerous occasions to the opinions and studies of PWC and Mazars.

Given the major impact of IFRS 11 for corporate clients, a focus is placed on this standard in terms of best practices and potential areas for improvement.

IFRS 10

I/ SIMPLIFIED SECTOR-SPECIFIC VARIANT OF IFRS 10

Given the weak impact of IFRS 10 on corporates highlighted in the different studies, the question arises as to whether it would be appropriate to have a **simplified sector-specific variant of IFRS 10** for industrial and commercial groups not belonging to the banking or prudential sector. The complexity of the standard makes it difficult to apply, but its impact on the financial statements is relatively minor.

In this context, one "line of thought" could be the implementation of two versions of IFRS 10:

- ***Full version of IFRS 10*** *reserved for the banking and prudential sector based on the current standard;*
- ***Simplified version of IFRS 10*** *for the industrial and commercial sector.*

The definition of control in IFRS 10 versus IAS 27 has had only very marginal impacts on industrial and commercial groups in terms of changes in the nature of control and even less in terms of changes in the scope of consolidation.
As noted by PWC (§. 15008), the main changes provoked by IFRS 10 relate to (see Appendix 12): the new definition of control (three cumulative criteria), the assessment of substantive rights, potential voting rights, de facto control and the specific characteristics of franchises and investment companies. From these elements, PWC[52] identifies the following **key application difficulties**:

Structured entities	Principal/agent
Protective rights	Relevant activities
De facto control	Potential voting rights
Franchises	

II/ CONVERGENCE BETWEEN CERTAIN PROVISIONS OF IFRS 10 AND THOSE OF THE FRENCH COMMERCIAL CODE AND STANDARD CRC 99-02

Regarding **exemption from consolidation**, it should be noted that IFRS 10 (§. 4) deals with the case of unlisted subgroups belonging to listed groups in a manner consistent with article L 233-17 al. 1 of the French Commercial Code. In addition, for unlisted groups, whether using IFRS or not, the Commercial Code provides for the possibility of an exemption for "small groups" (art. L 233-17 al. 2) and for groups whose subsidiaries are immaterial, both individually and collectively (art. L 233-17-1).

In this respect, IFRS 10 could perhaps refer back to national provisions for unlisted groups using IFRS. In fact, regardless of the standard applied, the obligation to consolidate and the related exemptions stem from the French Commercial Code (art. L 233-16 and L 233-17).[53]

In addition, there are certain differences between IFRS 10 and French standard CRC 99-02. It would be useful to discuss the justification for these differences.

[52] The reference to "PWC" refers here to the *Mémento IFRS 2018* publication (see the references section).
[53] For further details, see E. Tort on group consolidation in France, "*Consolidation des groupes en France*", *Revue française de comptabilité*, n°520, May 2018, 2 p.

In accordance with article L 233-25, the consolidation date may differ from the **reporting date** of the consolidating company's separate financial statements, provided that **the majority** of the group's entities report at this date, in accordance with §. 202 of CRC 99-02, harmonised by Regulation 2016-08. This is not possible under IFRS 10, since §. B92 requires the parent and its subsidiaries to have the same reporting date. If there is a different reporting date, the subsidiary needs to prepare interim financial information for consolidation purposes, unless it is impracticable to do so.

As this option has recently been confirmed in French regulations (Commercial Code and CRC 99-02), we consider that the question of whether it is appropriate to amend IFRS 10 on this specific point should be raised in order to provide similar flexibility for groups applying IFRS.

Similarly, §. 202 of CRC 99-02 provides for the possibility of retaining, for consolidation purposes, an entity's financial statements provided that they are **dated no more than three months ago** and that significant interim events are taken into account. This option is offered by IFRS 10 (§. B93), but only if it is impracticable to prepare interim financial information.

In our opinion, it may be desirable to harmonise the provisions of IFRS 10 (§. B92-B93) and CRC 99-02 (§. 202) for comparable situations regardless of the framework, either by restricting this option to cases where it is impracticable in the French rules, or by making the IFRS more flexible.

Unlike IFRS, §. 303 of CRC 99-02 specifically prescribes the elimination of tax-related accounting entries, indicating five items that are to be eliminated (e.g. derogatory depreciation). IFRS 10 (§. 19 and B87) does not explicitly refer to tax entries but specifies more generally that uniform accounting policies must be used for all transactions undertaken by group entities. In this respect, appropriate adjustments are made to entities' financial statements if local accounting policies differ from those of the group.

An explicit mention in IFRS 10 regarding the elimination of tax entries would seem pertinent to us in order to clarify/cover cases where the origin of the difference between local and central (group) accounting methods stems solely from the application of tax legislation (connection between accounting and taxation in certain countries such as France).

In accordance with CRC 99-02 (§. 270), **negative non-controlling interests** (reserves and profit or loss) must be charged to the group's share unless the non-controlling shareholders have given a formal commitment to make up the losses. IFRS 10 (B94) requires profit or loss and reserves to be attributed to the group and to external shareholders even if this results in the non-controlling interests having a deficit balance.

In view of the principle of prudence in valuing the group's interests, the question of a possible alignment of B94 of IFRS 10 to §. 270 of CRC 99-02 (or vice versa) would seem worth asking in order to confirm or invalidate the divergence between the two standards.

III/ CLARIFICATIONS PROVIDED CONCERNING CERTAIN CONTROL MECHANISMS

In order to clarify our argument, we set out below certain provisions of CRC 99-02 on the topic of control (control rights or "de jure" control, presumption of de facto control and % indirect control).

CRC 99-02 (§. 1002) specifies that **exclusive control of an entity** exists **by law, "de jure",** when a company directly or indirectly holds the majority of voting rights (>50%) and exists **de facto (presumption)** if the company holds more than 40% of these rights and no other shareholder holds a higher proportion.

§. 10050 of CRC 99-02 states that the **proportion of control** corresponds to the voting rights exercisable at the entity's Ordinary General Meeting (OGM), whether these are held directly by the consolidating company **or indirectly through wholly owned subsidiaries**.

Unless we are mistaken, IFRS 10 provides no details on how to determine the proportion of indirect control held by a consolidating company in an entity. In the opinion of PWC (§. 15140), the percentage of voting rights held by the consolidating company and its subsidiaries should be added together, excluding rights held through joint ventures and associates.

In our opinion, it would be beneficial for IFRS 10 to explicitly state the procedure for calculating the proportion of control as being the sum of the percentages of direct and indirect control held through subsidiaries only (excluding joint ventures and associates).

Unlike CRC 99-02, holding **the majority of voting rights** does not systematically lead to **control** under IFRS 10. The conditions are set out in B35, in terms of direction of the relevant activities or appointment of a majority of the members of the governing body, and in B36 concerning the substantive nature of rights and the current ability to direct the relevant activities. Conversely, **control** is possible **without a majority of voting rights** (B38) in the cases covered by B39 to B50, including contractual agreements, substantive voting rights or the holding of a major block of voting rights, etc.

In our view, introducing a de facto presumption of exclusive control, at a minimum in the case where more than 50% of substantive voting rights are held, could help to simplify practices. This could be a simple presumption that could be overridden in the event of non-compliance with the conditions set out in B35 and B36.

In terms of control in substance, the concept of **structured entities** is found within the IFRS framework. As PWC notes:
- there is no definition of structured entities in IFRS 10. Users need to refer to IFRS 12 (PWC §. 15175);
- there are no "specific procedures for determining control of these entities"; there is a "single control model in which certain assessment indicators that are de facto applicable to structured entities can be found" (PWC, §. 15176).

*In this context and for the sake of practicality, it would be useful to include separate paragraphs in IFRS 10 to specifically define **structured entities** and to group together the criteria for assessing control of these entities.*

IFRS 11

Overall, it appears from the studies on corporates that IFRS 11 has had the greatest impact on groups' financial statements, even if these impacts only occur in a minority of cases and concern minor or even immaterial amounts.

I/ SEPARATE PRESENTATION OF FINANCIAL STATEMENT ITEMS ACCORDING TO THE NATURE OF EQUITY METHOD ENTITIES

Although not widely implemented, we believe that it is good practice for the financial statements to present items relating to EM entities separately depending on whether they are joint ventures or associates. The objective here is to eliminate confusion between income from controlled entities (joint ventures) and from entities that are not controlled (associates).

Thus, where these items are material, it would be useful to present ***two separate lines*** *in the consolidated income statement for the share in the profit or loss of EM entities and in the consolidated balance sheet for investments in EM entities.*

In line with IAS 1 and the position of the standard-setters (see ANC recommendation 2013-03, for example), it is also good practice for the statement of comprehensive income to ***separately present*** *items relating to EM entities versus subsidiaries and to distinguish between recyclable and non-recyclable items.*

II/ IMPROVING THE READABILITY OF THE FINANCIAL STATEMENTS IN TERMS OF OPERATIING PERFORMANCE

In our view, the option of classifying the share in the profit or loss of EM entities above operating profit in the consolidated income statement is **a genuine opportunity** to present the operating performance of entities as an extension of the group's activities in accordance with the AMF's recommendations (intermediate subtotal).

In this scenario, in order to harmonise practices that are in general relatively undeveloped, it may be useful to ***clarify*** *both the criteria for recognising an activity as an extension of the group's activities and the eligibility of the EM entities (joint ventures and/or associates). In our opinion, in order to ensure consistency this classification within operating profit would also require the share in profit or loss to* ***at least be restated for financial expenses and taxes****.*

For joint ventures, the question ***of introducing a mandatory exemption for proportionate consolidation, or at least line-by-line accounting,[54] subject to specific conditions for certain entities (e.g. project entities)[55]*** *could provide an avenue for reflection and a clear alternative to the optional classification of the share in the profit or loss of EM entities above operating profit for operating entities. It should be recalled that the majority of companies deemed it appropriate to maintain proportionate consolidation, as opposed to the EM option, to account for joint ventures under IAS 31 before the transition to the IFRS consolidation package.*

For joint ventures that are an extension of the group's business activities, integrating the group share in revenue and operating expenses in the consolidated income statement is an unconvincing option given the de facto asymmetry with the consolidated balance sheet, which is unaffected (e. g. absence of the corresponding share in liabilities). In this case, it appears more appropriate to disclose these items in the

[54] Pursuant to IAS 28 (§. 18), we note that venture capital organisations and other mutual funds, unit trusts, etc. have the option to measure investments in joint ventures and associates at fair value through profit or loss.
[55] Project entities are in theory classified as joint ventures, however the EM does not appear to accurately reflect the economic substance of this type of joint arrangement (see PWC opinion, §. 15439).

notes to the financial statements, in particular the share of revenue. In this respect, IFRS 12 requires the disclosure of 100% of the revenue, profit or loss, and assets and liabilities of material joint ventures (and associates).

In its recommendation on the 2014 reporting period under IFRS, the AMF also recommends the disclosure of additional information on the balance sheet and income statement for material joint ventures (see Part 1). In terms of disclosures on operating segments, entities are entitled to maintain proportionate consolidation of joint venture data (i.e. non-GAAP) when these entities are monitored internally by management in this way and provided that the data are reconciled with overall consolidated IFRS data (PWC §. 15377 and §. 15456).

III/ APPLICATION OF THE EQUITY METHOD: TARGETED CONVERGENCE BETWEEN CRC 99-02 AND IFRS

Following the recent, post-IFRS consolidation package amendments to French standard CRC 99-02, in particular the treatment of goodwill,[56] certain divergences with IFRS remain, especially with respect to the EM. Apart from the difference in the use of the EM, which CRC 99-02 reserves solely for associates, there are real differences between the two standards as regards the procedures for implementing the EM.

The absence of any amendment to CRC 99-02 when it was last updated in 2015/16 would appear to advocate convergence of the IFRS provisions towards the French consolidation rules, unless amendments to CRC 99-02 are envisaged as part of the ANC's current work.[57] In this case, it might be appropriate to assess normative divergences in order to mitigate the effects under French rules if they are considered inappropriate.

