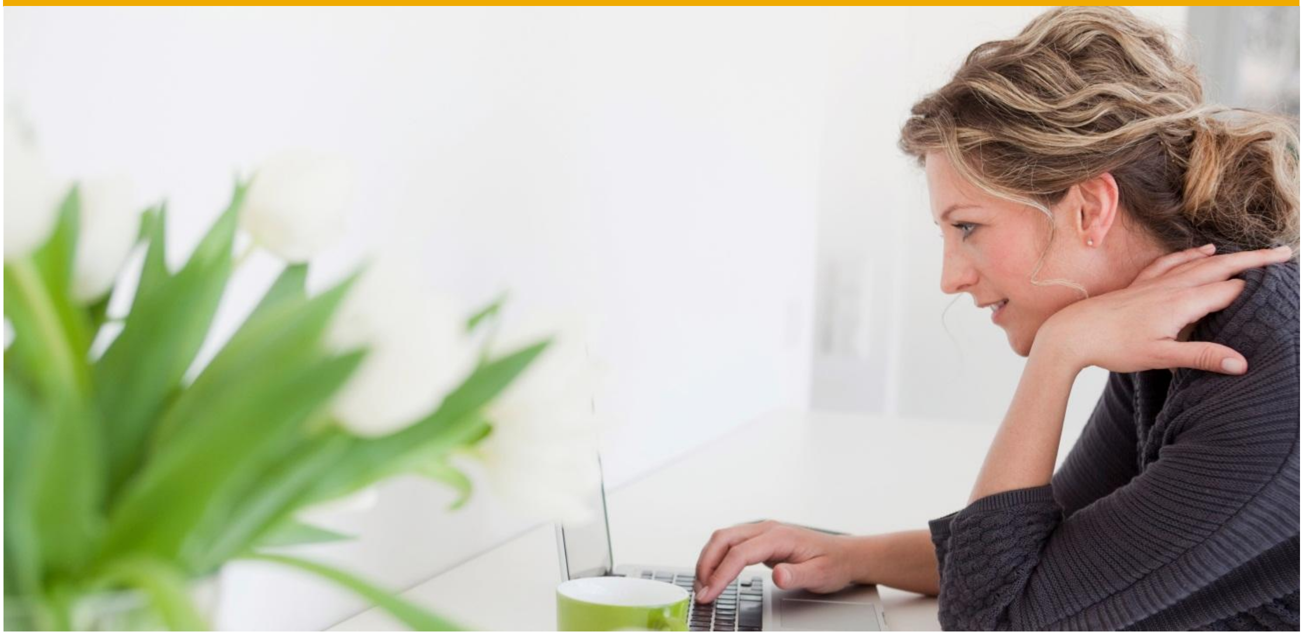


New Standards for Consolidation and Joint Ventures (IFRS 10, IFRS 11, Revised IAS 27 and IAS 28)

Impacts on SAP® BusinessObjects™ Solutions for Consolidation

TABLE OF CONTENTS

INTRODUCTION

On 12 May 2011, the International Accounting Standards Board (IASB) completed one of its major projects regarding consolidation and joint arrangements by issuing three new standards and two revised ones:

- IFRS 10 *Consolidated Financial Statements* replaces IAS 27 for the part regarding consolidated statements and the interpretation SIC-12 relating to special purpose entities
- IFRS 11 *Joint Arrangements* supersedes IAS 31 *Interests in Joint Ventures* and its related interpretation SIC-13
- IFRS 12 *Disclosure of Interests in Other Entities* combines, enhances and replaces the disclosure requirements previously included in IAS 27, IAS 28 and IAS 31
- IAS 27 (revised 2011) *Separate Financial Statements* now only focuses on separate financial statements (as opposed to consolidated statements)
- IAS 28 (revised 2011) *Investments in Associates and Joint Ventures* is revised mainly as a consequence of the other issuances

These standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted only if the standards included in this “package” are simultaneously applied.

This document firstly presents how these five new or revised standards interacts before going into more detail where new requirements may impact SAP solutions for consolidation.

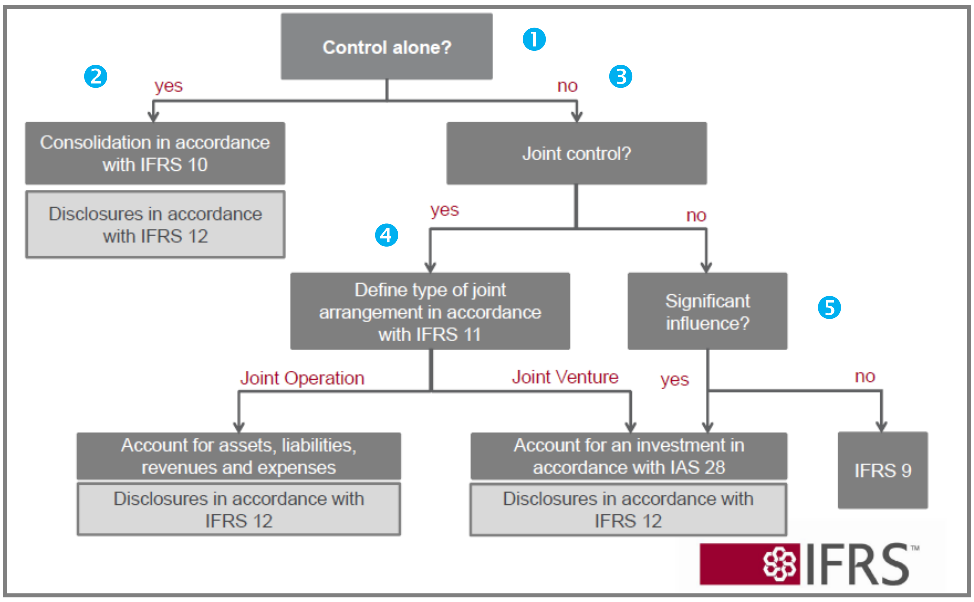
SAP solutions for consolidation, part of SAP BusinessObjects enterprise performance management (EPM) solutions, include SAP BusinessObjects Financial Consolidation and SAP BusinessObjects Planning and Consolidation. A starter kit for IFRS (International Financial Reporting Standards) has been developed for each application to perform, validate and publish a statutory consolidation in accordance with IFRS.

