
IASB® meeting

Date	February 2024
Project	Annual Improvements to IFRS Accounting Standards—Volume 11
Topic	Determination of a ‘De Facto Agent’ (Amendments to IFRS 10 Consolidated Financial Statements): Analysis of feedback
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Introduction

1. As explained in Agenda Paper 12 *Maintenance and consistent application—Cover paper*, this paper analyses feedback on *Determination of a ‘De Facto Agent’ (Amendments to IFRS 10 Consolidated Financial Statements)* included in the [Exposure Draft Annual Improvements to IFRS Accounting Standards—Volume 11](#). The International Accounting Standards Board (IASB) proposed to remove from paragraph B74 of IFRS 10 an inconsistency with paragraph B73.

Summary of staff recommendations

2. We recommend the IASB finalise the proposed amendments to paragraph B74 of IFRS 10 with a minor wording change as explained in paragraph 16 of this paper and shown in Appendix B to this paper.

Structure of this paper

3. This paper includes:
 - (a) [Background information](#);
 - (b) [Summary of feedback](#);

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- (c) [Staff analysis](#);
 - (d) [Staff recommendation and question for the IASB](#);
 - (e) [Appendix A—Extract from the Exposure Draft for proposed amendments to paragraph B74 of IFRS 10 Consolidated Financial Statements](#); and
 - (f) [Appendix B—Recommended revised amendment to paragraph B74 of IFRS 10 Consolidated Financial Statements](#).

Background information

4. Paragraphs BC1–BC2 of the Basis for Conclusions on the proposed amendments to IFRS 10 in the Exposure Draft explain the background and the IASB’s rationale for the proposed amendments. Paragraphs BC1–BC2 state:

BC1 Stakeholders informed the IASB that the requirements in paragraphs B73 and B74 of IFRS 10 *Consolidated Financial Statements* might, in some situations, be contradictory. Paragraph B73 refers to ‘de facto agents’ as parties acting on the investor’s behalf and states that the determination of whether other parties are acting as de facto agents requires judgement. However, the second sentence of paragraph B74 includes more conclusive language and states that a party *is* a de facto agent when those that direct the activities of the investor have the ability to direct that party to act on the investor’s behalf.

BC2 Therefore, the IASB proposes to amend paragraph B74 to use less conclusive language. In the IASB’s view, the proposed amendments would remove the inconsistency with the requirement to use judgement in paragraph B73. The proposed amendments also would be consistent with the wording of the first sentence in paragraph B75, which

includes a list of examples of other parties that *might act* as de facto agents for the investor.

5. The IASB did not propose any specific transition requirements. As discussed in [Agenda Paper 12D](#) for the February 2023 IASB meeting, the IASB does not expect any change in practice arising from the proposed amendments or a material effect on entities' financial statements, because the proposed amendments, if finalised, would not change the requirements. In the absence of any specific transition requirements, an entity would apply the proposed amendments retrospectively in accordance with paragraph 19(b) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
6. Appendix A to this paper reproduces the proposed amendments to paragraph B74 of IFRS 10.

Summary of feedback

7. Thirty-seven respondents commented on the proposed amendments to IFRS 10. Almost all respondents agreed with the proposed amendments for the reasons set out in the Exposure Draft.
8. Some respondents, mostly national standard-setters, said the determination of a de facto agent requires judgement and the requirements are difficult to apply in practice. While almost all of these respondents agreed with the proposal, some of them said it is unclear how the proposal, if finalised, would prevent Company Z *and* Reporting Entity (in the fact pattern described in [Agenda Paper 12D](#) for the February 2023 IASB meeting¹) from concluding that each party controls Company X. Therefore, these respondents said the IASB should undertake a project, for example:

¹ In that fact pattern, Person A (the ultimate parent) has the ability (a) to direct Company Z to act on behalf of Reporting Entity, and (b) to direct Reporting Entity to act on behalf of Company Z. If both Reporting Entity and Company Z were required to prepare financial statements that comply with IFRS Accounting Standards, applying paragraph B74 of IFRS 10 (a) Reporting Entity would conclude that it controls Company X; and (b) Company Z would conclude that it controls Company X.

