

IFRSs 10, 11 and 12

Post-implementation Review

Phase 1

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 - IFRS 11 *Joint Arrangements*
 - IFRS 12 *Disclosure of Interests in Other Entities*
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Purpose of the session

- The purpose of this session is:
 - a) for staff to provide information about the PIR of IFRSs 10, 11 and 12;
 - b) for staff to summarise the input received so far; and
 - c) for ASAF members to comment on the list of topics and provide your views.
- This session forms part of phase 1 of the PIR of IFRSs 10, 11 and 12 and aims to help the Board identify what topics should be considered for inclusion in the Request for Information.

Activities carried out in Phase 1

As part of phase 1 we have asked the following consultative groups and stakeholders for input:

- IFRS Interpretations Committee*
- Global Preparers Forum
- Capital Markets Advisory Committee
- Accounting firms
- Regulators*
- Users' groups
- National standard-setters and regional groups*
- Preparers' groups from different industries*

* some outreach occurred after the date this presentation was prepared

Summary of feedback so far

- Several stakeholders said the Standards are generally working well.
- However, stakeholders noted that, in some situations, there are:
 - challenges in applying the Standards; and
 - additional information needs.

Areas of focus on IFRS 10 (1/2)

- Identifying the relevant activity when two investors have right to direct different activities in different periods
- Assessing if investor's rights are protective or substantive
 - lenders' rights to appoint majority of the board members upon occurrence of particular facts
- Assessing control with less than majority of voting rights arising from:
 - disperse shareholding
 - special relationship with the investee
 - *de facto* agent (without contractual arrangement)

Areas of focus on IFRS 10 (2/2)

- Assessing if an investor acts as a principal or an agent
 - assessing the magnitude of, and variability associated with its economic interest
- Identifying investment entities (IE)
 - level of formalisation for exit strategy and performance measurement
- IE parent with IE subsidiaries
 - information on indirectly held investments and liabilities
- Accounting for changes in ownership interest
 - measurement of retained interest in a joint operation after loss of control (literature gaps)

Areas of focus on IFRS 11

- Accounting for collaborative arrangements without joint control
- Classification of joint arrangements according to ‘other facts and circumstances’
- Accounting for interests in joint operations
 - disproportion between the share of economic output obtained by the joint operators and their share of economic interest
 - interaction with IFRS 16

Areas of focus on IFRS 12

- Identification of unconsolidated structured entities
- More information on the impact of significant NCI on results and cash flows
- More granular disclosures for
 - subsidiaries with significant NCI
 - joint ventures and associates

Questions for ASAF members

- Overall, how do you assess the effects of IFRSs 10, 11 and 12 in your jurisdiction?
- Are the matters on IFRSs 10, 11 and 12 the staff have been informed of so far consistent with the feedback from stakeholders in your jurisdiction?
- In your view, which of the aspects brought to the staff's attention so far should be investigated further?
- Are you aware of other significant or widespread matters with the application of the Standards in your jurisdiction?

Phase I of PIR

- 2020: present findings to the Board
- 2020 H1: issue Request for Information

Appendix 1 - Post-implementation Review Process (1/2)

- The Board's due process requires it to conduct a PiR of each new Standard or major amendment.



- Identification and assessment of matters to be examined in the PiR



- Publish a Request for Information (RFI)
- Consider the evidence gathered from the RFI
- Present findings to the Board



- Publish a Feedback Statement presenting the Board's findings and setting out the steps it plans to take, if any, as a result of the PiR

Post-implementation Review Process (2/2)

- The Due Process Handbook requires that the PIR considers:
 - a. the matters that were important or contentious during the development of the Standard;
 - b. any matters that have come to the attention of the Board after the Standard was issued; and
 - c. unexpected costs and implementation problems.

Appendix 2 – Background to the Standards

IFRS 10

- A single consolidation (control) model
- Exemption from consolidation—investment entities