IFRS 10, IFRS 11 and IAS 28 are successively addressed in this document. For each of them, this document summarizes the most significant changes and analyses what consequences these changes may have on SAP solutions for consolidation, both for software and related starter kits.

IAS 27 and IFRS 12 are not dealt with for different reasons. Firstly, changes in IAS 27 do not call for specific comments: requirements regarding consolidated statements have been removed and transferred to IFRS 10, the remaining part only focusing on separate statements. Secondly, IFRS 12 does not prescribe any accounting or measurement principles; it focuses on information to be disclosed in the notes. Given that notes are not delivered in the starter kits, this standard is not addressed in this document.

INTERACTION BETWEEN IFRS 10, 11, 12 AND IAS 28

The IASB has published the following scheme to explain how IFRS 10, 11, 12 and IAS 28 interact:



As a first step ❶ the question of control is essential. Control is defined by the new IFRS 10.

If the investment in an entity gives control to the investor ❷, it should account for this investment in accordance with IFRS 10 (full consolidation). If control is not established ❸, the existence of joint control should be considered in view of IFRS 11 provisions.

In case of joint control ❹, the investor should then define the type of joint arrangement in accordance with IFRS 11. Depending on this classification, the investment should be accounted for either as a joint operation (accounting principles are explained in IFRS 11) or using the equity method as defined in IAS 28.

If joint control does not exist, the investor should assess whether it has a significant influence over the entity considering IAS 28 guidance ❺. If significant influence is proven, the investment is accounted for using the equity method. Otherwise the investment falls into the scope of IFRS 9 *Financial Instruments*.

Lastly the investor should refer to IFRS 12 for disclosures to be provided, whatever the nature of the investment.

CONSOLIDATION UNDER IFRS 10

As designed by the IASB, IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated. IFRS 10 also sets out the accounting requirements for the preparation of consolidated financial statements.

CONTROL AS THE BASIS FOR CONSOLIDATION

The changes brought by IFRS 10 in contrast with the previous requirements set out in IAS 27 and its interpretation SIC-12 can be illustrated as follows:

IAS 27: Control is the power to govern the financial and operating policies

SIC-12: specific guidance for special purpose entities (SPE), with greater emphasis put on risks and rewards

IFRS 10 : a single consolidation model that identifies control as the basis for all types of entities

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities regardless of their nature (special purpose entities or "traditional" operating activities). The definition of control comprises three elements:

- Power over the investee,
- Exposure, or rights, to variable returns from involvement with the investee,
- A combination of the two first elements that is the ability to use power over the investee to affect the investor's returns.

Moreover, IFRS 10 provides extensive guidance on how to apply the control principle in particular cases such as those listed below:

- **Potential voting rights**

  Potential voting rights are rights to obtain voting rights such as those arising from convertible instruments or options. Under IFRS 10, potential voting rights should be taken into account only if the rights are substantive (which means that the holder has the practical ability to exercise that right) whereas they were considered under IAS 27 only if they were **currently** exercisable or convertible.

  The following examples may be helpful to understand how control should now be assessed where potential voting rights exist, compared with the previous principles under IAS 27.

  Example 1: A call option is currently exercisable but is deeply out of the money (meaning: the price for the corresponding shares largely exceeds their current market price). Under IAS 27 this option should be taken into account because it is currently exercisable. Under IFRS 10 this option is not taken into account because it cannot be regarded as substantive (deeply out of the money).

  Example 2: A call option is not currently exercisable but will become exercisable before the next shareholders' meeting. Under IAS 27 this option cannot be taken into account because it is not currently exercisable. Under IFRS 10 it can be taken into account if other conditions to be substantive are met (e.g. exercise price).

- **Substantive rights vs. protective rights**

  Protective rights relate to fundamental changes to the activities of an investee or apply in exceptional circumstances (e.g. the right of a party holding a non-controlling interest to approve the issue of equity or debt instruments). Protective rights do not give power, nor do they prevent another party from having power.

  Where specific rights, such as veto power, have been granted to minority interests, assessing whether these rights are substantive or only protective is necessary to determine whether majority shareholder has control or not.

