IFRS

STAFF PAPER

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IASB® meeting

Project	**Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities***
Paper topic	Background

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Purpose of this paper

1. The purpose of this paper is to:
   (a) provide background on the due process related to the Post-implementation Review (PIR); and
   (b) provide background to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* together with the main changes they introduced.
2. This paper also provides information on projects on the Board's work plan that are relevant to this project.
3. The staff do not intend to discuss this paper unless the Board members have questions.

Structure of this paper

4. This paper is structured as follows:
   (a) background to PIR process and PIRs undertaken to date (paragraphs 5–7);

(b) background to IFRS 10, IFRS 11 and IFRS 12 (paragraphs 8–18);

(c) projects undertaken by the Board and the IFRS Interpretations Committee (Committee) since IFRS 10, IFRS 11 and IFRS 12 were issued (paragraphs 19–25); and

(d) Appendix A—Agenda Decisions issued by the Committee.

Background to PIR process and PIRs undertaken to date

5. The IFRS Foundation Trustees added PIR as a mandatory step to the Board's due process requirements in 2007. These requirements were updated in the revisions to the Due Process Handbook (the Handbook) published in June 2016.[1] The Handbook states that a PIR:

(a) considers the issues that were important or contentious during the development of the publication (which should be identifiable from the Basis for Conclusions, Project Summary, Feedback Statement and Effect Analysis of the relevant Standard);

(b) considers issues that have come to the attention of the Board after the document was published; and

(c) identifies areas where possible unexpected costs or implementation problems were encountered.

6. The Handbook also states that a PIR has two phases:

> 6.54 […] The first involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the IASB in the form of a Request for Information. In the second phase, the IASB considers the comments it has received from the Request for Information along with the information it has gathered through other consultative activities. On the basis of that

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

information, the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.

7. The Board has completed three PIRs to date, IFRS 8 *Operating Segments*, IFRS 3 *Business Combinations* and IFRS 13 *Fair Value Measurement*.[2,3,4]

(a) IFRS 8—the Board published a request for information (RFI) in July 2012 and 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, in March 2018 the Board decided not to proceed with the proposed amendments to IFRS 8. The Board noted that some of its proposals could be dealt with by existing requirements and other proposals would not be effective in addressing the findings from the PIR of IFRS 8. The Board considered the remaining proposals and concluded that they would not result in sufficient improvements in information to investors to justify the additional costs stakeholders would incur if the Board were to proceed with these proposed amendments.

(b) IFRS 3—the Board published an RFI in January 2014 and 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;

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[2] The PIR project page for IFRS 8 can be found at: https://www.ifrs.org/projects/2013/pir-of-ifrs-8-operating-segments/

[3] The PIR project page for IFRS 3 can be found at: https://www.ifrs.org/projects/2015/pir-of-ifrs-3-business-combinations/

[4] The PIR project page for IFRS 13 can be found at: https://www.ifrs.org/projects/2018/pir-of-ifrs-13-fair-value-measurement/

(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 *Definitions of a Business* (Amendments to IFRS 3) in October 2018 addressing item (i) above. The Board is undertaking further research on items (ii) and (iii) above and will issue a Discussion Paper in 2020.

(c) IFRS 13—the Board published an RFI in May 2017. In December 2018, the Board concluded 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 that practice was developing to resolve these challenges.

Background to IFRS 10, IFRS 11 and IFRS 12

Developing the IFRS Standards

IFRS 10 and IFRS 12

8. In June 2003, the Board added a project on Consolidation and Disclosure to its agenda to address diversity in practice related to consolidation. The diversity was thought to arise from the definition of control. Perceived inconsistencies between the consolidation requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* was considered to result in diversity in practice and thereby reduced comparability of information reported in financial statements. The perceived inconsistency was thought to derive from IAS 27 using control as the basis for consolidation, whilst SIC-12 focused more on risks and rewards of ownership.

9. The global financial crisis illustrated that the previous consolidation requirements were not fundamentally flawed but could be improved. Moreover, the global

financial crisis highlighted the need for new disclosure requirements to provide users with better information about the subsidiaries that are consolidated, as well as an entity's interest in joint arrangements and associate that are not consolidated but with which an entity has a special relationship.

10. The Board published the Exposure Draft in December 2008 (ED10). ED10 initially contained disclosure requirements. In response to feedback received, the Board combined the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities into a separate comprehensive disclosure standard (IFRS 12).

11. IFRS 10 and IFRS 12 were issued in May 2011 with an effective date of 1 January 2013.

12. The main changes introduced by IFRS 10 were:

    (a) a single consolidation model for all entities. The control definition in IFRS 10 reflects that an investor obtains power over an investee in different ways, not just through existing voting rights. The investor must assess whether it has rights to direct the relevant activities.

    (b) the definition of control requires an investor to assess whether it is exposed to variable returns due to its involvement with the investee, but exposure to the majority of risks and rewards is not in itself sufficient to conclude that an investor has control of an investee.

13. IFRS 10 provides specific requirements for assessing control in cases such as:

    (a) whether an entity has control with less than a majority of voting rights.

    (b) whether an entity has control because of potential voting rights. Potential voting rights are substantive when the holder has the practical ability to exercise its rights and when those rights are exercisable when decisions about the direction of the relevant activities need to be made.

    (c) whether a decision maker is an agent of another party.

14. IFRS 12 expands the disclosure requirements for both consolidated entities and unconsolidated structured entities. IFRS 12 disclosure objective aims to provide preparers with flexibility to tailor their individual disclosures to meet that

objective. IFRS 12 is a single disclosure IFRS Standard for reporting entities with special relationships with other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 11

15. In 2003, the Board added to its agenda a project to improve the accounting for joint arrangements and replace IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* with a new IFRS Standard. The Board's main objective was to address two weaknesses of IAS 31:

    (a) the accounting requirements depended on whether an arrangement was structured through a separate vehicle; and

    (b) an accounting option was permitted for jointly controlled entities, ie proportionate consolidation or the equity method.