IFRS 11

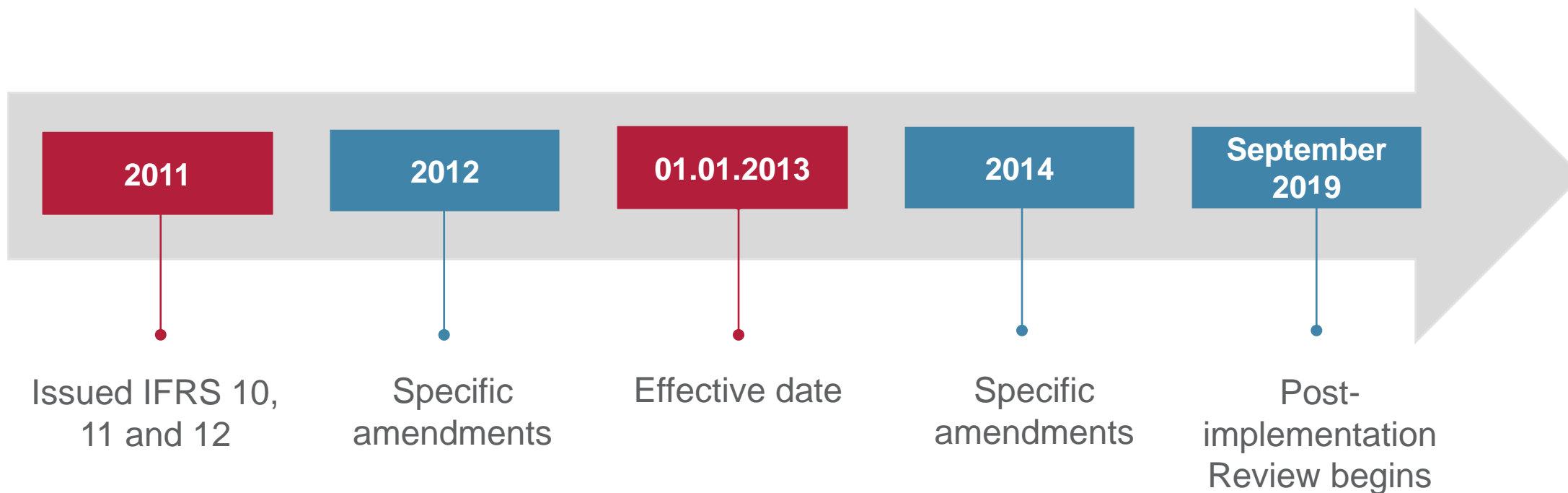
- Classification of joint arrangements based on rights and obligations
- Elimination of accounting options

IFRS 12

- Combined and enhanced disclosure requirements

Background to the Standards - timeline

15



2012 amendments

- June: Transition Guidance
- October: **Investment Entities**

2014 amendments

- May: Accounting for Acquisitions of Interests in Joint Operations
- September: Sale or Contribution of Assets between an investor and its Associate or Joint Venture*
- December: Investment Entities: Applying the Consolidation Exception

*Effective Date of Amendments to IFRS 10 and IAS 28 deferred indefinitely

- **Key highlights of the Standard**

- established a single consolidation model, based on principle of control
- introduced an exemption for investment entities, that are required to measure their subsidiaries at fair value with changes in fair value recognised in profit or loss

- **Reason**

- the global financial crisis illustrated that the existing definition of control was not flawed but could be improved. In particular, it was perceived that the consolidation principles in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* were not fully consistent.

- **Key highlights of the Standard**
 - classification of joint arrangements based on the rights and obligations arising from the arrangements
 - elimination of accounting option for joint ventures

- **Replaced**
 - IAS 31 *Interests in Joint Ventures* in which the accounting was based by the existence of a legal vehicle
 - IAS 31 allowed entities to apply either proportionate consolidation or the equity method

- **Key highlights of the Standard**

- combined and enhanced disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities

- **Reason**

- the global financial crisis highlighted the importance of enhancing disclosure requirements, in particular for special purpose or structured entities
- notable new disclosures introduced by this Standard include:
 - subsidiaries with significant non-controlling interests
 - significant joint ventures or associates
 - unconsolidated structured entities (eg financial support)

Appendix 3 - Interpretations Committee work on IFRSs 10, 11 and 12 (1/3)

- Agenda decisions published in relation to:
 - effect of protective rights on an assessment of control (IFRS 10)
 - transition—impairment, foreign exchange and borrowing costs (IFRS 10 and IFRS 11)
 - investment entities amendments—the definition of investment-related services or activities (IFRS 10)
 - disclosure of summarised financial information about material joint ventures or associates (IFRS 12)
 - disclosures for a subsidiary with a material non-controlling interest (IFRS 12)
 - joint operation that is a separate vehicle in its financial statements (IFRS 11)

- Agenda decisions published in relation to:
 - classification—other facts and circumstances (IFRS 11)
 - classification—other facts and circumstances—specific fact patterns (IFRS 11)
 - joint operator’s share of output purchased differs from its share of ownership interest (IFRS 11)
 - joint arrangements with similar features that are classified differently (IFRS 11)
 - recognition of revenue by a joint operator (IFRS 11)
 - accounting by the joint operator in its separate financial statements (IFRS 11 and IAS 27)

- Agenda decisions published in relation to:
 - single-asset, single-lessee lease vehicles (IFRS 10)
 - remeasurement of previously held interests (IFRS 11 and IFRS 3)
 - accounting for loss of control transactions (IFRS 10 and IFRS 11)
 - investment entities and subsidiaries (IFRS 10)
 - liabilities in relation to a joint operator's interest in a joint operation (IFRS 11)
 - sale of output by a joint operator (IFRS 11)

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