- **Power with less than a majority of voting rights**

  IFRS 10 explicitly[1] states that an investor can have power even if it holds less than a majority of the voting rights. It gives several examples to illustrate this principle, for instance:

  An investor acquires 48% of the voting rights of an investee. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 % of the voting rights. None of the shareholders has any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the investor determined that a 48 % interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the investor concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power. [IFRS 10, Application Guidance, B43, Example 4]

UNCHANGED ACCOUNTING REQUIREMENTS

As regards accounting requirements for preparing consolidated financial statements, IFRS 10 does not bring any change compared to IAS 27 previous requirements.

IMPACT ON SAP SOLUTIONS FOR CONSOLIDATION

IFRS 10 does not introduce any changes that would require enhancements to SAP solutions for consolidation, neither for the software nor for the related starter kit for IFRS. As explained above, the main changes regard the definition of control and the way it should be applied. Assessing whether an investment is controlled often requires judgment and cannot therefore be entirely managed by the consolidation software.

In SAP solutions for consolidation, the list of consolidated entities can be automatically populated based on the holdings' portfolio. This "proposal" can then be modified manually to reflect the management's decision on whether a given entity should be consolidated or not. Therefore it is possible to consolidate, for instance, any special purpose entity even if the group does not hold any ownership interest in it or to apply full consolidation method to an entity in which the group holds less than 50%.

[1] « De facto » control was implicitly permitted by IAS 27. However some users took advantage of the lack of guidance not to consolidate some entities.

IFRS 11: A NEW STANDARD FOR JOINT ARRANGEMENTS

DEFINITION AND CLASSIFICATION

No major changes in the definition of a joint arrangement

A joint arrangement is defined as an arrangement of which two or more parties have joint control. Joint control is 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. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. IFRS 11 distinguishes between parties that have joint control of an arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement.

IFRS 11 provides multiple examples to understand whether joint control exists and, in particular, to distinguish between joint control and collective control. The fact that two or more investors hold equal shares in an entity does not automatically mean that this entity is a joint arrangement.

Two examples of IFRS 11 application guidance illustrate this principle.

Assume that three parties establish an arrangement: A has 50 per cent of the voting rights in the arrangement, B has 30 per cent and C has 20 per cent. The contractual arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their contractual arrangement requiring at least 75 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing. [IFRS 11, Application guidance B8 - Example 1]

Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement, and B et C each have 25 per cent. The contractual arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (either A and B or A and C). In such a situation, to be a joint arrangement the contractual arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement. [IFRS 11, Application guidance B8 - Example 2]

As a conclusion, IFRS 11 gives a clearer definition of joint arrangements and an extensive guidance to handle specific cases. However, it does not bring significant changes compared to IAS 31 principles.

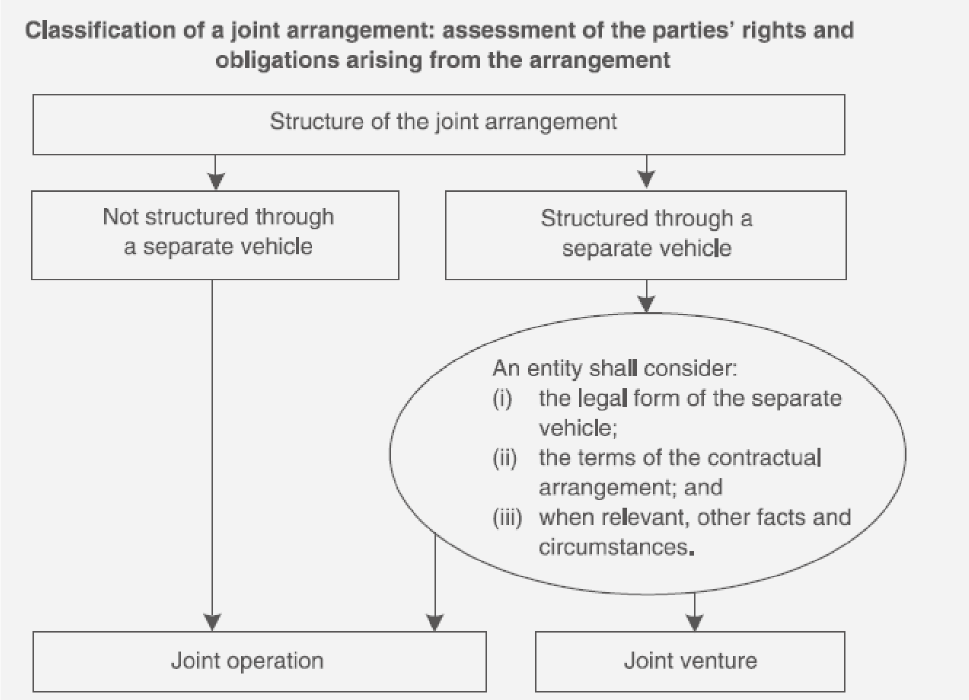
Classification of joint arrangements into 2 categories

According to IFRS 11, a joint arrangement is either a joint operation or a joint venture whereas there were three forms of joint arrangements in IAS 31 (jointly controlled assets, jointly controlled operations and jointly controlled entities).