16. The Board added the project to its agenda as a part of the project to reduce differences between IFRS Standards and US GAAP. Although the Board kept convergence in mind, its main focus was on addressing the weaknesses identified in IAS 31.

17. The Board published an exposure draft in September 2007 and issued IFRS 11 in May 2011 with an effective date of 1 January 2013. The disclosure requirements for joint arrangements are included in IFRS 12.

18. The main changes introduced by IFRS 11 were:

    (a) that the classification of joint arrangements is based on the nature of the rights and obligations of the parties sharing control that arise from the arrangement.

    (b) that the accounting for interests in joint arrangements is based on the classification of the joint arrangements. IFRS 11 eliminates proportionate consolidation as an accounting policy option.

Projects undertaken by the Board and the Committee since IFRS 10, IFRS 11 and IFRS 12 were issued

19. Since IFRS 10, IFRS 11 and IFRS 12 were issued, the Board has issued amendments and the Committee has published Agenda Decisions addressing these Standards.

20. Paragraphs 21–25 set out these amendments issued by the Board in chronological order. The Agenda Decisions issued by the Committee is in Appendix A.

21. In June 2012, the Board issued *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*—Amendments to IFRS 10, IFRS 11 and IFRS 12 with an effective date of 1 January 2013. The amendments clarify the transition guidance in IFRS 10 and provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12.

22. In October 2012, the Board issued *Investment Entities*—Amendments to IFRS 10, IFRS 12 and IAS 27 with an effective date of 1 January 2014. The amendments define an investment entity and require an investment entity to measure the subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

23. In December 2014, the Board issued *Investment Entities: Applying the Consolidation Exception*—Amendments to IFRS 10, IFRS 12 and IAS 28 with an effective date of 1 January 2016. The amendments clarify that:

    (a) an intermediate parent entity that is a subsidiary of an investment entity can be exempted from preparing consolidated financial statements, even if the investment entity measures all of its subsidiaries at fair value;

    (b) an investment entity measures a subsidiary that is also an investment entity at fair value, even if the subsidiary provides services related to the parent's investment activities;

    (c) a non-investment entity investor, when applying the equity method to an associate or a joint venture that is an investment entity, may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries; and

(d) an investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

24. In May 2014, the Board issued *Accounting for Acquisitions of Interests in Joint Operations*—Amendments to IFRS 11 with an effective date of 1 January 2016. The amendments require an acquirer of an interest in a joint operation that constitutes a business, as defined in IFRS 3, to apply all of the IFRS 3 principles on business combinations, with the exception of those principles that conflict with the requirements in IFRS 11.

25. In September 2014, the Board issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*—Amendments to IFRS 10 and IAS 28 with an effective date of 1 January 2016. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those of IAS 28, related to the sale or contribution of assets between an investor and its associate or joint venture. In December 2015, the Board issued *Effective Date of Amendments to IFRS 10 and IAS 28* with an immediate effective date to defer the amendments for an indefinite period. The Board decided to address these issues as part of the research project on the equity method of accounting.

Appendix A— Agenda Decisions issued by the Committee

Link to the agenda decisions	Related standards	Agenda Decisions
September 2013	IFRS 10	Effect of protective rights on an assessment of control[5]
November 2013	IFRS 10 and IFRS 11	Transition—impairment, foreign exchange and borrowing costs
November 2013	IFRS 10 and IAS 32	Classification of puttable instruments that are non-controlling interests
March 2014	IFRS 10	Investment Entities Amendments—the definition of investment-related services or activities[6]

[5] See paragraphs 31–35 of Agenda Paper 7A

[6] See paragraphs 82–84 of Agenda Paper 7A

Link to the agenda decisions	Related standards	Agenda Decisions
May 2014	IFRS 3 and IFRS 10	Identification of acquirer and parent in a stapling arrangement
May 2015	IFRS 10	Single-asset, single-lessee lease vehicles
July 2016	IFRS 10 and IFRS 11	Accounting for loss of control transactions
March 2017	IFRS 10	Investment entities and subsidiaries[7]
March 2015	IFRS 11	Classification—other facts and circumstances[8]
March 2015	IFRS 11	Joint operation that is a separate vehicle in its financial statements
March 2015	IFRS 11	Classification—other facts and circumstances—specific fact patterns

[7] See paragraphs 82–84 of Agenda Paper 7A

[8] See paragraphs 102–104 of Agenda Paper 7A

Link to the agenda decisions	**Related standards**	**Agenda Decisions**
March 2015	IFRS 11	Joint arrangements with similar features that are classified differently
March 2015	IFRS 11	Joint operator's share of output purchased differs from its share of ownership interest[9]
March 2015	IFRS 11	Recognition of revenue by a joint operator
March 2015	IFRS 11 and IAS 27	Accounting by the joint operator in its separate financial statements
January 2016	IFRS 11 and IFRS 3	Remeasurement of previously held interests
March 2019	IFRS 11	Liabilities in relation to a joint operator's interest in a joint operation[10]

[9] See paragraphs 113–115 of Agenda Paper 7A

[10] See paragraphs 116–119 of Agenda Paper 7A

Link to the agenda decisions	Related standards	Agenda Decisions
March 2019	IFRS 11	Sale of output by a joint operator
January 2015	IFRS 12	Disclosures for a subsidiary with a material non-controlling interest
January 2015	IFRS 12	Disclosure of summarised financial information about material joint ventures or associates