*At this stage, we suggest examining a **targeted convergence between IFRS and CRC 99-02 on the following points (see also the expert opinions)**[58] where it appears that there is no obvious justification for the difference in treatment between the two standards.*

Current IFRS treatment	***CRC 99-02 treatment***	***Targeted convergence for uniform treatment by the two standards***
***Goodwill recognised on the balance sheet** within the carrying amount of investments accounted for using the EM*	***Goodwill separately presented on the balance sheet***	*Move towards **separate recognition** in line with the full consolidation method in order to improve monitoring (e.g. allocation of impairment/loss in value) OR **maintain the inclusion of goodwill within investments accounted for using the EM?***
***Recognition of an additional provision for the share of losses** if the EM entity has **negative net assets** in cases*	***Systematic recognition of an additional provision for the share of losses** if the EM entity has **negative net assets** unless the*	*Convergence towards **more systematic recognition** (CRC 99-02) OR **uniquely when legal or constructive obligation** (IAS 28)?*

[56] For more information, see our article on the evolution of this consolidation standard over the last decade, E. Tort, "*Evolution du règlement CRC 99-02 relatif aux comptes consolidés au cours de la dernière décennie (2005-2016)*", *Revue Française de Comptabilité*, n°513, October 2017, 4 p.
[57] See Institute of Management Accountants , IMA France on ANC news and strategic plan, "*Actualité ANC 2017 et plan stratégique ambition 2019*", conference held on 19 September 2017 cited by French publishing group, *Groupe Revue Fiduciaire*.
[58] See E. Paret, I. Piquin & A. Souchon's article on the difficulties applying the equity method under IFRS, "*Mise en équivalence en IFRS : les difficultés d'application*", *RF comptable*, October 2015, pp. 29-55 and E. Tort's article on the equity method under French and international standards, "*Les méthodes de mise en équivalence en règles françaises et internationales*", *Revue française de comptabilité*, n°504, December 2016, 4 p.

where there is a legal or constructive obligation (IAS 28)	*parent is obliged to, or intends to, divest*	
Lack of details on the elimination of intercompany profits/losses between entities accounted for using the equity method	***Elimination of intercompany profits/losses between entities accounted for using the equity method** at a rate equal to the product of the percentage interest in the two entities (CRC 99-02)*	***Confirmation OR not in IFRS** of elimination of intercompany profits/losses between companies accounted for by the equity method at a rate equal to the product of the percentage interest in the two entities?*

*On the other hand, with regard to the acquisition costs of EM investments, recognising them as current expenses rather than including them in the initial cost of the investment as currently provided for by IFRS 11 would make it possible to **harmonise the IFRS treatment** with that of subsidiaries (CRC 99-02 divergence).*

IV/ EXPECTED CLARIFICATIONS REGARDING CERTAIN IFRS PROVISIONS: EXTENSION OF THE PROVISIONS OF IFRS 3 TO ACQUISITIONS OF EM AND OTHER ENTITIES?

In the absence of details in the IFRS consolidation package, the **explicit extension** to EM entities of certain provisions of IFRS 3 applicable to subsidiaries could promote consistency in practices relating to business combinations regardless of the type of entity concerned (subsidiaries and EM entities).

In the light of expert opinions,[59] three provisions are mentioned here:

Method used for a step acquisition by revaluing the previous investment at fair value by analogy with the treatment of subsidiaries under IFRS rather than using a "cost approach"?
This point remains debatable or even controversial for entities accounted for using the equity method.
Subsequent adjustment of an earn-out included in the initial cost of the EM investment taken to profit and loss (corresponding change in debt) by analogy with the treatment of subsidiaries under IFRS
Application of the IFRS 3 exemption applicable to subsidiaries to the case of acquisitions of EM entities from another group entity (under common control)

NB: IFRS 3 applies to the acquisition of interests in a joint operation when it is an operation within the meaning of IFRS 3 (likewise for additional acquisitions following the May 2014 amendment, see Appendix 2).[60]

*In our view, **the absence of certain clarifications under IFRS** concerning EM entities would at least merit a **recommendation from the French standard-setter, failing or pending clarification by the IASB.***

Apart from the aforementioned business combinations, other ambiguities are highlighted by these experts as leading to uncertainties in practices such as: the use of future cash flows (dividends versus underlying operations) in impairment tests, eliminating intercompany profit or loss with an EM entity (e.g. counterparty) or the recognition, or not, of deferred taxes on temporary differences relating to EM investments.

V/ QUESTIONING THE DEVELOPMENT OF THE EQUITY METHOD: A CONSOLIDATION OR MEASUREMENT METHOD?

[59] See previous note and PWC expert memo, *IFRS 2018*, *mémento expert*, published by F. Lefebvre, September 2017, 2194 p.
[60] Gradual increase in control or in joint control of a joint operation, see IFRS Annual Improvements 2015-2017 Cycle and E. Tort article on annual improvements to the IFRS consolidation package, "*Pack consolidation IFRS : améliorations annuelles des normes*", *Option finance* n°1457 of 9 April 2018, p. 46.

As noted by G. Gélard,[61] a former member of the IASB, the EM is used in different contexts and has many practical application difficulties, which generate requests for clarification and explanation that are sent to the IASB. The issue raised is whether the method is considered a **consolidation method** or a **measurement method**.

With the transposition of the Accounting Directive, **the obligation to consolidate** in France now only applies to entities that control (exclusively or jointly) one or more other entities, thus excluding entities subject to significant influence, although they are ultimately included in the **scope of consolidation.** Unlike IFRS, CRC 99-02 has maintained the PC method for joint ventures, reserving the EM solely for associates. When applied to associates, does this mean that the EM should be considered as a measurement method rather than as a consolidation method regardless of the accounting framework used?

This perspective appears to warrant raising the ***question of the development of the EM*** *in accordance with these two different approaches: "measurement" versus "consolidation".*
- *The first case* could be **measurement at cost** with the withdrawal of the goodwill calculation, restatements to achieve uniformity of accounting policies and elimination of intercompany profits/losses.
- *In the second case*, the issue would be **to improve the consolidation method**, maintaining the acquisition method (goodwill) but clarifying and/or simplifying the method, harmonising practices with those of subsidiaries or converging French and international provisions on certain points (see Part 2).

The answers to these questions, which go beyond the scope of the present study, will most certainly be addressed and further developed by the research team led by our colleague Frédéric Pourtier as part of the research contract with the ANC on the topic of the equity method, an area of ongoing reflection at the IASB.

VI/ RELEVANCE AND COMPLETENESS OF IFRS 11 FOR THE ANALYSIS OF JOINT ARRANGEMENTS AND JOINT CONTROL

As IFRS specialist Christophe Marion rightly points out,[62] two difficulties arise when applying IFRS 11: the determination of joint control and analysis of the joint arrangement, which will determine the accounting policy.

In this context, and in relation to these operational analysis difficulties, our aim here is to assess, by means of our qualitative study (see Part 2), the relevance and completeness of the current provisions of IFRS 11 and more particularly Appendix B, which includes application examples, a comparative table and decision trees.

Items	Appendix B of IFRS 11	Results of the study on completeness and relevance
Determination of joint control (professional judgement)	Application examples (B8) and decision tree (B10)	Roughly 1/3 of companies considered the corresponding provisions of IFRS 11 to be sufficient and relevant versus 18% who stated the opposite. 1/2 of companies made no comment.
Classification of joint arrangements (joint operation / joint venture)	Application examples (B26 & B32), comparative table (B27) and decision tree (B21 & B33)	

[61] G. Gélard's article on the question of treating the equity method as a measurement or consolidation method, "*Le point sur la mise en équivalence : méthode d'évaluation ou méthode de consolidation*", *Revue française de comptabilité*, n°475, April 2014, pp. 4-5.
[62] C. Marion's article on the challenges of applying IFRS 11: "*IFRS 11 : subtilités et difficultés d'application*", *Revue française de comptabilité*, n°473, February 2014, pp. 20-22.

The other questions asked during the individual interviews mainly aimed to assess the complexity of the joint arrangement and joint control analysis in function of the complexity of the situations and the means deployed.

With regard to the analysis of joint arrangements, one of the most sensitive points is the step concerning the analysis of "**other facts and circumstances**". Are the preparers of the accounts entitled to carry out an analysis of substance beyond the example given by IFRS 11, i.e., the case of a joint arrangement whose operational output is essentially destined for its partners, which is classified as a joint operation, with this classification also being in accordance with the ESMA decisions (see Part 1).[63] According to PWC, the position of the IFRIC[64] on this point adopts a strict reading of the analysis of other facts and circumstances, i.e. on a purely legal and contractual basis (so-called enforceable rights). In practice, this means that activities undertaken in a separate legal entity that fall outside the example given by IFRS 11 are only very exceptionally classified as joint operations.

In this context and to improve the simplicity/convenience for preparers of the accounts, one suggestion would be to explicitly limit the other facts and circumstances to Example 5 of B32. In other words, the approach to analysing a joint arrangement would be limited to the first two steps of the decision tree in B33, i.e. the legal form of the entity and the terms of the contractual arrangement, with ***the only exception being to classify*** *the specific case cited in Example 5 of B32 as a* ***joint operation****.*
In this last case, and as recommended by some experts, clarification would be useful in order to:
- explicitly confirm that a joint operator should not recognise the share of revenue from sales made to itself by the joint operation;
- specify line-by-line accounting in joint operations where the proportion of ownership interest differs from the share of output produced with the joint operator.

[63] See also PWC expert memo, *IFRS 2018*, *mémento expert*, published by F. Lefebvre, September 2017, §. 15374 and 15438.
[64] IFRIC has clarified variants of the example given by IFRS 11 (B32), nonetheless concluding that there is no need at this stage to amend IFRS 11 or to publish an interpretation. (See references section and PWC §. 15438).

IFRS 12

As PWC (2012) points out, IFRS 12 primarily introduces two new concepts (see Appendix 12): interests in another entity (contractual or non-contractual involvement that exposes the entity to the risk of variable returns) and structured entities (voting rights are not the dominant factor in determining control).

I/ **USEFULNESS OF A STANDARDISED FORMAT FOR PRESENTING THE INFORMATION REQUIRED BY IFRS 12 FOR REASONS OF PRACTICALITY AND COMPARABILITY?**

Impact studies (e.g. Mazars 2013) and our own study show that there are disparities in the content and presentation of the information required by IFRS 12, with this information sometimes being difficult to identify amongst the ever-growing volume of information disclosed.
In the banking sector, ADICECEI (the French association of credit institution and investment firm accounting directors) has worked on this point to create an IFRS 12 application framework for its members.[65]

This observation suggests a need to implement standardised presentation formats such as: standardised table of information required for joint ventures and associates, dedicated table for structured entities, and details on the place of certain disclosures in the notes to the financial statements such as significant judgements and assumptions or significant risks and restrictions.

Some lessons learned from the implementation of IFRS 12
Little progress in practice in communicating **significant judgements & assumptions** with best practice being to disclose them separately by type of interest
No new information on the composition of the group beyond the table showing scope of consolidation in the absence of IFRS 11 guidance on this point
Lack of clarification on how to assess the materiality of non-controlling interests in subsidiaries –> little or no information on non-controlling interests provided by groups
Difficulty identifying the information required on the nature and extent of significant restrictions (telescoping with IAS 27 for subsidiaries)
No information on risks related to interests in consolidated structured entities
Disparity in the presentation of the information required for joint ventures & associates (table by year, by entity, by operating segment, etc.) with or without reference to the IFRS 8 segment information
Lack of uniform information for disclosures of risks relating to joint ventures and associates (no format for presenting these “off-balance sheet commitments”)

Source: adapted from the results of the Mazars study, 2013 (see references section).

*In the absence of specific requirements in IFRS 12, best practice may, for example, be to present **significant judgements and assumptions** for each type of interest rather than for consolidation scope (Mazars, 2013).*

II/ CLARIFICATION OF CERTAIN PROCEDURES FOR DETERMINING AND PRESENTING THE INFORMATION REQUIRED

According to the Mazars study (2013), *it is good practice to disclose the procedures used to determine whether non-controlling interests are material; if there are no **material non-controlling interests in subsidiaries**, this should be disclosed in line with the AMF’s recommendations*. The same applies to assessment of the materiality of **interests held in joint ventures and associates**, where specific information should be

[65] Nicolas Charlet and Michèle Formagne article on significant developments in consolidated accounts from 2012, “*Comptes consolidés : des évolutions significatives dès 2012*”, *Revue Banque*, n°744, January 2012, pp. 78-81.

disclosed. Other good practices highlighted relate to **"significant restrictions"**, where a commentary should be provided and referenced to the corresponding figures; if there are no such restrictions, this should be explicitly stated in the notes to the financial statements, as should the absence of **risks related to interests in a consolidated structured entity** (see Mazars study, 2013).

Based on the concept of materiality derived from the IASB's Materiality Practice Statement published in September 2017, we believe it would be useful for the ANC (or the AMF) to recommend, in quantitative terms, materiality thresholds determined in function of the group's main aggregates, as is the case for changes in scope, where the materiality threshold above which pro forma financial statements need to prepared is set at 25%.[66] *From a qualitative perspective, reference should in any case be made to the IASB's practice statement referred to above (e.g. geographical location, business sector, etc.).*[67]

III/ INCREASE IN FINANCIAL INFORMATION IN THE NOTES TO THE FINANCIAL STATEMENTS

According to a KPMG study of 52 European issuers presented at an APDC conference in 2015,[68] the growth in the volume of financial information may not be solely linked to the transition to IFRS. The study shows that between 2004 and 2014, the number of pages in annual reports and consolidated financial statements grew by 36% (to 259 pages in 2014) and 28% (86 pages in 2014), respectively.