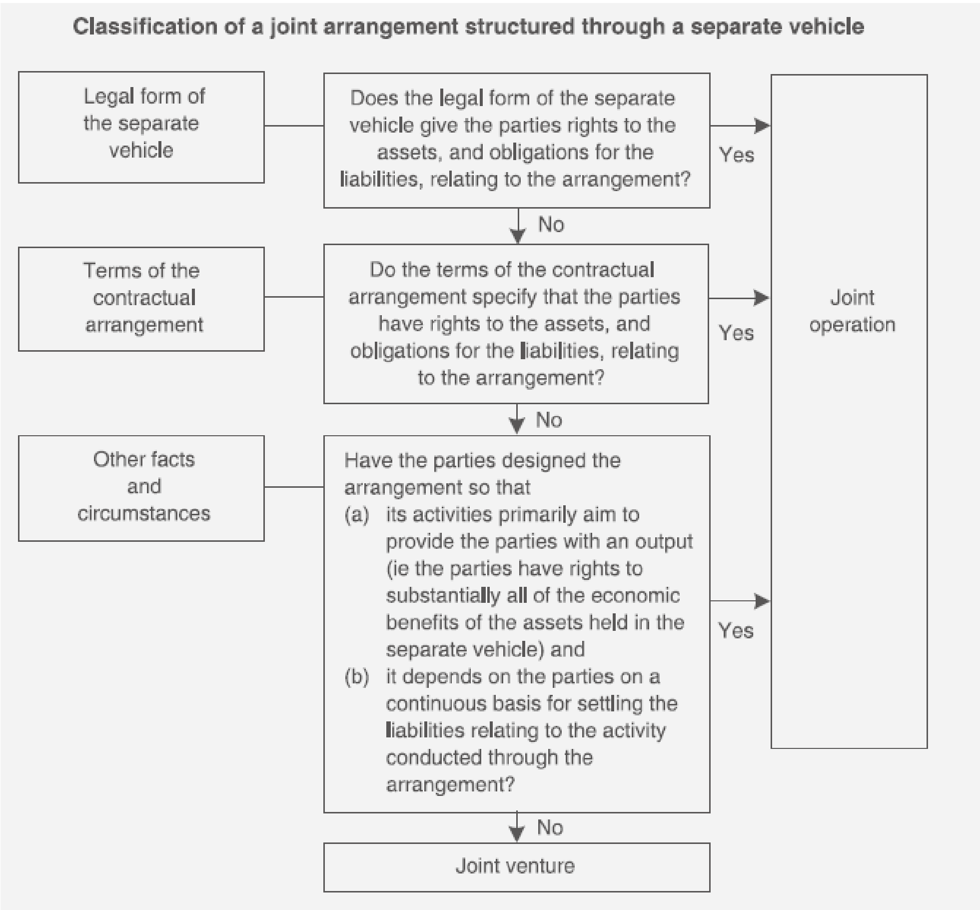
Under IAS 31, the classification mainly depends upon the legal structure: any joint arrangement that was structured through a separate vehicle[2] qualified as a jointly controlled entity. Under IFRS 11, the legal structure is taken into account as a first step when assessing the parties' rights and obligations in the arrangement: any joint arrangement that is **not** structured through a separate vehicle is a joint operation. However, the classification ultimately depends on the substance of the arrangement.

[2] A separate vehicle is defined as "a separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality" (IFRS 11. Appendix A)

IFRS 11 provides the following chart (Application Guidance, B21) to illustrate the classification process:



If a joint arrangement is structured through a separate vehicle, further analysis is required as illustrated in the following chart (IFRS 11, Application Guidance, B33):



The following example given in IFRS 11 Application Guidance (B32, example 5) helps understand the process described above:

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the contractual arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- *The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.*
- *The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.*

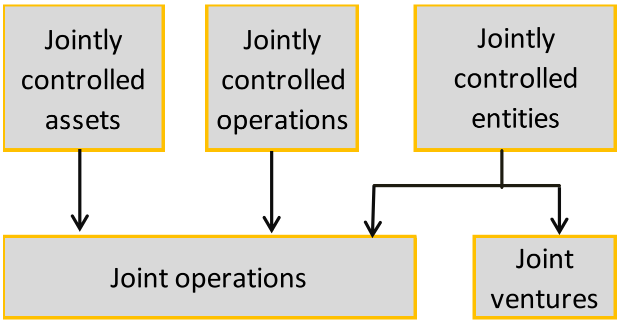
From the fact pattern above, the following facts and circumstances are relevant:

- *The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.*
- *The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of entity C.*

***These facts and circumstances indicate that the arrangement is a joint operation**. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.*

If the parties changed the terms of the contractual arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

In conclusion, the transition from IAS 31's classification to IFRS 11's one can be summarized as follows:



- Even if not explicitly stated in the standard, jointly controlled assets and jointly controlled operations under IAS 31 will qualify as joint operations in IFRS 11 (because they are not structured through a separate entity)
- There is no similar rule for the last category: jointly controlled entities under IAS 31 may be classified either as joint ventures or as joint operations depending on the substance of the arrangement

ACCOUNTING PRINCIPLES

Accounting principles depend on the nature of the joint arrangement. In contrast with IAS 31, IFRS 11 does not offer any accounting choice: each type of joint arrangement (joint operation or joint venture) corresponds to one – and only one – accounting method.

Joint operations

Principles

A joint operator shall recognize in relation to its interest in a joint operation (IFRS11.20):

- Its assets including its share of any assets held jointly,
- Its liabilities including its share of any liabilities incurred jointly,
- Its revenue from the sale of its share of the output arising from the joint operation,
- Its share of the revenue from the sale of the output by the joint operation,
- Its expenses, including its share of any expenses incurred jointly.