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- (a) to describe circumstances that would lead a party to determine that it is *not* a de facto agent when those that direct the activities of the investor have the ability to direct that party to act on the investor's behalf.
- (b) to clarify that the proposed amendments to paragraph B74 of IFRS 10 do not apply to the determination of a de facto agent when two (or more) sister entities are controlled by the same parent, and each sister entity can be directed by the parent to act on the other's behalf.
- (c) to reconsider the requirement in paragraph B74 of IFRS 10. In one respondent's view, 'looking upwards' and considering whether those that direct the activities of the investor have the ability to direct another party to act on the investor's behalf undermines well-established practice of considering only the power and ability of the investor to direct other parties to act on its behalf (that is, 'a downward look').
9. An accounting firm said it would be helpful for the IASB to clarify (by adding the word 'also') that there are other possible scenarios in which a party might be a de facto agent. A participant in a national standard-setter discussion forum suggested adding the phrase '[agent] of the investor'. Taken together, these two drafting suggestions would result in paragraph B74 of IFRS 10 being amended to read (text added since the Exposure Draft is bolded and underlined):
- B74 [...] A party might **also** be a de facto agent of the investor when those that direct the activities of the investor have the ability to direct that party to act on the investor's behalf. [...]
10. A few respondents commented on transition requirements:
- (a) an accountancy body suggested the IASB require prospective application of amended paragraph B74 of IFRS 10 'taking into account the condition in

paragraph 8 of IFRS 10 that requires an investor to reassess whether it controls an investee’.²

- (b) a preparer requested additional clarification about the transition requirements as part of the Basis for Conclusions, if the IASB proceeds to finalise the proposed amendments.
- (c) an accounting firm said it agrees with the IASB’s proposal to apply the amendment *prospectively* (although the proposal in the Exposure Draft is for an entity to apply the proposed amendments *retrospectively*, as stated in paragraph 5 of this paper).

Staff analysis

Objective of the proposed amendment

11. As the IASB explained in paragraph BC1 of the Basis for Conclusions on the proposed amendments to IFRS 10 in the Exposure Draft, paragraph B73 refers to ‘de facto agents’ as parties acting on the investor’s behalf and states that the determination of whether other parties are acting as de facto agents requires *judgement*. However, the second sentence of paragraph B74 includes more conclusive language and states that a party *is* a de facto agent when those that direct the activities of the investor have the ability to direct that party to act on the investor’s behalf.
[emphasis added]
12. Because of the more conclusive language in paragraph B74, in fact patterns like the one described in [Agenda Paper 12D](#) for the February 2023 IASB meeting, applying paragraph B74 of IFRS 10, *both* Reporting Entity and Company Z would conclude that they control Company X, which contradicts the IASB’s view when it developed

² Paragraph 8 of IFRS 10 states: ‘An investor shall consider all facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7 (see paragraphs B80–B85).’

IFRS 10. As stated in paragraph BC69 of the Basis for Conclusions on IFRS 10, the IASB confirmed that *only one party, if any, can control an investee*. [emphasis added]

13. Therefore, the IASB’s proposal to amend paragraph B74 of IFRS 10 to use less conclusive language would remove the inconsistency with the requirement to use judgement in paragraph B73. Based on the feedback received, we think the IASB’s rationale is well-understood and there is agreement that the proposed amendments would improve the requirements.

Requests for additional standard-setting

14. In our view, the suggestions (summarised in paragraph 8 of this paper) to further improve the application guidance in IFRS 10—for example, to help companies determine whether other parties are acting as de facto agents of the investor—are beyond the scope of an annual improvement.
15. In response to the feedback on the post-implementation review of IFRS 10, the IASB acknowledged that assessing control requires judgement, and the extent of judgement required depends on the complexity of the transaction and can, sometimes, be significant. The IASB acknowledged the requests for further guidance. However, the IASB also acknowledged the need to balance the costs and benefits of developing and implementing new requirements. On balance, the IASB decided that, if stakeholders need further guidance, they are encouraged to submit to the IFRS Interpretations Committee application questions meeting the submission criteria.³

Drafting suggestions

16. We agree with the drafting suggestions summarised in paragraph 9 of this paper. In our view, incorporating those suggestions would improve the clarity of drafting and, in particular, would make it clear that the relationship described in paragraph B74 of

³ [Report and Feedback Statement: Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12](#)

IFRS 10 is just one example of various relationships that might exist between the investor and other parties acting as de facto agents of the investor. Therefore, we recommend the IASB finalise the proposals with the minor wording change shown in Appendix B to this paper.