In this respect, initiatives have been taken by the French regulator, the AMF, through its annual recommendations[69] and its June 2015 Guide on the relevance, consistency and readability of financial statements and by the IASB with its Disclosure Initiative project launched in 2013. The ANC has also published recommendations 2012-01 and 2012-02, dealing respectively with the general principles for preparing the IFRS notes to the financial statements and a simplified notes template for small and medium-sized companies.[70]

Accordingly, we carried out a volumetric and documentary analysis of the notes to the financial statements before and after the transition to the IFRS consolidation package with SBF 120 and CAC 40 companies respectively. The main lessons of this study of IFRS 12 include:
- a fairly weak impact of IFRS 12 on the volume of the consolidated accounts, and specifically the notes to the financial statements, which increased on average by 3% between pre and post-transition to the IFRS consolidation package (see Appendix 14);
- no links between the extent of the impact of IFRS 10 and 11 and that of IFRS 12 on the financial statements;
- a certain dispersion of the information required by IFRS 12 within the financial statements with no uniformity in the practices of CAC 40 companies, in line with previous impact studies (see Part 2).

Degree of dispersion of IFRS 12 disclosures in the notes to the financial statements

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[66] Article 222-2 of the AMF General Regulation requires issuers to disclose pro forma information for at least the current financial year in the event of a change in scope that has an impact on the financial statements of more than 25%. To assess the 25% threshold set in Article 222-2 of the AMF General Regulation, reference should be made to the CESR (Committee of European Securities Regulators) recommendations, which proposed, in particular, that companies assess whether the threshold has been exceeded, or not, on the basis of management balances and the main balance sheet aggregates, i.e. initially on the basis of changes in the total balance sheet, revenue and operating profit.
[67] See for example, in this respect, I. Grauer-Gaynor's article on how to apply the concept of materiality, "*IASB : comment appliquer le concept de matérialité*", *Revue française de comptabilité*, December 2017, n°515, pp. 8-9.
[68] See article by Dépêches, in *RF comptable* 5/11/2015 on other factors contributing the increase in the volume of the financial statements, "*Les IFRS ne sont pas les seules responsables de la hausse du volume des états financiers*", and the KPMG study of 52 European issuers ten years after IFRS, entitled "*Les IFRS 10 ans après*", 44 p.
[69] See, for example, E. Tort's article on the AMF recommendations for the 2017 reporting period, "*Recommandations de l'AMF relatives à l'arrêté des comptes 2017 en IFRS*", *Option finance n°1442/1443* of 18 December 2016, p. 62.
[70] See E. Tort article on the ANC recommendations on the notes to the consolidated accounts under IFRS, "*Recommandations de l'ANC relatives à l'annexe des comptes consolidés en IFRS*", *Option finance* n°1204 of 14 January 2013, p. 29

Number of notes to the financial statements disclosing:	1 note	2 notes	3 notes	4 notes or more
Information on subsidiaries	5%	64%	31%	-
Information on associates and joint ventures	-	10%	18%	72%
Information on unconsolidated structured entities (*)	78%	11%	11%	-

(*) frequency rate of issuers disclosing information on unconsolidated structured entities

Source: extract from M.T. Hamadi, working document on the quantitative study of IFRS 12, 2018.

SUMMARY: The potential avenues for development identified are as follows:

Standard	Objective	Procedures
IFRS 10	Examination of the possibility/prospect of a sector-specific variant of the standard to create simplified and full versions of IFRS 10?	-Full version of IFRS 10 reserved for the banking and prudential sector based on the current standard, including a definition of structured entities and specific criteria for assessing control of these entities; -Simplified version of IFRS 10 for the industrial & commercial sector and/or SMEs/mid-sized companies (exclusion of structured entities, presumption of control, etc.)
IFRS 10	Questions on the convergence of application procedures between certain provisions of IFRS 10 and those of CRC 99-02	-Option of using the reporting date of the majority of subsidiaries as the consolidation date: **flexibility or not?** -Option of using accounts prepared no more than 3 months prior to the reporting date for consolidation, **with or without** proof of impracticability? - Explicit mention of the elimination of entries that are purely tax related beyond restatements for uniformity in cases of divergence with group rules - Allocation of negative non-controlling interests to the group share unless opposing commitment **in accordance with the principle of prudence?**
IFRS 10	Clarification of certain control procedures (% control, de facto control, structured entities)	-Introduction of a presumption of de facto exclusive control when an entity controls more than 50% of substantive rights (?) -Explicit reference to the calculation of % control as being the sum of direct and indirect control %'s held through subsidiaries **only** (excluding joint ventures and associates) -Definition & grouping of specific criteria to assess control of structured entities
IFRS 11	Separate presentation in the financial statements of items according to nature of control of the EM entity (joint control vs. significant influence)	-Distinguish between joint ventures and associates when presenting EM investments on the balance sheet and the share in profit or loss on the income statement (2 lines); -In statement of comprehensive income, identify items relating to EM entities vs. subsidiaries with distinction between items that are recyclable or not.
IFRS 11	Improving the readability of financial statements in terms of operating performance (ANC rec. 2013-03)	-Classify share in net P/L above operating profit: criteria/eligibility to be specified and restatement of share in net P/L for finance costs and income tax expense; -Introduction of mandatory exemption to allow PC or "line-by-line" recognition for certain joint ventures (e.g. project entities).
IFRS 11 / IAS 28	Questions on the targeted convergence of application of the equity method between CRC 99-02 & IFRS	-Separate recognition **OR** not of goodwill? -Provision for negative net assets of EM entities unless divestment in progress **OR** where legal or constructive obligation? -**Clarification** of elimination of intercompany profit/loss between EM entities: at a rate equal to the product of % interests?
IFRS 11 / IAS 28	Clarification of certain procedures for applying IFRS 11, alignment with those of subsidiaries in some cases	-Explicit extension to EM entities of the IFRS 3 provisions applicable to subsidiaries when dealing with business combinations (progressive acquisition? Subsequent adjustment of an earn out, exemption);

		-Clarification of certain application procedures (e.g. cash flows used for DCF in impairment tests, recognition or not of deferred tax for EM investments).
IFRS 11 / IAS 28	Evolution of the equity method in the context of the IASB's ongoing reflection	-If move towards a "measurement model", examination of relevance of the EM for joint ventures; -If maintain "consolidation model" → improvements to be made to clarify, simplify and harmonise practices.
IFRS 11	Relevance and completeness of IFRS 11 (Annex B in particular) for analysing control and joint arrangements	-Simplification of the joint arrangement analysis process to 2 steps rather than 3 (legal form of vehicle & contractual terms), with specific exception (Example 5, B32)
IFRS 12	Standardisation of the presentation of the disclosures required by IFRS 12	- Format for the standardised presentation of the information required by IFRS 12 for reasons of practicality and comparability -Specific standardised table for unconsolidated structured entities.
IFRS 12	Clarification of certain procedures for determining and presenting information	-Explicit mention of absence of significant risks, restrictions, etc. -Clarification of the materiality of interests with reference to an indicative materiality threshold based on the group's main aggregates

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"The interpretations Committee received a request to clarify how the assessment of 'other facts and circumstances' described in IFRS 11 affects the classification of a joint arrangement as a joint operation or a joint venture. The Interpretations Committee considered whether the assessment of 'other facts and circumstances' should be undertaken with a view only towards whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities or whether that assessment should also consider the design and purpose of the joint arrangement, the entity's business needs and the entity's past practices. The Interpretations Committee noted that paragraph 14 of IFRS 11 requires the classification of a joint arrangement as a joint operation or a joint venture to depend on rights to the assets and obligations for the liabilities of the parties to the arrangement, and that rights and obligations, by nature, are enforceable.

The Interpretations Committee noted that paragraph B30 of IFRS 11 describes that when 'other facts and circumstances' give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement, the assessment of 'other facts and circumstances' would lead to the joint arrangement being classified as a joint operation. Consequently, the Interpretations Committee noted that the assessment of 'other facts and circumstances' should focus on whether those facts and circumstances create rights to the assets and obligations for the liabilities. The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements, no Interpretation or amendment to the Standard was required. Consequently, the Interpretations Committee decided not to add this issue to its agenda."

APPENDICES

Appendix 1: Transitional provisions following amendment of IFRS 10 and 11 (June 2012)

When adopting IFRS 10 and IFRS 11 for the first time, companies are required to apply the standards retrospectively, in accordance with IAS 8 relating to changes in accounting policies: impact on shareholders' equity; mandatory restatement of comparative information for the year prior to application of the consolidation package; explanation of the effects of the change in accounting policy on the various items for the comparative year.

IFRS 10

First full consolidation of an entity as a result of IFRS 10: measurement of the assets, liabilities and non-controlling interests in accordance with IFRS 10. The difference compared to the previous carrying amount of the investment is recorded in shareholders' equity.
Deconsolidation as a result of IFRS 10: measurement of the carrying amount of the investment in accordance with IFRS 10. The difference compared to the previously recognised amount of the assets, liabilities and non-controlling interests is recognised in shareholders' equity.

Investment entity: recognition at fair value (except specific exemption) with the difference between the previous carrying amount of the consolidated subsidiary and its fair value recognised in shareholders' equity.

IFRS 11

Transition from proportionate consolidation to the equity method (joint venture): the company should recognise the investment as the aggregate of the shares of assets and liabilities previously proportionately consolidated, including any goodwill: it should assess whether the investment is impaired and recognise any impairment loss as an adjustment to reserves; potential deferred taxes are applied (the IAS 12 exception does not apply); it recognises a liability if a legal obligation exists in a negative net asset situation; it should analyse in the notes to the accounts the assets and liabilities that have been aggregated into the single line investment balance for all entities concerned; after initial recognition, it should apply IAS 28 for its equity method investment.

Transition from the equity method to a joint operation: the company should derecognise the equity-method value of the investment and recognise its share in each of the assets and the liabilities of the joint operation, including any goodwill, on the basis of its rights and obligations set out in the contractual arrangement.
If the net amount of assets and liabilities, including any goodwill, exceeds the derecognised value, the difference is offset against goodwill and any remaining difference is transferred to reserves. In the opposite case, the difference is adjusted against reserves. The company should provide reconciliations between the different amounts.

IFRS 12

The information required by IFRS 12 should be disclosed for the year the standard is first applied and, except for unconsolidated structured entities, for the previous comparative year.

Adapted in part from the article on the IFRS 2014 updates by B. Lebrun, "*Les nouveautés d'IFRS en 2014*", *RF comptable*, n°418, pp. 23-49.

Appendix 2: Summary of the main normative changes in the IFRS consolidation package

Nature	Content	Date published by IASB	EU approval	Date of application in EU
Improvements	Annual improvements to IFRS 2015-2017 cycle (IFRS 11) (*)	December 2017		
Amendments to IAS 28	Long-term interests in associates and joint ventures	October 2017		
Improvements	Annual improvements to IFRS 2014-2016 cycle (IFRS 1, 12 and IAS 28) (*)	December 2016	EU Regulation 2018/182 of 7/02/2018	1st January 2017 and 2018
Amendments to IFRS 10 and IAS 28	Effective date of the amendments to IFRS 10 and IAS 28	December 2015	Deferred	
Amendments to IFRS 10, 12 and IAS 28	Investment entities: applying the consolidation exception	December 2014	EU Regulation 2016/1703 of 22/09/2016	1st January 2016
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	September 2014	Deferred	
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations	May 2014	EU Regulation 2015/2173 of 24/11/2015	1st January 2016
Amendments to IFRS 10, 12 and IAS 27	Investment entities	October 2012	EU Regulation 1174/2013 of 20/11/2013	1st January 2014
Amendments to IFRS 10, 11 and 12	Consolidated financial statements, joint arrangements, and disclosure of interests in other entities: transition guidance	June 2012	EU Regulation 313/2013 of 04/04/2013	1st January 2014
Publication of IFRS consolidation package	IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities	May 2011	EU Regulation 1254/2012 of 11/12/2012	1st January 2014

(*) For more details on these changes, see E. Tort, "*Pack consolidation IFRS : améliorations annuelles des normes*", Option finance n°1457 of 9 April 2018, p. 46.