These principles apply to consolidated statements as well as to separate statements. It means that these accounting entries should be recognized in the joint operator's individual statements provided that IFRS are applied in local statements.

Transactions between a joint operator and a joint operation

IFRS 11 does not bring major changes with regards to these transactions. Any gains or losses resulting from the transaction should only be recognized to the extent of the other parties' interest in the joint operation.

Joint ventures

Principles

In its consolidated statements, a joint venturer should recognize its interest in a joint venture as an investment and should account for that investment using the equity method in accordance with IAS 28. The accounting option that allowed the choice between proportionate consolidation and equity method under IAS 31 has been removed.

In its separate statements, the investment should be accounted for in accordance with IAS 27. Two options are available: at cost or in accordance with IFRS 9 Financial Instruments. These principles remain unchanged compared with the previous version of IAS 27.

Transactions between a joint venturer and a joint venture

IAS 28 states that any gains and losses resulting from transactions between a joint venturer (including its consolidated subsidiaries) and its joint venture are recognized only to the extent of unrelated investors' interests in the joint venture.

Changes in ownership

IFRS 11 does not address the question of any further changes in ownership. Some principles are given in IAS 28 (see related chapter).

EXPECTED IMPACTS

Impacts on financial statements

As explained before, IFRS 11 may cause changes only for previously called ‘jointly controlled entities’ that can now be either classified as joint operations or as joint ventures. As a reminder, under IAS 31, jointly controlled entities were accounted for using proportionate consolidation or equity method depending on the accounting option chosen by the venturer. Therefore, the following changes may occur:

	Accounting method under IAS 31	
Classification under IFRS 11	Proportionate consolidation	Equity method
Joint operation	Few changes (see a)	Major change (see c)
Joint venture	Major changes (see b)	No change

a. From *proportionate consolidation* to *joint operation accounting*

In the Basis for Conclusions to IFRS 11 (BC38), the Board noted two main differences between the accounting for joint operation and proportionate consolidation.

The first difference is that the rights and obligations that a joint operator has in the assets, liabilities, revenues and expenses of the joint operation are specified in the contractual arrangement and can be different from its ownership interest in the joint operation. Therefore, accounting for those individual rights and obligations could affect the financial statements differently compared with proportionately consolidating a percentage of all assets and liabilities.

For example, in the real estate industry, two joint operators may each own 50% of a joint operation but the joint arrangement may contractually state that joint operator 1 has the rights and obligations attached to some buildings whereas joint operator 2 would have the rights and obligations attached to the others. In that case each joint operator recognizes the assets, liabilities, revenues and expenses related to its buildings (plus, where need be, a 50% share in the assets, liabilities, revenues and expenses that are not specifically affected to one building).

The second difference is that the accounting for joint operations applies to consolidated statements as well as to separate statements, in contrast with the proportionate consolidation method that only affected consolidated statements.

For companies that apply IFRS in their separate statements[3], this change deeply affects these statements. The investment in a joint operation was previously recognized into a single line item either at cost or in accordance with IAS 39/IFRS 9. The transition to IFRS 11 implies to recognize its share of the joint operation’s assets and liabilities, as well as its share of revenues and expenses.

For companies that apply IFRS only in their consolidated statements, the impact eventually depends on whether their rights and obligations are aligned with their ownership interest in the joint operation. In the IASB’s opinion (see below the conclusions of the Effect Analysis), transition from proportionate consolidation to joint operation accounting should have no impact in most cases.

[3] As a reminder IFRS can be mandatory for consolidated financial statements only as it is the case in many European countries for example.

b. From *proportionate consolidation* to *equity method*

This is a significant change, as showed in the following table (extract from the Effect Analysis published by the IASB):

Table VI: Effects on financial statements of entities changing from proportionate consolidation to the equity method	
Financial statements	**Effects due to the accounting change**
Statement of financial position	• Reported figures will decline to the extent of the entity's previously recognised share in the individual assets and liabilities of the joint venture and therefore total assets and total liabilities will decrease. • The investment in the joint venture will be captured in a single line item.
Statement of comprehensive income	• Reported figures will decline to the extent of the entity's previously recognised share revenue and expenses of the joint venture and therefore total revenue and total expenses will decrease. • No changes in net income.
Statement of changes in equity	• No changes in the statement of changes in equity.
Statement of cash flows	• Reported operating, investing and financing cash flow figures will decline to the extent of the entity's previously recognised share in the cash flows of the joint venture. • Dividends received from joint ventures will be presented as cash flows.

Groups that currently use proportionate consolidation are particularly concerned about the effect of IFRS 11 on the revenues – and related performance measures such as EBIT or EBITDA – they will report. Revenues and expenses will decrease as they will not present their share of the joint ventures' revenue and expenses as part of their own revenue and expense. Moreover the share of the profit or loss of joint ventures accounted for using the equity method is usually presented in the last part of the income statement and does not contribute to the operating profit, a key metric used for communication with stakeholders.

c. From *equity method* to *joint operation accounting*

In the IASB's opinion (see below the conclusions of the effect analysis), this case should remain rare. However, when it occurs, changes are significant as they are symmetric to those described above for transition from proportionate consolidation to equity method. Moreover the changes usually require modifications to existing systems and processes because more information is needed from the jointly controlled entity for joint operation accounting than for equity method.

