STAFF PAPER

September 2019

IASB® Meeting

Project	**Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12**		
Paper topic	Project update		
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Introduction

1. According to the Due Process Handbook, the International Accounting Standards Board (Board) is required to conduct a Post implementation Review (PIR) of each new Standard. The Research Pipeline includes a Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. As envisaged in the last Research project Update (April 2019), the project has now become active.

2. This paper reminds the Board of the purpose of a PIR and informs the Board of the main activities planned for the first phase of the PIR.

3. The Board will not be asked to make any decisions at this meeting.

Background to a Post-implementation Review

4. A PIR is a mandatory step in the due process for new IFRS Standards or major amendments to IFRS Standards. The objective of a PIR is to assess whether a Standard is working as intended. A PIR is an opportunity to assess the effect of the new requirements on investors, preparers and auditors. The review considers the issues that were important or contentious during the development of the publication as well as the issues that have come to the attention of the Board after publication. The

PIR also identifies areas where possible unexpected costs or implementation problems were encountered. [1]

5. A PIR is structured in two phases. The first phase involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation in the form of a Request for Information (RFI). The initial review involves gathering input from the broad network of IFRS-related bodies and interested parties, such as the Board's consultative groups, the Interpretations Committee, securities regulators, national standard setters, investors, auditors and preparers so that the Board can establish an appropriate scope for the PIR.[2]

6. In the RFI, the Board explains why it is seeking feedback on the matters specified and includes any initial assessment of the Standards being reviewed. The RFI also explains the process that the Board followed in establishing the scope of the review.

7. In the second phase, the Board considers the comments that it receives from the RFI together with the evidence or information obtained from any additional analysis. When the Board has completed its deliberations, it presents its findings in a public report. There is no presumption that a PIR will lead to changes in the Standards that are being reviewed.

8. The Board has completed three PIRs to date:

   (a) IFRS 8 *Operating Segments* – the Board concluded at the end of the second phase that overall the Standard had achieved its objectives. However, based on the concerns expressed by some investors, the Board identified some areas for potential improvement. The Board published an Exposure Draft *Improvements to IFRS 8 Operating Segments—Proposed amendments to IFRS 8 and IAS 34* in March 2017 to address these areas; having considered the feedback the Board decided not to proceed with the proposed amendments to IFRS 8.

[1] Extracted from the Due Process Handbook which can be found at: http://www.ifrs.org/DPOC/Due-Process-Handbook/Documents/Due-Process-Handbook-June-2016.pdf

[2] Due Process Oversight Committee did not propose any substantive amendments to the requirements relating to PIRs in its April 2019 proposed amendments to the Due Process Handbook.

(b) IFRS 3 *Business Combinations* – the Board identified several areas at the end of the second phase that warranted further research in order to conclude on whether standard-setting would be required. These areas included:

(i) challenges in applying the definition of a business;

(ii) effectiveness and complexity of testing goodwill for impairment;

(iii) subsequent accounting for goodwill; and

(iv) identification and fair value measurement of intangible assets.

Further research led the Board to issue amendments to IFRS 3 in relation to the definition of a business. In relation to (ii) and (iii), the Board plans to issue a Discussion Paper around the end of 2019 to set out the accounting alternatives that the Board has explored and its point of views on the proposals that it should develop and not develop.

(c) IFRS 13 *Fair Value Measurement* – the Board concluded at the end of the second phase that the information required by IFRS 13 is useful to users of financial statements and no unexpected costs have arisen from its application. The Board acknowledged that some areas present implementation challenges but decided not to undertake any standard-setting.

Background and main objectives of the three Standards

9. IFRS 10s, 11 and 12 were issued together in May 2011. The three Standards became effective for annual periods beginning on or after 1 January 2013[3], with earlier application permitted.

10. The Board added a project on consolidation to its agenda to address divergence in practice in applying IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities.* Examples of diverging application included:

[3] The European Union adopted the Standards with an effective date of 1 January 2014.