Appendix 3: Qualitative study of registration documents

SBF 120 COMPANY NAME (of which CAC 40)	Year of transition to IFRS consolidation package	Reference to IFRS 10 and 11 restatements in the financial statements	CALCULATION TABLES FOR THE IMPACT OF IFRS 10 AND IFRS 11						
			Full B/S	Simplified B/S	Full P&L	Simplified P&L	Consolidated statement of comprehensive income	Full cash flow statement	Simplified cash flow statement
ACCORHOTELS	2014			X		X			
AIRBUS GROUP (EX-EADS)	2014	X	X		X			X	
ALCATEL-LUCENT	2013		X		X		X	X	
ALSTOM	2014/2015		X		X		X	X	
ARCELORMITTAL	2013		X		X			X	
AXA	2014			X		X			
BNP PARIBAS	2014	X	X		X		X		X
BOLLORE	2013	X	X		X				
BOUYGUES	2014			X (assets)		X			
CASINO GUICHARD PERRACHON	2014	X		X		X			X
CREDIT AGRICOLE	2014		X		X		X		
EDF	2014	X	X		X		X	X	
ENGIE (EX GDF SUEZ)	2014		X		X		X	X	
ICADE	2014		X		X				
JCDECAUX	2014	X	X		X			X	
KLEPIERRE	2014		X		X			X	
KORIAN	2014	X							
L'OREAL	2014	X							
LAFARGEHOLCIM	2014		X		X		X	X	
LVMH	2014	X		X		X			
M6 METROPOLE TELEVISION	2014	X							
MAUREL & PROM	2014	X	X		X			X	
NATIXIS	2014		X		X				
NEXITY	2014	X	X		X				
PEUGEOT	2014			X		X			X
PLASTIC OMNIUM	2014			X		X			X
RENAULT	2013	X	X		X				
RUBIS	2014	X	X		X		X		X
SAFRAN	2014		X		X		X	X	
SAINT-GOBAIN	2014	X	X			X		X	
SOCIETE GENERALE	2014	X	X			X			
SOLVAY	2014			X		X			X
SUEZ ENVIRONNEMENT	2014	X	X		X				X
TECHNIP	2014		X		X			X	
TF1	2014	X							
THALES	2014			X		X			X
UNIBAIL-RODAMCO	2013	X		X		X			
VALEO	2014		X		X			X	
VEOLIA ENVIRONNEMENT	2013		X		X		X		X
TOTAL	6 in 2013 33 in 2014	19	25	10	23	12	10	14	9

SBF 120 COMPANY NAME (of which CAC 40)	CALCULATION TABLES FOR THE IMPACT OF IFRS 10 AND IFRS 11					No IFRS 10 and IFRS 11 impact tables	Number of changes in consolidation method under IFRS 10	Number of joint ventures now accounted for by the equity method under IFRS 11	Number of joint arrangements classified as joint operations under IFRS 11
	Restatements N-1	Restatements N-1 and N-2	IFRS 10 only	IFRS 11 only	IFRS 10+11				
ACCORHOTELS	X			X				3	
AIRBUS GROUP (EX-EADS)	X (excl. B/S)	Balance Sheet			X		5	12	
ALCATEL-LUCENT		X		X (+19)				2	
ALSTOM	X (excl. B/S)	Balance Sheet		X					3
ARCELORMITTAL	X (excl. B/S)	Balance Sheet		X					
AXA	P&L	Balance Sheet			X			1 cited	
BNP PARIBAS	X (excl. B/S)	Balance Sheet	X	X			2	4	
BOLLORE	X				X		1	15	
BOUYGUES	X				X			3	
CASINO GUICHARD PERRACHON	X			X				6	
CREDIT AGRICOLE	X (excl. B/S)	Balance Sheet	X	X				8	
EDF	X (excl. B/S)	Balance Sheet			X		3	5 principal	
ENGIE (EX GDF SUEZ)	X (excl. B/S)	Balance Sheet			X		Very limited number	8 principal	
ICADE	X				X			99	
JCDECAUX	X (excl. B/S)	Balance Sheet		X				137	
KLEPIERRE	X			X				28	
KORIAN						X		1	
L'OREAL						X		2	
LAFARGEHOLCIM	X (excl. B/S)	Balance Sheet		X				12 principal	
LVMH		X			X				
M6 METROPOLE TELEVISION						X		5	
MAUREL & PROM	X			X				8	X
NATIXIS	X		X	X			6	1	
NEXITY	X			X					
PEUGEOT	X				X			2	4
PLASTIC OMNIUM	X (excl. B/S)				X			36	0
RENAULT	X			X				4	1
RUBIS	X (excl. B/S)	Balance Sheet		X					
SAFRAN	X (excl. B/S)	Balance Sheet		X				12	7
SAINT-GOBAIN	X				X			Not specified	
SOCIETE GENERALE	X				X		2	77	2
SOLVAY	X			X				8	
SUEZ ENVIRONNEMENT	X				X			Not specified	
TECHNIP	X				X				
TF1						X		2	
THALES	X				X		2	11 principal	
UNIBAIL-RODAMCO	X				X			14	
VALEO	X			X					
VEOLIA ENVIRONNEMENT		X	X	X				23	
TOTAL	13 all excluding Balance Sheet	12 Balance Sheet	4	19	16	4	20	526	11
	19 all	3 all							

Appendix 4: Impact of IFRS 10 and 11 on the consolidated balance sheet

BALANCE SHEET	Number of occurrences	Cumulative published amount IFRS 10,11 (€m)	Mean deviation impact IFRS 10 & 11 / published (%)	Signif at 1% ***, 5% ** or 10% *	Median deviation impact IFRS 10 & 11 / published (%)	Standard deviation
Goodwill	28	135 971	**-3.09%**	***	-1.42%	4.97%
Intangible assets	30	118 546	**-4.60%**	**	-1.02%	11.20%
Property, plant and equipment	29	183 175	**-4.72%**	***	-2.10%	7.47%
Investments accounted for using the EM	18	69 503	**29.54%**	***	16.32%	38.13%
Other non-current financial assets	17	56 507	**-6.58%**	*	0.00%	20.24%
Non-current deferred tax assets	21	14 999	**-6.65%**	***	-0.98%	9.51%
Other non-current assets	9	27 681	**-1.70%**	NT	-0.15%	9.26%
TOTAL NON-CURRENT ASSETS	30	727 896	**-0.67%**	**	-0.26%	1.79%
Inventories and work in progress	25	73 516	**-4.44%**	***	-2.38%	8.09%
Trade receivables & loans to customers	28	1 426 185	**-2.44%**	**	-0.75%	5.34%
Other receivables	4	11 705	**-14.01%**	NT	-15.74%	13.58%
Current financial assets	17	631 967	**-3.82%**	**	0.00%	8.54%
Other current assets	13	48 346	**0.16%**		-0.87%	8.93%
Cash & cash equiv. marketable securities	26	86 633	**-2.51%**		-2.11%	10.81%
Current deferred tax assets	15	16 770	**-8.57%**		-1.07%	25.88%
TOTAL CURRENT ASSETS	33	468 931	**-3.19%**	***	-1.35%	4.92%
Assets classified as held for sale	14	40 217	**-26.70%**	**	0.00%	37.71%
TOTAL ASSETS	39	7 124 532	**-1.92%**	***	-0.81%	3.20%
Share capital	19	73 191	**0.00%**		0.00%	0.00%
Share premium & other equity – Group share	13	15 401	**-0.04%**		0.00%	0.14%
Reserves – Group share	7	18 935	**-0.86%**	NT	0.00%	2.17%
Retained earnings – Group share	10	6 431	**0.00%**		0.00%	0.00%
TOTAL EQUITY – GROUP SHARE	29	447 072	**-0.20%**	**	0.00%	0.61%
Equity – Non-controlling interests	33	58 463	**-2.95%**	*	0.00%	11.98%
TOTAL SHAREHOLDERS' EQUITY	33	524 877	**-0.39%**	*	0.00%	1.41%
Non-current provisions	23	79 449	**-2.48%**	**	-1.30%	6.57%
Non-current financial liabilities	23	146 725	**-3.21%**	***	-1.12%	6.12%
Other non-current liabilities	7	10 520	**-2.95%**	NT	-0.96%	4.38%
Non-current deferred tax liabilities	23	27 955	**-6.20%**	**	-2.22%	16.80%
TOTAL NON-CURRENT LIABILITIES	31	430 953	**-1.62%**	***	-0.61%	2.62%
Current provisions	26	29 747	**-0.77%**		-1.10%	9.23%
Current financial liabilities	22	59 912	**-2.44%**		-0.30%	10.48%
Other current financial liabilities	6	5 033	**11.52%**	NT	-1.27%	38.45%
Trade payables	23	84 105	**-4.59%**	***	-2.83%	4.76%
Other current payables	4	27 580	**-7.25%**	NT	-5.87%	7.15%
Other current liabilities	16	68 738	**-5.01%**	***	-1.83%	7.56%
Current deferred tax liabilities	14	14 550	**-2.06%**	**	-0.33%	4.02%
TOTAL CURRENT LIABILITIES	33	428 602	**-3.55%**	***	-1.14%	4.99%
Liabilities directly associated with assets classified as held for sale	6	8 533	**-24.62%**	NT	0.00%	38.56%
TOTAL S/H EQUITY AND LIABILITIES	37	7 089 046	**-1.86%**	***	-0.60%	3.24%
TOTAL LIABILITIES	7	3 032 827	**-1.88%**	NT	-1.77%	4.03%

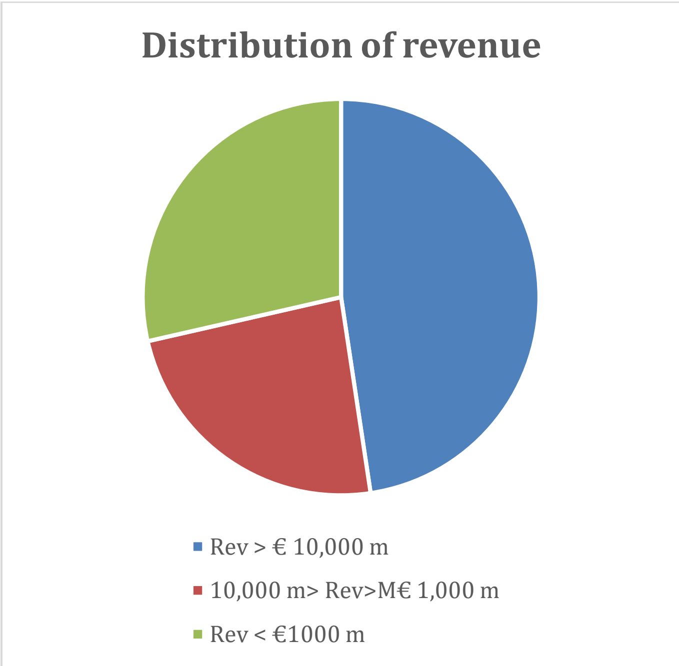
Appendix 5: Impact of IFRS 10 and 11 on the consolidated income statement

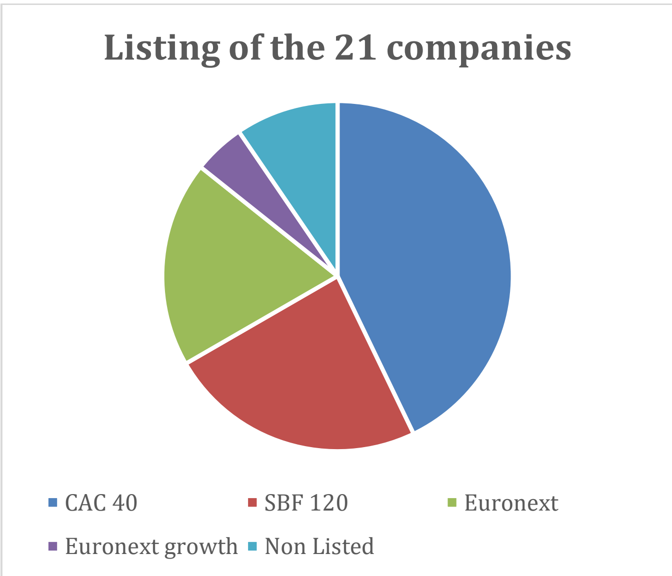
INCOME STATEMENT	Number of occurren ces	Cumulative published amount IFRS 10,11 (€m)	Mean deviation impact IFRS 10 & 11 / published (%)	Signif at 1% ***, 5% ** or 10% *	Median deviation impact IFRS 10 & 11 / published (%)	Standard deviation
Revenue (or turnover)	33	841 119	**-3.98%**	***	-1.65%	5.23%
Cost of sales	11	72 011	**-4.63%**	**	-2.52%	5.74%
Gross profit or loss	10	55 774	**0.19%**		-1.36%	10.79%
Sales and marketing costs	10	23 241	**-3.70%**	**	-1.18%	4.67%
Administrative expenses	6	5 993	**-2.55%**	NT	-0.61%	3.48%
Research and development costs	8	8 270	**-3.80%**	NT	-1.41%	5.16%
Taxes and duties	3	226	**-1.19%**	NT	-0.17%	1.86%
Other expenses	3	4 483	**-1.16%**	NT	-1.52%	1.25%
Depreciation and provision expenses	15	18 036	**-2.71%**	***	-2.47%	3.04%
Other income	4	627	**2.62%**	NT	-1.14%	8.50%
Non-recurring operating income	4	330	**-0.21%**	NT	0.00%	0.66%
Non-recurring operating expenses	5	549	**-6.43%**	NT	-0.33%	15.17%
OPERATING PROFIT OR LOSS	34	40 131	**-3.46%**	**	-1.32%	8.95%
Finance income	13	1 480	**-1.18%**		0.00%	8.47%
Finance costs	19	5 028	**-3.93%**	***	-1.94%	5.65%
Other interest expenses	6	4 649	**-1.42%**	NT	-0.95%	1.76%
NET FINANCE INCOME OR COST	16	27 262	**2.62%**	**	0.54%	5.16%
PROFIT OR LOSS BEFORE TAX	20	36 851	**-1.28%**	*	-0.84%	4.20%
Income tax expense	23	8 723	**-3.79%**	***	-0.83%	7.15%
Share in the profit or loss (or net income) of entities accounted for using the equity method	15	4 938	**16.96%**	*	9.59%	43.09%
Net profit or loss from continuing operations	11	1 184	**-6.88%**		0.00%	17.14%
Net profit or loss from discontinued operations	6	1 215	**10.03%**	NT	0.00%	26.01%
CONSOLIDATED PROFIT OR LOSS, attributable to:	39	26 019	**-0.53%**		0.00%	3.31%
NET PROFIT OR LOSS – Group share	36	15 099	**-0.08%**		0.00%	1.09%
NET PROFIT OR LOSS – Non-controlling interests	34	2 479	**0.34%**		0.00%	18.23%