Transition requirements

17. In the light of the feedback on the proposed amendments to paragraph B74 of IFRS 10, we have considered the interaction between retrospective application of the proposed amendments and the reassessment requirements in IFRS 10. The determination of a de facto agent is part of the entity's assessment of whether it controls an investee. Paragraph 8 of IFRS 10 states:

8 [...] The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7 (see paragraphs B80–B85).

18. Paragraph BC151 of the Basis for Conclusions on IFRS 10 explains the IASB's rationale for continuous assessment and states:

BC151 The Board confirmed the proposal [...] to require an investor to assess control continuously, and clarified that this would mean reassessing control when there is a change in relevant facts and circumstances that suggest that there is a change to one or more of the three elements of control. Such reassessment would not be restricted to each reporting date, nor would the requirement necessarily demand the reassessment of all control or potential control relationships at each reporting date.

19. The IASB's proposed amendments to paragraph B74 of IFRS 10 would not constitute a change in relevant facts and circumstances that would require an entity to reassess control in accordance with paragraph 8.⁴ So, requiring retrospective application of amended paragraph B74 would not contradict the requirement in paragraph 8. Indeed, the IASB's proposals confirm the overarching principle that *only one party, if any*, can control an investee. Therefore, we recommend the IASB finalises its proposals with no changes (that is, no specific transition requirements are necessary).

Staff recommendation and question for the IASB

20. Based on our analysis in this agenda paper, we recommend the IASB finalise the proposed amendments to paragraph B74 of IFRS 10 with a minor wording change as explained in paragraph 16 of this paper and shown in Appendix B to this paper.

Question for the IASB

Does the IASB agree with our recommendation to finalise the proposed amendments to paragraph B74 of IFRS 10 with a minor wording change as explained in paragraph **Error!** **Reference source not found.** of this paper and shown in Appendix B to this paper?

⁴ We note that the requirements for continuous assessment (and reassessment) of control are separate from the accounting for changes in accounting policy and corrections of prior period errors in accordance with IAS 8.

Appendix A—Extract from the Exposure Draft for proposed amendments to paragraph B74 of IFRS 10 *Consolidated Financial Statements*

Paragraph B74 is amended. Paragraph B73 is not amended but is included for ease of reference. New text is underlined and deleted text is struck through.

Relationships with other parties

B73 When assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf (ie they are 'de facto agents'). The determination of whether other parties are acting as de facto agents requires judgement, considering not only the nature of the relationship but also how those parties interact with each other and the investor.

B74 Such a relationship need not involve a contractual arrangement. A party is a de facto agent when the investor has, ~~or those that direct the activities of the investor have,~~ the ability to direct that party to act on the investor's behalf. A party might be a de facto agent when those that direct the activities of the investor have the ability to direct that party to act on the investor's behalf. ~~The In these circumstances,~~ the investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee.

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Appendix C

Effective date and transition

Paragraph C1E is added. For ease of reading, this paragraph has not been underlined.

Effective date

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C1E *Annual Improvements to IFRS Accounting Standards—Volume 11*, issued in [Month, Year], amended paragraph B74. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be determined]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Appendix B—Recommended revised amendment to paragraph B74 of IFRS 10 *Consolidated Financial Statements*

Paragraph B74 is amended. Paragraph B73 is not amended but is included for ease of reference. New text is underlined and deleted text is struck through.

...

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- B74 Such a relationship need not involve a contractual arrangement. A party is a de facto agent when the investor has, ~~or those that direct the activities of the investor have,~~ the ability to direct that party to act on the investor's behalf. A party might also be a de facto agent of the investor when those that direct the activities of the investor have the ability to direct that party to act on the investor's behalf. ~~The In these circumstances, the~~ investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee.