

Emerging Economies Group
December 2019
Agenda paper 4

Post-implementation Review of IFRS 10,11 and 12

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Content

- Purpose of the session and questions to EEG members Slides 3-4
- Post-Implementation Review Process Slides 5-7
- Background to IFRS 10, 11 and 12 Slides 8-11
- Key messages and areas of focus Slides 12-15
- Next steps Slides 16

Seek EEG members' input on the topics for consideration by the Board to be included in the Request for Information of the PIR of

- IFRS 10 *Consolidated Financial Statements*;
- IFRS 11 *Joint Arrangements*; and
- IFRS 12 *Disclosure of Interest in Other Entities*.

Questions for EEG members

- Overall, how do you assess the effects of IFRS 10, 11 and 12 in your jurisdiction?
- Do you agree that the topics mentioned in slides 13 – 15 should be considered by the Board for inclusion in the Request for Information?
- Are you aware of other significant or widespread issues with the application of the Standards in your jurisdiction?

Post-implementation Review Process (1/3)

- 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.

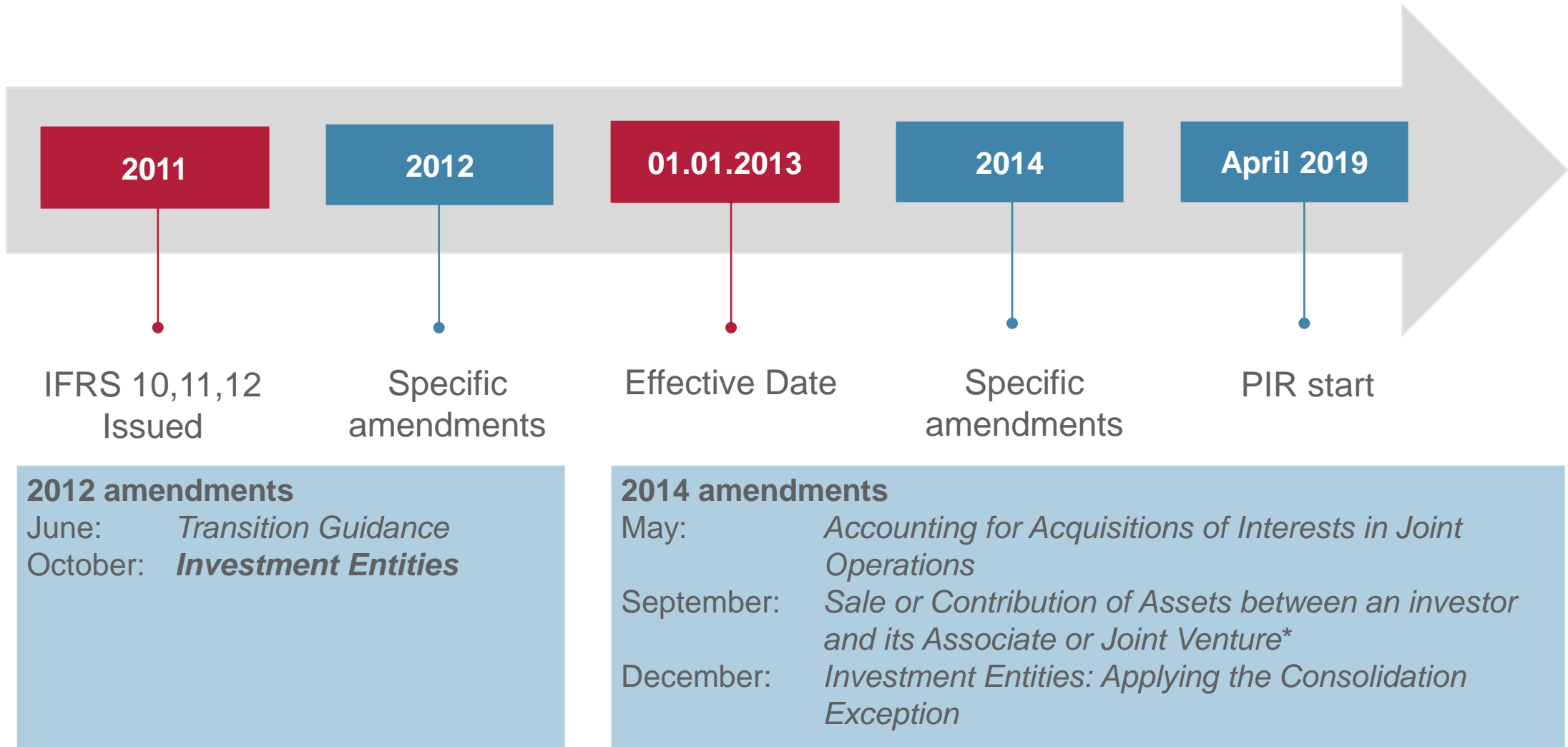
The Due Process Handbook requires that the PIR considers:

- a. the issues that were important or contentious during the development of the Standard;
- b. any issues that have come to the attention of the Board after the Standard was issued; and
- c. unexpected cost and implementation problems.

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

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

Timeline



*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**
 - Consolidation exception for **investment entities**, that are required to carry their **subsidiaries at fair value** with changes in fair value reported in profit or loss.
- **Reason**
 - The **global financial crisis** illustrated that the existing consolidation guidance was not flawed but could be improved, ie the **perceived inconsistencies** between the consolidation guidance in *IAS 27 Consolidated and Separate Financial Statements* and *SIC-12 Consolidation—Special Purpose Entities*.

- **Key highlights of the Standard**
 - Classification of joint arrangements based on **rights and obligations**
 - **Elimination of accounting option** for joint ventures

- **Replace**
 - IAS 31 *Interests in Joint Ventures* in which the accounting driven by the structure of the entity
 - IAS 31 permitted an **accounting option** for jointly controlled entities either proportionate consolidation or equity method.

- **Key highlights of the Standard**
 - Combined and enhanced disclosure requirements of 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)

- Stakeholders noted that when the Standard was initially implemented, there were discussions on how some of the requirements should be applied. Practice has settled now and in general the Standard is proving to be effective and understandable
- The Standard requires the **application of judgment**. While agreeing that the **assessment of control** should be based on judgment, some stakeholders noted that some areas the Standard could be improved to facilitate the assessment and enhance consistent application

- **Assessment of control:**
 - More than one relevant activity
 - Control with less than a majority of voting rights (*de facto* control)
 - Distinction between substantive and protective rights
 - Principal-agent relationships
- **Investment entities:**
 - Some concerns about the consistent application of the definition
 - Investments held through an intermediate IE
- **Accounting requirements:**
 - Accounting for changes in ownership interest

- **Classification of joint arrangements**
 - Application of ‘other facts and circumstances’
- **Accounting requirements**
 - Disproportion between share of ownership interest and share of output
 - Interaction between IFRS 11 and IFRS 16 (recent IFRIC discussion)

- Insufficient information about subsidiaries with significant non-controlling interest
- Identification of unconsolidated structured entities
- Level of aggregation and application of materiality

Phase I of PIR

- December 2019 Session with ASAF to complete Phase 1 outreach
- Q1 2020 Present findings to the Board and staff recommendations for content of Request for Information
- H1 2020 Issue Request for Information with a comment period of a minimum of 120 days.

Get involved

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