Appendix 6: Impact of IFRS 10 and 11 on the consolidated cash flow statement

CASH FLOW STATEMENT	Number of occurrences	Cumulative published amount IFRS 10,11 (€m)	Mean deviation impact IFRS 10 & 11 / published (%)	Signif at 1% ***, 5% ** or 10% *	Median deviation impact IFRS 10 & 11 / published (%)	Standard deviation
Profit for the year – Group share	4	1 577	**0.14%**	NT	0.00%	0.27%
Share in the profit or loss (net income) of entities accounted for using the equity method	5	1 508	**6.04%**	NT	9.59%	56.58%
Cash flow from operations	11	28 225	**-2.15%**	*	-1.29%	5.11%
Change in WCR	17	2 117	**-7.70%**		-0.43%	40.69%
Interest and income tax (paid)/received	15	6 692	**-2.57%**	*	-0.94%	6.95%
NET CASH FLOW FROM OPERATING ACTIVITIES	27	70 740	**-2.97%**	**	-0.89%	7.93%
Purchase of property, plant & equipment and intangible assets	12	6 515	**-2.33%**	**	-1.61%	3.68%
Purchase of financial securities/non-current financial assets	7	660	**7.25%**	NT	0.00%	11.33%
Proceeds from disposals	15	1 255	**-4.85%**	*	-0.20%	11.23%
NET CASH FLOW (USED IN)/FROM INVESTING ACTIVITIES	25	-40 074	**1.19%**		1.36%	8.13%
Capital increases	7	549	**-0.40%**	NT	0.00%	1.05%
Dividends paid	15	6 078	**-0.01%**		0.00%	0.02%
Proceeds from borrowings	10	13 601	**-3.08%**	**	-1.87%	3.72%
Repayment of borrowings	14	14 178	**0.77%**		-0.03%	21.06%
Interest paid	6	713	**-4.37%**	NT	-0.39%	10.66%
NET CASH FLOW (USED IN)/FROM FINANCING ACTIVITIES	26	-13 000	**-3.50%**		-1.01%	18.88%
CASH FLOWS OF DISCONTINUED OPERATION	4	1 237	**12.36%**	NT	11.49%	14.35%
Effect of foreign exchange rate changes	23	-6 846	**5.66%**	**	2.17%	11.09%
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	22	4 323	**-0.55%**		1.00%	23.11%
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	25	124 170	**-3.32%**	**	-3.90%	8.42%
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24	122 646	**-4.59%**	***	-3.87%	5.45%

Appendix 7: distribution of revenue and listing type of the 21 companies used in the qualitative study





Appendix 8: Interview guide/questionnaire on the IFRS consolidation package

This guide relates to the study of the transition of the consolidated financial statements of French listed companies to the IFRS consolidation package **as part of a research contract between the ANC (*Autorité des Normes Comptables*, the French Accounting Standards Authority) and the Université de Lyon 3 on the impact of the consolidation package**.

This **guide/questionnaire** was used as part of our qualitative study:
- to develop, by means of the shaded questions, the **questionnaire posted online** and sent to companies' accounting and finance departments. The responses obtained were used in a completely anonymous manner, without mentioning the company's name at any time other than in the list of participating companies arranged alphabetically by company name.
- to prepare **interviews** with the accounting departments or accounting standards/principles departments of the companies that accepted an interview.

In addition to requesting the respondent's role and general data on the company and/or group, the questionnaire is composed of four independent parts: financial impact and the procedures for transitioning to the IFRS consolidation package (IFRS 10, 11 and 12)

A. Respondent's role

☐ Director of Finance and Administration
☐ Accounting Director / Chief Accountant
☐ Director / Head of Consolidation
☐ Director of Accounting Standards / Policy
☐ Financial Controller
☐ Other (please specify)..............................

B. General data on the company and/or group

Legal form of the company

☐ SA/SAS [*French PLC/simplified stock company*]
☐ SNC [*French partnership*]
☐ Sarl [*French limited liability company*]
☐ Other (please specify)...............................

Company's industry and market sector

Primary business activity: ....
Activity code (APE/NAF): ....
☐ national market
☐ European market (EU)
☐ international market

If the company is part of a group:

What is its position in the group?

☐ subsidiary
☐ parent
☐ other (please specify)..............

What is the nationality of the parent company?

☐ French
☐ European (EU)
☐ American (US)
☐ other (please specify) ....

Revenue of company and group*

Company	Group*	
☐	☐	less than €15 million
☐	☐	between €15m and €75m
☐	☐	between €75m and €300m
☐	☐	between €300m and €750m
☐	☐	between €750m and €1,500m
☐	☐	over €1.5 billion

** if part of a group*

Headcount of company and group*

Company	Group*
☐	☐fewer than 100 people
☐	☐between 100 and 500 people
☐	☐between 500 and 1,000
☐	☐between 1,000 and 5,000
☐	☐between 5,000 and 10,000
☐	☐over 10,000

Group* or company listing on a financial market

Company	Group*	
☐	☐	Eurolist
☐	☐	Alternext
☐	☐	Marché Libre
☐	☐	Listed on the CAC 40
☐	☐	Listed on the SBF 120

** if part of a group*

1. Financial impact and procedures for transition to IFRS consolidation package (IFRS 10, 11 and 12)

Please indicate the main financial impacts on your consolidated financial statements from the transition to the IFRS consolidation package (S: strong, M: moderate, W: weak, N/A: not applicable)

Consolidated financial statement aggregates						*Financial impact in absolute terms*			
Consolidated income statement	N/A	W	M	S		<2.5	<5%	<10%	>10%
Revenue	☐	☐	☐	☐	I	☐	☐	☐	☐
Recurring operating profit or loss	☐	☐	☐	☐	I	☐	☐	☐	☐
Operating profit or loss	☐	☐	☐	☐	I	☐	☐	☐	☐
Consolidated net profit or loss	☐	☐	☐	☐	I	☐	☐	☐	☐
Consolidated balance sheet									
Total assets (or liabilities)	☐	☐	☐	☐	I	☐	☐	☐	☐
Shareholders' equity	☐	☐	☐	☐	I	☐	☐	☐	☐
Financial liabilities	☐	☐	☐	☐	I	☐	☐	☐	☐
Cash flow statement									
Cash flows from operating activities	☐	☐	☐	☐	I	☐	☐	☐	☐
Notes to the consolidated financial statements	☐	☐	☐	☐	I	☐	☐	☐	☐
Other (please specify) ………………………………….	☐	☐	☐	☐	I	☐	☐	☐	☐

When did you first apply the IFRS consolidation package? ☐ Early application in 2013 ☐ Mandatory application in 2014

If you opted for early application, please specify the reasons for this choice: …

What were the main changes implemented as a result of the transition to the IFRS consolidation package?

Please indicate their importance (increasing scale from 1 to 5)	Weak 1	Moderate 2	3	Strong 4
IFRS 10				
Entity fully consolidated for the first time due to IFRS 10 application	☐	☐	☐	☐
Derecognition due to IFRS 10 application	☐	☐	☐	☐
Investment entity: fair value recognition	☐	☐	☐	☐
Other cases (please specify)………………………..	☐	☐	☐	☐
IFRS 11				
Transition from proportionate consolidation to equity method (joint venture)	☐	☐	☐	☐
Transition from equity method to joint operation (arrangement)	☐	☐	☐	☐
Other cases (please specify)……………………….	☐	☐	☐	☐
IFRS 12				
Additions/amendments to notes to the FS as a result of disclosures required by IFRS 12		☐	☐	☐

After implementation of the IFRS consolidation package, did you encounter any practical difficulties that modified (or not) your management decisions? ☐ No ☐ If Yes, please specify: ……………………………………………………………………………………

As part of your implementation of the IFRS consolidation package, indicate the extent to which you have used the following:

(increasing scale of importance from 1 to 5)	Weak 1	Moderate 2	3	Strong 4
Professional judgement to define control or the type of joint arrangement	☐	☐	☐	☐
Statutory auditors' assessment and interpretation	☐	☐	☐	☐
Practices in the company's business sector ("market practices")	☐	☐	☐	☐
Substantive analysis of entities' articles of association, contracts and activities	☐	☐	☐	☐

	1	2	3	4
Application of materiality principle (materiality threshold)	☐	☐	☐	☐
Use of cost-benefit analysis to obtain data (IFRS 12)	☐	☐	☐	☐

Have the overall transitional provisions contained in the IFRS consolidation package been sufficient to deal with all the cases encountered? ☐ Yes ☐ If No, please specify ……………………………………………………………………………………………

Have you been in a situation where the IFRS framework failed to provide specific treatment for a given subject?
☐ Yes ☐ No If yes, did you: - request your statutory auditors' opinion ☐ Yes ☐ N
- consult IFRS specialists ☐ Yes ☐ No
- establish a position internally (management estimate) ☐ Yes ☐ No
- adopt the standard position of your industry sector (consensus) ☐ Yes ☐ No
- refer to the French accounting rules prescribed by the ANC ☐ Yes ☐ No
- use existing AMF recommendations ☐ Yes ☐ No

What were the main difficulties when applying the IFRS consolidation package?

	Weak 1	Moderate 2	3	Strong 4
Accuracy, clarity and completeness of the provisions of the IFRS consolidation package	☐	☐	☐	☐
Accuracy, clarity and completeness of the transition provisions	☐	☐	☐	☐
Completeness, usefulness and relevance of the AMF recommendations	☐	☐	☐	☐
Completeness, usefulness and relevance of the ANC positions	☐	☐	☐	☐
Completeness, usefulness and relevance of market positions (industry sector)	☐	☐	☐	☐

Additional comments: ………

In terms of application, do you generally consider the standards included in the IFRS consolidation package to be relatively:
☐ Inaccurate ☐ Accurate ☐ Complete ☐ Incomplete ☐ Easy to understand ☐ Difficult to understand
☐ Interpretative ☐ Directive ☐ Relevant ☐ Ill-adapted ☐ Easy to apply ☐ Difficult to apply

2. IFRS 10 Consolidated Financial Statements

What is the reporting date of your consolidated financial statements? ☐ Reporting date 31 December ☐ Other reporting date
Do you have any consolidated entities whose reporting date is different from the consolidation date?
☐ Yes ☐ No: If yes, for consolidation, do you use an accounting statement dated within the last 3 months, where appropriate ☐ Yes ☐ No

Have you recognised any negative minority interests in the last 3 years with respect to subsidiaries? ☐ No ☐ Yes:
If yes, specify whether this has caused you any accounting problems: ………………………………………………………………………

Does the scope of consolidation include entities that are more than 40% controlled without another more "influential" shareholder?
☐ No ☐ Yes: in this case, specify the nature of the control retained per IFRS 10 and the consolidation method used: …………………..

Were any restatements made with the sole purpose of eliminating tax entries in entities?
☐ No ☐ Yes: in this case, specify their magnitude (increasing scale from 1 to 5) 1 ☐ 2 ☐ 3 ☐ 4 ☐
Do you use the IFRS 10 application guidance (B1 to B85) to assess the nature of control of the entities in your group? ☐ Yes ☐ No
Do you use the 16 application examples? ☐ Yes ☐ No Are they sufficient? ☐ Yes ☐No Are they relevant? ☐ Yes ☐ No

Have you reassessed the nature of control of a Group entity in light of facts and circumstances that led to a change in the three cumulative elements of control? ☐ Non ☐ Yes: in this case, specify the change that occurred (e.g. loss of control): …………………..