Effect analysis published by the IASB

The IASB has carried out an extensive analysis to assess the likely effect of new requirements. The results have been published in a document entitled "Effect analysis" and published in July 2011.

Joint venture deals between 1990 and 2010

The data used by the IASB are from the Thomson Financial SDC Platinum Alliances/Joint ventures database. Much information is provided from which the following trends can be noticed:

- After a period of growth from 1990 to 1995 (8,044 deals), the number of JV deals has noticeably decreased (less than 1,000 deals per year since 2009). This decline has mainly been attributed to the liberalization of foreign investment regimes in various countries.
- From a geographical standpoint, the United States rank first, representing 37.1% of the JV deals for the 1990-2010 period; China (7.05%) and Japan (5.62%) are respectively second and third.
- The database classifies joint ventures as 'strategic alliances' and "independent firms" depending on whether an independent business entity is created or not. Independent firms represent 37% of the deals during this period. However, this percentage varies with the country: from 18% in the United States to 75% in China or in Russia.

Table IV: JV deals by country and form

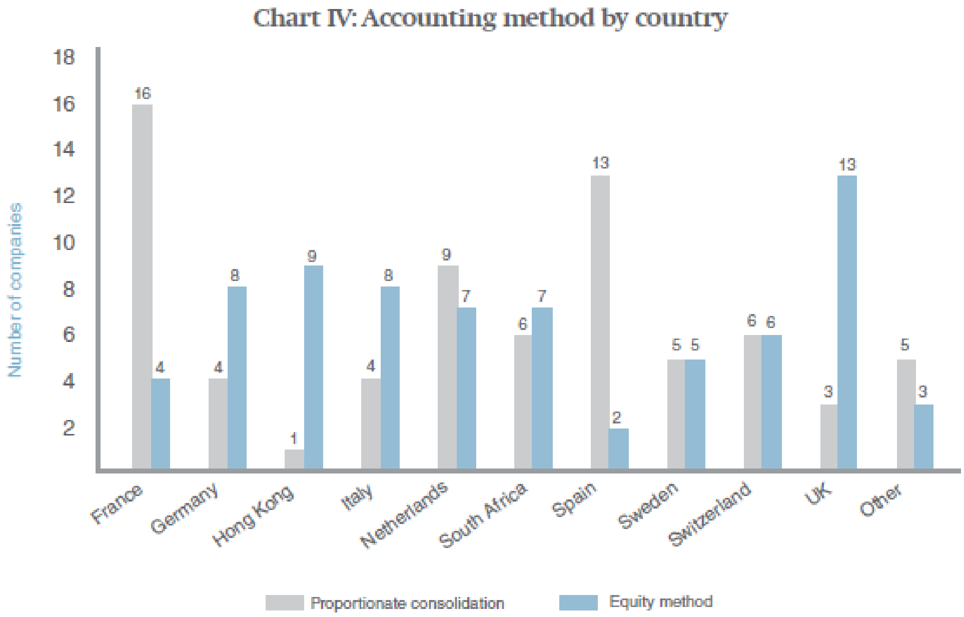
Country	Strategic alliances	Independent firms	Total
United States	26,228 82.1%	5,724 17.9%	31,952 100%
China	1,505 24.8%	4,573 75.2%	6,078 100.0%
Japan	3,235 66.8%	1,605 33.2%	4,840 100.0%
United Kingdom	1,608 51.7%	1,504 48.3%	3,112 100.0%
Canada	1,873 71.8%	737 28.2%	2,610 100.0%
Australia	1,429 57.7%	1,048 42.3%	2,477 100.0%
India	761 36.4%	1,332 63.6%	2,093 100.0%
Germany	646 41.9%	895 58.1%	1,541 100.0%
Malaysia	309 23.7%	994 76.3%	1,303 100.0%
Russian Federation	220 24.1%	694 75.9%	914 100.0%
Supranational	10,139 93.3%	732 6.7%	10,871 100.0%
Others	6,614 36.1%	11,730 63.9%	18,344 100.0%
Total number of JV deals	**54,567 63.4%**	**31,568 36.6%**	**86,135 100.0%**

Accounting methods currently used

According to IAS 31 *Interests in Joint Ventures,* jointly controlled entities (i.e. joint ventures formed as independent firms) could be accounted for using either proportionate consolidation or the equity method.

Based on a survey of the first IFRS consolidated financial statements, the IASB noticed that the choice of the accounting method was mainly conditioned by the company's country of domicile (and therefore its previous national accounting standard).

Of the 144 companies selected in the survey that included jointly controlled entities in their consolidated statements, the distribution between equity method and proportionate consolidation was exactly 50:50. However, this average ratio does not reflect the significant discrepancies between countries:

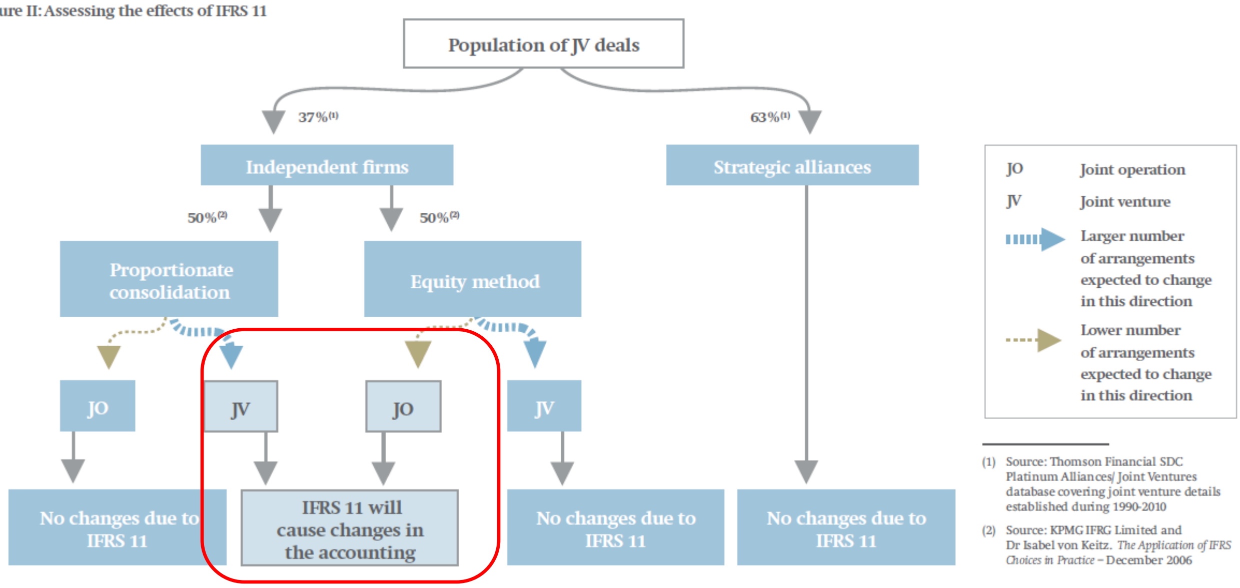


As shown above, proportionate consolidation is commonly preferred to equity method in France, Spain and to a lower extent in Netherlands whereas equity method appears as the common choice in the other countries.

Board's conclusions

The following chart summarizes the expected effects of IFRS 11 according to the Board's analysis:

Figure II: Assessing the effects of IFRS 11



As a conclusion, the Board summarizes its analysis as follows:

"On the basis of the data gathered, our assessment is that IFRS 11 ***will not lead to a change for a large number*** *of the arrangements within the scope of the IFRS. This is because most joint arrangement activity is dealt with through arrangements that do not involve the establishment of an entity and, as a result, parties will continue recognizing assets, liabilities, revenues and expenses arising from those arrangements as they did when applying IAS 31. We expect that most of the arrangements structured through separate vehicles will be 'joint ventures'. […] As a result, IFRS 11 will lead to* ***changes for those entities currently using proportionate consolidation*** *when accounting for those arrangements, which we have estimated as being half of the entities with interests in jointly controlled entities. To a lesser extent, IFRS 11 will also lead to* ***changes for entities with interests in those jointly controlled entities that will be classified as 'joint operations'*** *in accordance with IFRS 11 and that are currently being accounted for using equity method."*

IMPACTS ON SAP SOLUTIONS FOR CONSOLIDATION

Current situation

SAP solutions for consolidation currently address IAS 31's requirements regarding jointly controlled entities.

As a reminder, the accounting for any interests in jointly controlled assets or jointly controlled operations is to be done in the venturer's separate statements. Therefore, its corresponding share in assets, liabilities, revenue and expenses is supposed to be already included in the local data used during the consolidation process.

Jointly controlled entities can be accounted for using either proportionate consolidation or equity method. These two methods currently exist in SAP solutions for consolidation.

Should proportionate consolidation be removed?

This question naturally arises as IFRS 11 now requires the use of equity method for all joint ventures. The answer is that proportionate consolidation should NOT be removed, for the following reasons.

Firstly IFRS are not applied everywhere even though their use is constantly growing. Some local regulations will continue to allow or require the use of proportionate consolidation for joint ventures. Therefore SAP solutions for consolidation will keep on providing this consolidation method.

Secondly, proportionate consolidation can still be used by companies' upper management for internal reporting purposes and therefore for segment reporting presentation as allowed by IFRS 8 (with appropriate reconciliation). Feedback received by the IASB through comment letters to exposure draft ED9 (which gives rise to IFRS 11) shows that many current users of proportionate consolidation are deeply attached to this method. They believe that it better reflects performance (including margins), extent of operations and risk exposures of joint arrangements.

Lastly, proportionate consolidation, as a consolidation method in the software, can be used for joint operation accounting where joint operators do not apply IFRS in the separate statements (see above: *expected impacts, from proportionate consolidation to joint operation accounting*).

What impacts on SAP's starter kits for IFRS?

In the current versions of SAP's starter kits for IFRS, proportionate consolidation is available as a consolidation method. Moreover, some calculation rules have been pre-configured to meet the specific requirements of this method (in particular, for the elimination of internal transactions).

Therefore the question arises whether any reference to proportionate consolidation should be removed from the starter kits. In contrast with the same question raised above for the software, the answer is not straightforward.

Firstly, the starter kits delivered on top of SAP BusinessObjects Financial Consolidation or SAP BusinessObjects Planning and Consolidation are designed for IFRS only, even if they may be used as a starting point to cover other GAAPs' requirements. Therefore the first argument developed for software above (use of proportionate consolidation in other accounting standards) is not admissible here.

The second argument is more relevant for two main reasons. Both starter kits will be enhanced in the near future to include internal reporting features (such as corporate budget and forecast). Moreover, even if IFRS requirements regarding notes and disclosures are not addressed in the starter kits for SAP Consolidation products, some reports designed for segment information are provided.