(a) circumstances involving control of an investee without a majority of voting rights;

(b) circumstances involving special purpose entities (structured entities);

(c) circumstances involving agency relationships; and

(d) circumstances involving protective rights.

11. IFRS 10 builds on the concepts in IAS 27 and SIC-12 to provide a single consolidation model applicable to all entities based on the principle of control. Control requires three elements: power over the significant activities of an investee, exposure to variable returns from an investee and the investor's ability to use its power to affect the amount of the investor's returns.

12. The Board added a project to its agenda to improve the accounting for joint arrangements.

13. IFRS 11 replaced IAS 31 *Interests in Joint Ventures*. IAS 31 established different accounting requirements based only on whether the arrangements were structured through an entity. When arrangements were structured through an entity, IAS 31 classified them as joint ventures and allowed venturers to account for their interest by using either proportionate consolidation or the equity method.

14. IFRS 11 classifies joint arrangements based on an assessment of the rights and obligations of the parties arising from the arrangement. When the parties that have joint control have rights to the net assets of the arrangement, IFRS 11 classifies the arrangement as a joint venture and requires a joint venturer to account for its interest using the equity method. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

15. The Board also revised disclosure requirements for interests in subsidiaries, joint arrangements and associates and added disclosures about unconsolidated structured entities in IFRS 12, a single disclosure Standard. IFRS 12 requires a reporting entity to disclose information that helps users to assess the nature and financial effects of the

reporting entity's relationship with other entities. This was to address concerns about a lack of transparency about the risks to which investors were exposed from their involvement with off balance sheet vehicles.

Subsequent amendments

16. In June 2012, the Board amended the three Standards to provide additional transition relief.

17. In October 2012, the Board amended IFRS 10 by issuing *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) that defined an investment entity and introduced a requirement than an investment entity should not consolidate investments in entities it controls but measure those investments at fair value with the changes reported in profit or loss. The effective date was 1 January 2014. These requirements were clarified in December 2014 by *Investment Entities: Applying the Consolidation Exception* (amendments to IFRS 10, IFRS 12 and IAS 28) with the effective date of 1 January 2016.

18. In May 2014 IFRS 11 was amended by *Accounting for Acquisitions of Interests in Joint Operations.* The amendment requires an acquirer of an interest in a joint operation in which the activities constitute a business to apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations.*

19. In September 2014 IFRS 10 was amended by *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (amendments to IFRS 10 and IAS 28). The amendments addressed the acknowledged inconsistency between the requirements in IAS 28, when accounting for a sale or contribution of an asset to an associate or a joint venture, and the requirements in IFRS 10, when accounting for the loss of control

in a subsidiary. The effective date of the amendments was indefinitely deferred in December 2015.[4]

20. Other Standards have made minor consequential amendments to IFRS 10, 11 and 12.

Planned activities

21. After the September 2019 Board meeting, the staff will update the website to indicate that the PIR is now active.

22. In the fourth quarter of 2019, the staff intends to seek input on the scope of the PIR at meetings of the IFRS Interpretations Committee and the consultative groups as follows.

Group	Date
Global Preparers Forum Capital Markets Advisory Committee	October
IFRS Interpretations Committee	November
Emerging Economies Group Accounting Standards Advisory Forum	December

23. In addition to those meetings, the staff is planning meetings with preparers, users, auditors, securities regulators and other interested parties.

[4] The IFRS Interpretations Committee and the Board considered a number of other issues with respect to the sale or contribution of assets between an investor and its associate after September 2014. The Board decided that these further issues should be addressed as part of its research project on equity accounting and to defer the effective date of the September 2014 amendment so that entities need not change how they apply IAS 28 twice in a short period. Please refer to IFRS 10 paragraph BC190L-BC190O for details.

24. The staff plans to bring back a summary of the feedback received and an initial list of matters for consideration at a Board meeting in the first quarter of 2020. We anticipate that as part of the discussion, the Board will be asked to consider whether the PIR should be conducted simultaneously for all three Standards or in different stages.

Question for the Board

Comments or questions
Do Board members have any comments or questions?