In practice, is the analysis of power in traditional (unstructured) entities generally based on:
(increasing scale of importance from 1 to 5):

	Weak 1	2	Moderate 3	4	Strong 5
Existing substantive voting rights	☐	☐	☐	☐	☐
Potential voting rights (e.g. stock warrants, convertible bonds)	☐	☐	☐	☐	☐
Contractual arrangements	☐	☐	☐	☐	☐
Other facts and circumstances: specify…………………..	☐	☐	☐	☐	☐

In your opinion, do the 3 cumulative elements of control under IFRS 10 require greater use of professional judgement than the previous standard, IAS 31? ☐ Yes ☐ No

Have you identified any structured entities ("special purpose entities" controlled in substance) within your group?
☐ Yes ☐ No
If yes, specify whether these structured entities are ☐ consolidated or ☐ unconsolidated
If yes, specify their nature: ☐ securitisation of receivables ☐ sale and leaseback ☐ outsourcing ☐ asset/project financing ☐ other: ………………

When analysing control, did you assess the substantive nature of the rights held by the group that give it the current ability to make decisions regarding the relevant activities of the entity? ☐ Yes ☐ No

When analysing control, did you identify protective rights of certain investors that could be exercised during fundamental changes or in exceptional circumstances (e.g. right of veto)? ☐ Yes ☐ No

Have you evaluated (substantive analysis) your exposure to the variability of the company's returns, based on:
☐ your equity instruments ☐ your debt instruments ☐ provision of guarantees on the entity's assets or liabilities ☐ financial support to the entity ☐ dividends ☐ change in the value of the instrument ☐ tax benefits ☐ economies of scale ☐ commissions ☐ other

Have you used the IFRS 10 indicators to assess whether an entity acts as non-controlling agent or as principal, i.e.:
☐ scope of decision-making authority ☐substantive rights of other parties (e.g. removal) ☐remuneration ☐ exposure to the variability of returns

To calculate the % control over an entity, do you add the following indirect control %'s to the consolidating company's % of direct control over the entity: ☐ % control of the entity's subsidiaries ☐ % control of the entity's joint ventures and associates

Have you examined the rights arising from franchise agreements? ☐ No ☐ Yes: ***in this case, were you able to conclude that these were:*** ☐ simple protective rights of the franchisor over the franchisee without genuine control (e.g. protection of the brand)?
☐ substantive rights of the franchisor giving it control over the franchisee?

Have you identified any situations in which the investor holds the majority of voting rights (>50%) but does not have control (power)?
☐ No ☐ Yes: specify whether this results from: ☐ non-substantive rights ☐ the existence of effective rights of other investors

Have you identified any situations in which the investor does not hold the majority of voting rights (>50%) but has control (power)?
☐ No ☐ Yes: specify the reason (contractual arrangements, etc.) ………………………………………………………………………..

Have you identified any situations in which an entity's economic dependence on the investor gives the investor power?
☐ No ☐ Yes: specify the reason (combination with other rights, etc.) …………………………………………………………………..........

Have you identified situations in which de facto control exists because the investor holds the largest block of shares?
☐ No ☐ Yes: specify the reason (diluted share ownership, shareholders' agreement, etc.)
…………………………………………………………..

Have you assessed the substantive nature, or not, of the potential voting rights given by:
☐ convertible bonds/mandatory convertible bonds ☐ stock warrants or stock call options ☐ Other instruments: specify……………………
Have you assessed the existence of potential voting rights by examining the various clauses of a shareholders' agreement (call and put options, exit clauses)? ☐ Yes ☐ No
What solutions have you adopted for acquisitions of entities under common control outside the scope of IFRS 3? ……..

3. IFRS 11 Joint Arrangements

What consolidation method did you use for joint ventures under the previous standard IAS 31 before the entry into force of IFRS 11?

☐ Proportionate consolidation (PC)
☐ PC maintained on transition to IFRS operating profit
☐ French rules prescribing PC recommendation 2013-01

☐ Alternative method: equity method (EM)
☐ Share in profit or loss of EM entities presented within
☐ As extension of business activity following ANC

Has the change in joint arrangement categories under IFRS 11, which introduced the distinction between joint ventures (JVs) and joint operations (JOs), and the related differences in accounting treatment, led you to:
☐ Modify or adapt your existing joint arrangement agreements in order to exclude them from their "natural" category
☐ Create dedicated structures for certain joint arrangements with the aim of classifying the joint arrangement as a joint venture
☐ Raise awareness among operational staff about the issues involved when structuring their project in order to avoid a retrospective challenge to the project's structure as a result of accounting standards (IFRS)?

Has the requirement to use the equity method to account for joint ventures led you to:
☐ Continue to circulate internal reporting based on the old method (proportionate consolidation), with this method also being used to prepare the non-GAAP segment reporting disclosed in accordance with IFRS 8?
☐ Disclose non-IFRS pro forma financial statements using proportionate consolidation to account for joint ventures in addition to IFRS financial statements
☐ Use non-GAAP financial indicators in your financial communication, maintaining use of proportionate consolidation for joint ventures
☐ Include figures relating to the share in revenues and operating profit or loss in the notes to the financial statements
☐ Use the option to classify the share in the profit or loss of joint ventures (operating entities) within operating profit or loss as an extension of your business activity, in line with ANC recommendation 2013-01?

In order to better <u>reflect the operating performance</u> of joint ventures, particularly in the consolidated income statement, would you be in favour of the following approaches:
☐ Splitting the share in the profit or loss of joint ventures and of associates over 2 lines
☐ Including a line item on the income statement for the "share in revenue of joint ventures" and another for "share in operating expenses of joint ventures"
☐ Adopting the ANC's recommendation (2013-01) to classify the share in the profit or loss of joint ventures within operating profit or loss as an extension of the business activity **but after restatement of financial expenses, taxes** and other non-operating items (e.g. gains or losses, impairment of investment in EM entity)
☐ Introducing an exception (mandatory exemption) to allow proportionate consolidation (or at least line-by-line accounting) for certain joint ventures, to be defined (e.g. project entities), but not for all such entities, as was the case under IAS 31?

([71]) In terms of <u>accounting</u> for equity-method entities (EM) in the financial statements, would you be in favour of the following developments (which are also aligned, apart from some exceptions, with French regulation CRC 99-02):
☐ Separately recognising **goodwill** on the balance sheet in accordance with French regulations (CRC 99-02), rather than integrating it into the value of the investment in the EM entity, so as to improve monitoring (e.g. allocation of impairment/losses in value)
☐ Systematically recording an additional provision for the share of losses in the event the EM entity has negative net assets, unless the parent company has the obligation or intention to dispose of the business as specified by French law (CRC 99-02) (and not only in the event of a legal or constructive obligation as required by IFRS 11)
☐ Confirmation (in the absence of specific details under IFRS) of the elimination of intercompany profit or loss between equity-method companies at a rate calculated by multiplying the percentage ownership of the two investments as per French regulations (CRC 99-02)
☐ Recognising the acquisition costs of the investment in the EM entity as current period expenses in line with the treatment for subsidiaries rather than incorporating them into the initial cost of the shares as currently provided for by IFRS 11 (divergence from CRC 99-02)?

([1]) With regard to the acquisition of an EM company and in the absence of specific details under IFRS, do you think it is necessary to <u>extend the following provisions of IFRS 3,</u> applying to subsidiaries, in order to avoid divergent practices:

([71]) *Partially inspired by the practical difficulties identified by an audit firm.*

☐ Method used for a combination achieved in stages (step acquisition), which involves remeasuring the previously held equity interest at fair value, by analogy with the treatment of subsidiaries under IFRS (and not using a cost approach as per French GAAP with release of additional goodwill)
☐ Subsequent adjustment of contingent consideration included in the initial cost of the EM investment to be recognised in the income statement (change in the corresponding liability) by analogy with the treatment of subsidiaries under IFRS
☐ Application of the IFRS 3 exemption applicable to subsidiaries in cases where EM entities are acquired from another group entity (under common control)?

([1]) With regard to EM entities, what practices do you currently implement in your consolidated financial statements in the absence of specific IFRS provisions, in terms of:
- Impairment test of EM securities based on a value-in-use calculated using future cash flows: ☐ underlying transactions or ☐ dividends
- Examples of elimination of internal profit or loss (inter-company transactions) with an EM entity
- Offsetting entry for elimination of the capital gain or loss on the sale of an asset by the EM entity to the investor: ☐ investment in EM entity or ☐ asset disposals
- Elimination of the capital gain or loss on the sale of an asset by the investor to the EM entity: ☐ taken net against revenue or ☐ against revenue & COS* (disaggregated)
- Elimination of the share of financial interest on inter-company loans: ☐ no elimination ☐ fully eliminated ☐ other
- Elimination of the share of inter-company profit or loss between EM entities: ☐ no elimination ☐ eliminated based on multiple of % interest in the EM entity
- Recognition of deferred tax related to temporary differences on investment in EM entity: ☐ no ☐ yes ☐ yes according to the unwinding assumptions (*e.g. rate applicable to the distribution of earnings versus the sale of securities*)
** COS = cost of sales*

([1]) Would you support the following changes to the equity method:

	Associates	*Joint ventures*
Simplification of the EM, for example by:	☐	☐
- Withdrawing the elimination of intercompany profit and loss	☐	☐
- Clarifying certain aspects not currently covered in order to improve the consistency of practices	☐	☐
Withdrawal of the EM in order to adopt a cost measurement approach based on a "measurement method", rather than a consolidation method, by abandoning:	☐	☐
- the determination of goodwill	☐	☐
- accounting adjustments made to ensure consistency	☐	☐
- the elimination of intercompany profit and loss	☐	☐

Following the transposition of the Single Accounting Directive in France in 2015, the consolidation requirement only applies to companies that have control (exclusive or joint) over one or more other entities, with the exception of significant influence. Entities over which the company has significant influence continue to be recognised using the equity method (EM).
- Rather than being a consolidation method, do you consider the EM to be a (hybrid) measurement method reserved for associates under significant influence? ☐ Yes ☐ No
- Does the indiscriminate application of the EM to joint ventures and associates create confusion in financial reporting by mixing controlled entities and non-controlled entities in the same lines of the income statement and balance sheet? ☐ Yes ☐ No

The concept of joint control refers, on the one hand, to the definition of control in IFRS 10 in order to determine whether there is "exclusive" collective control and, on the other hand, to the need for the unanimous consent of the joint venturers when making decisions about the entity's relevant activities. In this respect, do you think that the provisions of IFRS 11 (B5-B11) are satisfactory in terms of helping you to exercise your professional judgement when determining the existence of joint control? ☐ Yes ☐ No
- Do you use the three application examples (B8)? ☐ Yes ☐ No Are they sufficient? ☐ Yes ☐No Are they relevant? ☐ Yes ☐ No
- Do you use the decision tree (B10) to assess joint control and exclude contractual arrangements from IFRS 11? ☐ Yes ☐ No

In your group, have you examined whether any partners have call options on an entity's stock that could affect joint control? ☐ Yes ☐ No

To classify joint arrangements as either joint ventures or joint operations, companies need to examine the parties' rights to, and obligations for, the entity's assets, liabilities and net assets based on the structure of the joint arrangement and, for entities structured as a separate vehicle, the legal form, the terms of the contractual arrangement, and other facts and circumstances (see the decision trees in B21 and B33).
- Do you use the two application examples (B26&B32)? ☐Yes ☐No Are they sufficient? ☐Yes ☐No Are they relevant? ☐Yes ☐No

- Do you use the comparative table (not exhaustive, B27) relating to the common terms in contractual arrangements in order to distinguish between joint operations and joint ventures? ☐ Yes ☐ No Is it sufficiently complete? ☐Yes ☐No Is it relevant? ☐ Yes ☐ No
- Do you use the decision trees (B21&B33) to classify your joint arrangements? ☐ Yes ☐ No Are they relevant? ☐Yes ☐No

When assessing separate vehicles, have you examined the following types of company:
☐ Companies with share capital (SA/SAS/Sarl) ☐ Partnerships (SNC/SC) ☐ GIE (Economic Interest Grouping)
☐ French *société en participation* (SEP - silent partnership without legal personality) ☐ Foreign silent partnership
☐ Other vehicles: please specify…………………………………………….