The last argument that points out the use of proportionate consolidation for joint operation accounting where local statements do not comply with IFRS is questionable. Indeed, starter kits rest on the assumption that local statements (meaning here data entered in the consolidation software) are compliant with IFRS. Where IFRS are not applied in separate statements, local data used for consolidation purposes must be restated before, so that data entered are finally compliant with IFRS. Therefore, this principle should preclude the possibility of using proportionate consolidation for joint operation accounting as the joint operator’s separate statements (as restated to comply with IFRS) should already include its share in the joint operation. However, we strongly believe it could be worth making an exception for this particular case because it is precisely a very specific case. Where restatements to IFRS usually mean changes in the classification or the measurement of assets, liabilities, revenues or expenses, accounting for joint operations is more similar to consolidation process as it consists in incorporating another entity’s assets, liabilities, revenues and expenses. Consequently we believe some customers may save time during the financial consolidation process by using these features to account for their joint operations.

Finally it should be noticed that maintaining specific features for proportionate consolidation within the starter kits is quite transparent to the business end-users who do not use them.

In conclusion, we believe that starter kits should continue providing features for proportionate consolidation but these features (especially the calculation rules) should now refer to joint operations and no more to joint ventures.

AMENDMENTS TO IAS 28

WHAT'S NEW IN IAS 28?

IAS 28 was previously entitled *Investments in Associates.* It has been amended to explicitly handle the accounting for joint ventures, as shown in its new title *Investments in Associates and Joint Ventures*.

Independently from those (formal) changes that add references to joint ventures, IAS 28 has been amended to address the cases where an associate becomes a joint venture (or vice-versa):

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest (IAS28.24).

This principle differs from the previous requirements of IAS 31 and IAS 28, which regard any change in the nature of the investor/investee relationship (e.g. from joint control to significant influence) as a major event. As such it was accounted for as if the investee (e.g. the joint venture) had been disposed of and a new investee (e.g. an associate) acquired. Consequently, a gain or loss was to be recognized in the profit or loss and the retained interest was to be remeasured at fair value (which may give rise to goodwill recognition).

The new principles set out by IAS 28 now require continuing to apply the equity method. The retained interest is not remeasured. Similarly, amounts previously recognized in other comprehensive income are not reclassified to profit or loss. However IAS 28 remains silent on how to account for the changes in ownership interest that usually goes with this kind of event. In the same way, neither IFRS 11 nor IAS 28 deals with an increase in ownership interest while retaining joint control.

IMPACTS ON SAP SOLUTIONS FOR CONSOLIDATION

Equity method is supported in both SAP BusinessObjects Financial Consolidation and SAP BusinessObjects Planning and Consolidation. The starter kits for IFRS provide dedicated features to apply the equity method as defined by IAS 28.

From a software perspective, using equity method to account for an associate or a joint venture makes no difference. Therefore changes brought by the amendments to IAS 28 have no consequence on SAP solutions.

In addition, it should be reminded that changes in ownership interest in an entity accounted for using the equity method are handled as follows. The new interest rate and the new integration rate in the entity (which changes as a consequence) are taken into account with the impact of change posted on a dedicated flow. Additional manual entries are left up to the user to, for example, enter a new goodwill or remeasure assets and liabilities acquired (in case of an increase) or to recognize a profit or loss on disposal (including reclassification adjustments of accumulated other comprehensive income) in case of a partial disposal. In that context, changes in IAS 28 amended have no impact in the starter kits as the final accounting entries have to be entered manually.

CONCLUSION

IASB's "package" of five new or revised standards dealing with consolidation and joint arrangements including IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 is effective for annual periods beginning on or after 1 January 2013 with permitted earlier application. These five standards should be considered from a holistic point of view as they strongly interact. The three key ideas to keep in mind are the following.

Firstly, IFRS 10 *Consolidated Financial Statements* does not introduce any changes that would require enhancements to SAP solutions for consolidation, neither for the software nor for the related starter kit for IFRS. IFRS 10 changes the definition of control and the way it should be applied: assessing whether an investment is controlled requires human judgment and cannot therefore be entirely managed by the consolidation software – even if the list of consolidated entities can be automatically populated in SAP Consolidation applications as a starting point.

Secondly, it is critical to emphasize on the fact that IFRS 11 *Joint Arrangements* does not mean that proportionate consolidation should be removed. Indeed, local regulations other than IFRS will continue to allow or require the use of proportionate consolidation for joint ventures. In addition, proportionate consolidation can still be used by companies' upper management for internal reporting purposes and therefore for segment reporting presentation as allowed by IFRS 8. And as a consolidation method in the software, proportionate consolidation can be used for joint operation accounting where joint operators do not apply IFRS in the separate statements.

Thirdly, changes in IAS 28 *Investments in Associates and Joint Ventures* have no consequence on SAP solutions. On the one hand equity method is supported in both SAP BusinessObjects Financial Consolidation and SAP BusinessObjects Planning and Consolidation and the starter kits for IFRS provide dedicated features to apply the equity method as defined by IAS 28. On the other hand, from a software perspective, using equity method to account for an associate or a joint venture makes no difference. Therefore changes brought by the amendments to IAS 28 have no consequence on SAP solutions.

www.sap.com