Regarding the contractual arrangements in place for joint arrangements, have you examined:
☐ The entity's articles of association ☐ The partner or shareholder agreement ☐ Other arrangements: please specify………………………………

In terms of other facts and circumstances, have you examined:
☐ A partnership whose activities are mainly designed to supply the output produced to the parties
☐ A partnership dependent on the parties for the settlement of its debts, i.e. using the cash flows generated by its sales to them
☐ Other facts and circumstances: please specify………………………………………………………………………………………..
☐ Are you aware of the clarifications provided by the IFRS IC (Interpretation Committee) concerning the assessment of other facts and circumstances? (http://www.ifrs.org/-/media/feature/news/updates/ifrs-ic/2014/ifric-update-may-2014.pdf)
☐Yes ☐No If yes, do you consider them sufficient? ☐Yes ☐No

If a joint venture was reclassified as a joint operation under IFRS 11, did the transition from proportionate consolidation to "line-by-line accounting" required for joint operations under IFRS 11 have:
☐ No impact on the financial statements
☐ An impact on the balance sheet arising from a different accounting treatment because assets or liabilities controlled by the entity were consolidated at 100% in the financial statements rather than at the percentage ownership interest
☐ An impact on the income statement because revenues and expenses were allocated on the basis of performance and/or ability and not proportionally at the percentage ownership interest, as is the case under the proportionate consolidation approach

When analysing the substance of the different types of joint control, have you encountered complex situations such as:
☐ Equal joint arrangement containing specific mechanisms in the event of deadlock, where you analysed the contractual provisions in order to determine whether they were actual substantive rights conferring control or merely protective rights (no control)
☐ Joint arrangement where a partner appears to be dominant but in fact acts contractually on behalf of the group as an agent and therefore has no real control
☐ Joint arrangement consisting of a non-controlling party that has the right to veto decisions on relevant activities, which may give it the position of joint venturer
☐ Joint arrangement in the form of a *société en participation* (SEP - silent partnership without legal personality)
☐ Project entity created to perform major construction projects
☐ Other complex situations: please specify ………………………………………………………………………………………………

4. IFRS 12 Disclosure of Interests in Other Entities

In your opinion, the level of difficulty involved in collecting the information required by IFRS 12 was:
(S: strong, M: moderate, W: weak, N/A: not applicable)

N/A	W	M	S
☐	☐	☐	☐

Did this level of difficulty lead you to:
☐ set up or modify the consolidation reporting packages for entities accounted for by the equity method
☐ prepare risk mapping
☐ establish an inventory of unconsolidated structured entities prior to IFRS 12
☐ identify the role of non-controlling shareholders and partners
☐ collect additional information such as joint arrangement contracts, etc.

Have you set up a standardised internal reporting system to collect and compile the information required by IFRS 12? ☐ Yes ☐ No

Do you present information relating to certain unconsolidated structured entities in tabular form as encouraged by IFRS 12? *☐ Yes ☐ No*

Do you present the following information for material unconsolidated structured entities?

Items	Information to be disclosed	Answer
Nature and extent of its interests	Nature, purpose, size, activities and financing method	☐ Yes ☐ No
Nature of and changes in associated risks	Maximum exposure to risk of loss	☐ Yes ☐ No
Summarised information	Table showing the carrying amounts of assets and liabilities	☐ Yes ☐ No
Nature and amount of financial support	Information to be disclosed where financial support provided	☐ Yes ☐ No

Have you disclosed important judgements and assumptions made regarding control:
☐ for a subsidiary due to the complexity of the control analysis
☐ for a joint venture or associate or a joint arrangement structured as a separate vehicle
☐ for an investment company benefiting from the exemption from fair value measurement but not meeting all of the definition criteria
☐ where there has been a substantial change in the nature of control
☐ because of a principal/agent situation
☐ in cases where the presumption of control (> or = 50% voting rights) or significant influence (> or = 20% voting rights) is challenged

Do you disclose significant assumptions and judgements:
☐ separately in the notes to the accounts within disclosures for each type of ownership interest (subsidiaries, joint ventures, associates and structured entities)
☐ after the table relating to the scope of consolidation
☐ other: please specify …………………………………………………………………………

Do you disclose the following information on non-controlling interests for subsidiaries with material non-controlling interests:
☐ Name and place of business of the subsidiary
☐ % of ownership interests held by non-controlling interests, the share of profit or loss allocated to non-controlling interests
☐ Dividends paid to non-controlling interests
☐ Full summarised financial information: assets, liabilities, net profit or loss and cash flow allocated to non-controlling interests
☐ Partial summarised financial information: please specify……………………………………..
☐ Summarised financial information before inter-company eliminations
☐ Cross-reference to information already disclosed in operating segments

How do you assess the materiality of minority interests?
☐ Based on their contribution to net assets (shareholders' equity)
☐ Based on their contribution to consolidated gross assets and liabilities
☐ Where there are sub-groups, on an individual basis and at the sub-group level
☐ In function of their weight in the main group aggregates (net profit or loss, cash flow, assets or liabilities)
☐ On the basis of whether there are substantial cash and cash equivalent balances or not

Do you disclose the following information for material joint ventures and associates?

Items	Joint ventures	Associates
Name, place of business and nature of the relationship	☐ Yes ☐ No	☐ Yes ☐ No
Summarised financial information (amounts at 100%)	☐ Yes ☐ No	☐ Yes ☐ No
Nature and extent of significant restrictions	☐ Yes ☐ No	☐ Yes ☐ No
Nature of and changes in associated risks	☐ Yes ☐ No	☐ Yes ☐ No
Nature, amount and reasons for financial support	☐ Yes ☐ No	☐ Yes ☐ No

For the disclosures required for joint ventures and associates, do you:
☐ prepare aggregate summary information for material EM entities
☐ prepare aggregate summary information for immaterial EM entities
☐ disclose individual summary information for material EM entities

How do you assess the materiality of interests in a joint venture or associate?

☐ Based on their contribution to net assets (shareholders' equity)
☐ Based on their contribution to consolidated gross assets and liabilities
☐ In function of their weight in the main group aggregates (net profit or loss, cash flow, assets or liabilities)

With respect to the overall objective of IFRS 12 to require entities to disclose information on the nature of, and risks associated with, their interests in other entities, have you disclosed additional information beyond that required by IFRS 12, in particular the information cited above?
☐ No ☐ Yes: in this case, please specify its nature: …………………………………………………..

Appendix 9: List of people contacted for Studies 1 and 3

Quality	Surname, first name	Role	Institution / company	Illustrative recent publications
STANDARD-SETTER (EX)	Danjou, Philippe	CNCC (French National Institute of Auditors) representative. Former member of the IASB	Ex. IASB	Author of a report on the new IFRS 9, RF COMPTABLE n°451, August 2017
REGULATOR (AMF)	Seiller, Marie and Penanguer, Lucille	Corporate accounting directorate	AMF	
UNIVERSITY PROFESSOR SPECIALISING IN IFRS	Obert, Robert	Honorary Professor, Associate Professor, Doctor of Management, DEC (chartered accountancy diploma)	Université de Valenciennes and CNAM-INTEC de Paris	Author of the work on IFRS "*Pratiques des normes IFRS*", DUNOD, 6th edition 2017
UNIVERSITY PROFESSOR SPECIALISING IN IFRS	Raffournier, Bernard	Full professor, DEC	University of Geneva	Author of the work on international accounting standards, "*Normes comptables internationales*", ECONOMICA, 6th edition 2015
UNIVERSITY PROFESSOR SPECIALISING IN IFRS	Dumontier, Pascal	Full professor	Université Paris Dauphine	Co-author of a work on the management and control of banking risks, "*Gestion et contrôle des risques bancaires : L'apport des IFRS et de Bâle II*", REVUE BANQUE, 2009 edition
EXPERT - ACCOUNTING FIRM	Boccon Gibod, Sylvain	Chartered accountant, auditor, Managing Director	ODICEO	Co-author of a work on the financial auditor's toolbox, "*La boîte à outils de l'auditeur financier*", DUNOD, 2nd edition 2017
EXPERT - ACCOUNTING FIRM	Vilmint, Eric	Chartered accountant, auditor, partner, consolidation & IFRS specialist	ODICEO	Co-author of a work on the financial auditor's toolbox, "*La boîte à outils de l'auditeur financier*", DUNOD, 2nd edition 2017
EXPERT - ACCOUNTING FIRM	Hervet, Séverine	Senior manager, leader of the "consoleaders" club	Mazars, Lyon	
EXPERT - ACCOUNTING	Massonnat, Philippe	Partner	KPMG Audit Lyon	

Appendix 10: List of companies used to test the improvement in the information content of the financial statements for investors (Study 2)

Accorhotels	Dassault Systemes	**JCDecaux**	Schneider
Adocia	DBV Techn	Kering	Plastic Omnium
Aéroports de Paris	Edenred	**Klpierre**	Scor
Air France	**EDF**	**Korian**	Seb
Air Liquide	Eiffage	**L'Oréal**	SES
Airbus	**Engie**	Lagardère	**Société Générale**
Alten	Essilor	Legrand	Solocal
Altran	Euler Hermes	**LVMH**	**Solvay**
Arkema	Eurozeo	Mercialys	Sopra
Atos	Eurofins	**M6**	STMicroelectronics
AXA	Faurecia	Michelin	**Suez**
Bic	Foncière des Régions	**Natixis**	Technicolor
Biomérieux	Gecina	Neopost	**TF1**
BNP Paribas	Genfit	Nexans	**Thales**
Bouygues	Getlink	**Nexity**	**Valeo**
Bureau Veritas	Hermes International	Orpea	Vallourec
Capgemini	**Icade**	**PSA**	Vicat
Carrefour	Iliad	**Plastic Omnium**	Vinci
Casino Guichard	Ingenico	**Rubis**	Wendel
CNP Assurances	Innate Pharma	**Safran**	Zodiac
Crédit Agricole	Ipsen	**Saint-Gobain**	
Danone	Ipsos	Sartorius	

In bold: the groups that quantified the impact of applying the consolidation package (29 companies).

Appendix 11: List of companies used to test the improvement in the information content of the financial statements for financial analysts (Study 2)

Accorhotels	Dassault Systemes	**Klpierre**	Plastic Omnium
Aéroports de Paris	Edenred	**Korian**	Scor
Air France	**EDF**	**L'Oréal**	Seb
Air Liquide	Eiffage	Lagardère	SES
Airbus	**Engie**	Legrand	**Société Générale**
Alten	Essilor	**LVMH**	Solocal
Altran	Euler Hermes	Mercialys	**Solvay**
Arkema	Eurozeo	**M6**	Sopra
Atos	Eurofins	Michelin	STMicroelectronics
AXA	Faurecia	**Natixis**	**Suez**
Bic	Foncière des Régions	Neopost	Technicolor
Biomérieux	Gecina	Nexans	**TF1**
BNP Paribas	Getlink	**Nexity**	**Thales**
Bouygues	Hermes International	Orpea	**Valeo**
Bureau Veritas	**Icade**	**PSA**	Vallourec
Capgemini	Iliad	**Plastic Omnium**	Vicat
Carrefour	Ingenico	**Rubis**	Vinci
Casino Guichard	Ipsen	**Safran**	Wendel
CNP Assurances	Ipsos	**Saint-Gobain**	Zodiac
Crédit Agricole	**JCDecaux**	Sartorius	
Danone	Kering	Schneider	

In bold: the groups that quantified the impact of applying the consolidation pack (29 companies).

Appendix 12: Main normative changes arising from application of the IFRS consolidation package

“What’s new” in IFRS 10
Single definition of control (including special purpose entities)
Analysis of control based on **three cumulative criteria** applicable to operating and special purpose entities (structured entities) with a clear link between these criteria
Assessment of the substantive nature of rights: difference between protective rights (e.g. right to veto) and substantive rights (e.g. rights over strategic, financial or operating decisions) – *confirmation of current practice and reference to the U.S. standard*
Assessing the substantive nature of potential voting rights is **delicate** under IFRS 10 (*non-binary, as under IAS 27 in practice, analysis to be performed, etc.*)
Explicit inclusion of the notion of de facto control (*applied nonetheless in practice under IAS 27*), e.g. non-controlling shareholder in a diluted shareholding context
The notion of special purpose entities is withdrawn. IFRS refers instead to structured entities, with explicit enumeration of numerous assessment indicators (vs. 4 example circumstances – SIC 12)
Exposure or rights to variable returns without mention of a threshold or majority (versus *majority of benefits and risks per SIC 12*)
Other: specific indications for franchises, identification of agents in the absence of an agency contract, qualification of a portion of an entity as separable
“What’s new” in IFRS 11
Introduction of **two categories of joint arrangement** (joint operation, joint venture) instead of the three categories under IAS 31 (jointly controlled assets, operations, entities)
Different accounting treatment for joint ventures and joint operations using line-by-line recognition similar to IAS 31 for jointly controlled assets/operations (directly held / share of jointly held items)
Withdrawal of proportionate consolidation for joint ventures: mandatory use of the equity method
“What’s new” in IFRS 12
Two new concepts: interests held in another entity (contractual and non-contractual involvement that exposes an entity to variable returns) and structured entities (voting rights are not the dominant factor in deciding control)
New disclosures for all entities: subsidiaries, joint ventures, associates and consolidated or unconsolidated structured entities
Subsidiaries: IFRS 12 provisions = new, apart from specific exceptions/situations covered by IAS 27 (e.g. control with < 50% of voting rights, loss of control, restrictions, different reporting dates, change in proportion of interest without loss of control)
Joint ventures: IFRS 12 provisions = new, except for disclosures already required under IAS 31, namely: contingent liabilities, capital commitment with respect to interest in the JV, list & description of JVs, consolidation method (IFRS 12 = EM or fair value) + detailed presentation of NCA/CA for material JVs
Associates: the information required by IAS 28 with the following additions: information (name, nature of relationship, place of business and proportion of interest), summarised financial information established at 100% of its amount (including fair value adjustments), reconciliation of this information to the carrying amount of interest in the EM entity and the aggregate amount of individually immaterial EM entities
Entities not structured through separate vehicle: IFRS 12 provisions = new (not required under IAS 27)

Source: partially adapted from PWC on the upcoming consolidation standards, “Nouvelles normes de consolidation non encore applicables (IFRS 10, IFRS 11, IAS 28R et IFRS 12)”, in IFRS 2012, mémento experts, F. Lefebvre, 2012, §24500-24875, pp. 435-460.

Appendix 13: synopsis of the three impact studies prepared by audit and consulting firms[72]

► SOME LESSONS FROM THE 2013 MAZARS STUDY ON CORPORATES

Mazars' impact study of the effects of the IFRS consolidation package on the 2013 financial statements of corporates (industrial and commercial groups) is based on a sample of 54 companies (CAC 40 & Euro stoxx 50), including 19 early adopters. Overall, the results show:

IFRS 10	Barring exceptions, the new definition of control had a very limited impact on corporates' financial statements
IFRS 11	Impact regardless of the method used before 2013 (PC or EM for joint ventures) → impacts presented well but insufficient explanation of the judgements used to classify joint arrangements (joint operation/joint venture), only minority of companies changed income statement presentation to include the share in profit or loss within operating profit per ANC recommendation 2013-01.
IFRS 12	Information generally present, but not possible to validate its exhaustiveness. **Presentation not standardised** leading to risks of discrepancies. **IFRS 12 lacks precision** on certain points.

Overall, **only one-third** of the entities opted for early application of the consolidation package.

Change in consolidation method		
Pre-IFRS consolidation package (IAS 31)	**Post-IFRS consolidation package (IFRS 11)**	**Impact on the financial statements**
Jointly controlled entities (PC option)	*Joint venture (EM)*	*Impact on the financial statements +++*
Jointly controlled entities (PC option)	Joint operation ("line-by-line accounting")	**Limited impact +**
Jointly controlled entities (EM option)	Joint venture (EM)	Nil
Jointly controlled entities (EM option)	*Joint operation* ("line-by-line accounting")	*Impact on the financial statements ++*
Jointly controlled operations or assets ("line-by-line accounting")		Nil
Change in the "scope" of consolidation (nature of control)		
Associates (EM) – IAS 28	IFRS 11 - Joint operation ("line-by-line accounting")	?

+ to +++: impact from least (+) to most frequent (+++) NB: the high frequency of impacts related to the transition from the PC method to the EM is affected by the prevalence of the former PC option (> 50%) under IAS 31.

Frequency and significance of impacts on the financial statements

The Mazars study indicates that of the issuers questioned (two-thirds of whom were in the process of transitioning), 75% estimated the impacts to be immaterial for IFRS 10 and 50% for IFRS 11".

Financial impact of IFRS 11	**Financial impact of IFRS 10**
Weak negative impact on revenue: <5% apart from exceptions (>10%) Weak impact on shareholders' equity: <0.5% Weak impact on total balance sheet: <1% apart from exceptions (>10%)	Weak impact on the total balance sheet: <1%

Presentation of share in profit or loss of EM entities

The presentation is almost always on a single line, predominantly at the net income level and occasionally within financial income or operating profit. Very few companies disclosed a change in classification (no change except in exceptional cases).

► KPMG BENCHMARK STUDY PUBLISHED END 2013

This study focused on the first feedback from 66 non-banking & insurance groups (Europe and Canada) that had adopted the IFRS consolidation package in 2013. One-third of the companies belong to the energy-oil

[72] (Non-exhaustive) summary prepared by us based on the three studies cited in the references section.

and materials sectors. 12 European groups were “early adopters”. Overall, the study reveals a low rate of early application of the IFRS consolidation package (<20%), with only a minority of groups (40%) experiencing retrospective impacts following IFRS 10/11. These impacts were relatively insignificant and essentially related to the transition from PC to the EM for joint ventures (few impacts related to the new definition of control under IFRS 10).

Data relating to CAC 40 entities

Adoption methods and identified or anticipated impacts

Only nine early adopters, including four who identified impacts and six who had previously opted for the EM for their joint venture under IAS 31 or who had no joint ventures

Obstacle to adoption = data required by IFRS 12 even if IFRS 10/11 impacts are not significant

Around 50% of non-early adopter groups in 2013 anticipated little or no impact

Data relating to the sample of 66 European + Canadian groups

40% of groups disclosed retrospective IFRS 10/11 impacts (higher proportion for early adopters), 35% of which related to IFRS 11 and 5% to IFRS 10

IFRS 11 impact (35%) related to the transition from PC to the EM (2/3 of cases), the transition from the EM to line-by-line accounting (1/6 of cases)* or from PC to line-by-line accounting – joint operation – (1/6 of cases)

IFRS 10 impact (5%) following a new definition of control (reclassification from sole control to joint control or significant influence and vice versa). Little explanation of the control analysis process, which can be very complex in some industries and for “project” entities, etc.

** Often companies structured to deliver their output to the parties sharing joint control; classified as joint operations under IFRS 11 and recognised on a line-by-line basis instead of using the EM as under IAS 31*

Financial impact of IFRS 11
Weak negative impact on revenue: <5% apart from exceptions (>5 or 10%) in mining & construction
Weak impact on operating profit: majority between -2.5% and + 2.5 % with 3 exceptions (>5%)
Weak impact on gross financial debt: almost all between -2.5% and + 2.5 % (1 exception)

NB: identification of the impact of the transition from PC to the EM for highly indebted joint ventures

Presentation of EM entities in the balance sheet and income statement

Predominantly presented (>80% of cases) on a single line in the balance sheet (investments accounted for using the EM) and income statement (share in profit or loss of entities accounted for using the EM) with no distinction between joint ventures and associates, with some exceptions (e.g. Renault with Nissan).

Share in the profit or loss of EM entities primarily classified below operating profit (>80% of cases) with a small proportion continuing to present it above operating profit after transition to the IFRS consolidation package (and 1 company that moved to this presentation); not always compliant with ANC recommendation 2013-01 (2 atypical practices).

No distinction between EM entities and subsidiaries on a separate line in the statement of comprehensive income (60% of cases); 40% show this distinction including whether the items are recyclable or not.

► MAZARS STUDY OF BANKS AND INSURERS PUBLISHED IN 2014

This study examines companies’ financial statements for the year ended 31 December 2013, focusing specifically on the banking and prudential sector with a sample of 17 banks or life insurance entities listed in the FTSE Eurotop 100 index, ten of which were early adopters of the IFRS consolidation package in 2013.

Impacts of IFRS 10 and 11

IFRS 10	Roughly > 50% of groups (9 cases) anticipated a change in scope, including 1/3 with entries and exits, 1/2 with only entries into scope of consolidation and one case with only exit **Main entries into scope of consolidation**: “conduit funding vehicles”, securitisation vehicles and certain investment funds **Main entities deconsolidated (4 cases)**: lack of control of relevant activities although exposed to risks, no variable returns (e.g. entities issuing preference shares), entities bearing credit risk or other open-ended investment funds
IFRS 11	Around 2/3 of the groups (11 cases) mention an IFRS 11 impact resulting from the withdrawal of the PC method for the consolidation of joint ventures previously used under IAS 31 (no mention of joint operations – arrangements)

Whether for IFRS 10 or IFRS 11, approximately two-thirds of groups consider the **impacts on the scope and/or on the financial statements to be immaterial**. More than three-quarters of groups disclose an actual or expected quantified impact, with **a very weak IFRS 10 impact < 1% barring exceptions** on the total balance sheet (generally positive), on net profit or loss and on equity. The IFRS 11 impacts are also **weak** (four cases cited with negative impact on the total balance sheet between 0 and -1.6%). In terms of disclosure of information on this transition, **few groups** considered the changes to be sufficiently **material** to apply the provisions of IAS 1 requiring additional comparative information (3rd balance sheet), namely an opening balance sheet at the beginning of the previous financial year in the event of a change in accounting policy.[73]

[73] See E. Tort article on 2013 annual improvements in IFRS applicable in the EU "*Améliorations annuelles des normes IFRS applicables dans l'UE en 2013*", *Option finance* n°1219 of 29 April 2013.

Appendix 14: data relating to the IFRS 12 volume study

I. PRESENTATION OF VARIABLES

The objective of the analysis was to study the impact of the consolidation package (IFRS 10, 11 and 12) on the annual reports of listed French companies. We extended our data collection period to 2012 and 2015 in order to capture both the early application option in 2013 and mandatory application in 2014.

We therefore have three observations for each company listed on the SBF 120 index: the year preceding application of the consolidation package (IFRS 10, 11 and 12), the year in which the consolidation package was applied and the year after the package was applied.

Population	Number of companies
SBF 120	120 companies
Data not available (2012 or 2013 or 2014)	8 companies
Final sample	112 companies

Two types of variable were collected. **Qualitative variables**: CAC 40 companies; application status of the consolidation package (IFRS 10, 11 and 12); impact on the consolidated financial statements of IFRS 10 and IFRS 11; sign of the variation in the number of pages between two years. The variables and measures are shown in Table 1. The **quantitative variables** represent the number of pages in the annual reports, financial statements, consolidated accounts, and notes to the financial statements that we collected. The variables and measures are shown in Table 2.

Table1: Qualitative variables and measures

Variable	Measures
CAC 40	1: Yes
	0: If not
Application status of consolidation package	1: Early application
	0: If not
IFRS 10 impact	0: No impact
	1: Immaterial impact
	2: Material impact
IFRS 11 impact	0: No impact
	1: Immaterial impact
	2: Material impact
Sign Var	Sign of the variation in the number of pages of the variables collected. 1 if the variation is positive; 0 if not

Table 2: Quantitative measures and variables

N	Year the consolidation package was applied
N-1	Year preceding first application of the consolidation package
N+1	Year after first application of the consolidation package
AR	Number of notes in the annual report
FS	Number of pages in the financial statements (separate and consolidated accounts)
CA	Number of pages in the consolidated accounts
PNotes	Number of pages in the notes to the financial statements
Notes	Notes to the financial statements
Var	Variation in the number of pages between two years
Var %	Variation in the percentage of one variable compared to another

II. DESCRIPTIVE STATISTICS FOR THE DIFFERENT VARIABLES COLLECTED

The descriptive statistics presented in this section relate to the calculation of the means, standard deviations, variances, minimums and maximums of the different variables collected. These statistics are grouped according to the variables analysed.

1. Statistics for the annual reports

Annual report	Minimum	Maximum	Mean	Standard deviation	Variance
AR N-1	95	524	307.54	86.393	7463.728
AR N	105	579	319.40	94.553	8940.225
AR N+1	116	852	322.03	96.444	9301.414
Var AR N/N-1	-52%	49%	5%	.13672	186.922
Var AR N+1/N	-31%	129%	3%	.22974	527.794

2. Descriptive statistics for the financial statements

Financial statements	Minimum	Maximum	Mean	Standard deviation	Variance
FS N-1	49	267	110.30	40.960	1677.709
FS N	50	223	106.92	37.413	1399.732
FS N+1	41	211	105.21	34.987	1224.057
Var FS N/N-1	-63%	90%	0%	.21439	459.633
Var FS N+1/N	-73%	209%	1%	.26283	690.777

3. Descriptive statistics for % financial statements in the annual report

% FS compared to AR	Minimum	Maximum	Mean	Standard deviation	Variance
% FS/AR N-1	15%	99%	38%	17%	289.305
% FS/AR N	14%	144%	36%	17%	302.954
% FS/AR N+1	16%	84%	35%	14%	183.482
Var % FS/AR N/N-1	-64%	119%	-3%	.24425	596.567
Var % FS/AR N+1/N	-66%	205%	1%	.28301	800.943

4. Descriptive statistics for the consolidated accounts

Consolidated accounts	Minimum	Maximum	Mean	Standard deviation	Variance
CA N-1	27	161	71.46	24.451	597.836
CA N	29	167	73.04	25.891	670.341
CA N+1	26	147	69.65	23.458	550.283
Var CA N/N-1	-33%	58%	3%	.13177	173.621
Var CA N+1/N	-42%	28%	-3%	.10982	120.604
%CA/FS N-1	24%	90%	66%	12%	132.278
%CA/FS N	28%	99%	69%	13%	171.869
%CA/FS N+1	29%	102%	67%	11%	118.836

5. Descriptive statistics for the notes to the consolidated accounts

Notes	Minimum	Maximum	Mean	Standard deviation	Variance
PNotes N-1	23	151	65.47	23.417	548.378
PNotes N	23	157	66.93	24.964	623.202
PNotes N+1	22	139	63.62	22.602	510.851
Var PNotes N/N-1	-36%	60%	3%	.14202	201.687
Var PNotes N+1/N	-46%	30%	-4%	.11967	143.207
%PNotes/CA N-1	83%	95%	91%	2%	5.487
%PNotes/CA N	79%	96%	91%	3%	7.711
%PNotes/CA N+1	80%	95%	91%	3%	6.991