

## STAFF PAPER

July 2021

## IASB® meeting

<b>Project</b>	<b>Post-implementation Review of IFRS 10 <i>Consolidated Financial Statements</i>, IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i></b>		
<b>Paper topic</b>	Feedback summary		
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## Introduction

1. The International Accounting Standard Board (Board) published a Request for Information as part of its Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* in December 2020.<sup>1</sup>
2. The Request for Information was open for comment for 150 days, ending on 10 May 2021. The Board received 83 comment letters.
3. During the comment period 38 outreach events with various types of stakeholders took place. Agenda Paper 7C provides an overview of outreach activities and summarises the feedback from those activities.
4. The Board will consider the comments that it has received on the Request for Information along with the evidence and information that it has obtained from any additional analysis. After completing its deliberations, the Board will present its findings in a feedback statement.
5. Appendix B of this paper provides the background information on the Post-implementation Review.

<sup>1</sup> The Request for Information can be accessed [here](#).

## Terms used in the analysis of feedback

6. Agenda papers 7A, 7B and 7C use the following terms to give a broad indication of the views in the comment letters and from outreach activities:

<i>Term</i>	<i>Extent of response among respondents</i>
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

7. In determining which term to use, the staff considered not just the number of responses in question, but also other factors, such as whether a response reports the views of a single individual or the views of a broader group.
8. In addition, the staff assessed whether comments appeared to be concentrated in geographical areas or among particular types of respondents.
9. The number of respondents to questions in the Request for Information is included in Appendix A of this paper. Appendix A also provides an analysis of the comment letter by respondent type and geographical distribution.

## Purpose of the agenda papers for this meeting

10. The purpose of the agenda papers for this meeting is for the Board to consider:
- (a) feedback on the Request for Information from comment letters;
  - (b) feedback from outreach activities undertaken during the comment period; and
  - (c) an updated academic literature review.
11. Agenda papers for discussion at this meeting include:
- (a) analysis of feedback from comment letters regarding:

- (i) IFRS 10 (Agenda Paper 7A); and
  - (ii) IFRS 11, IFRS 12 and other (Agenda Paper 7B);
  - (b) outreach summary (Agenda Paper 7C); and
  - (c) updated academic literature review on IFRS 10, IFRS 11 and IFRS 12 (Agenda Paper 7D).
12. The Board is not asked to make any decisions at this meeting.

### **Overview of the feedback on the Request for Information**

13. The Request for Information set out the main findings from the first phase of the Post-implementation Review. The feedback on the Request for Information generally supports the findings from the first phase of the Post-implementation Review and provides useful insight on the matters raised in the Request for Information.
14. Agenda Paper 7A of this meeting summarises the feedback from comment letters on IFRS 10. As stated in the Request for Information many stakeholders agree with the use of control as the single basis for consolidation.
15. In developing IFRS 10, the Board avoided requirements based on quantitative thresholds and developed a single basis that requires a holistic and qualitative assessment of all legal, contractual and other facts and circumstances. The Board concluded that judgement would be applied in determining if an entity controls another entity. Many respondents to the Request for Information, have acknowledged the need for judgment and have highlighted that in complex arrangements applying judgement and making the decision that an entity controls another entity can, itself, be challenging. As a consequence, some respondents to the Request for Information highlighted the importance of application guidance and illustrative examples.
16. Most of the respondents who answered question 4(a) of the Request for Information (investment entities) have said that in some situations it can be challenging to apply the definition of an investment entity. Furthermore, respondents to question 4(b) also raised concern about the loss of information when an investment entity measures at fair value a subsidiary that is itself an investment entity.

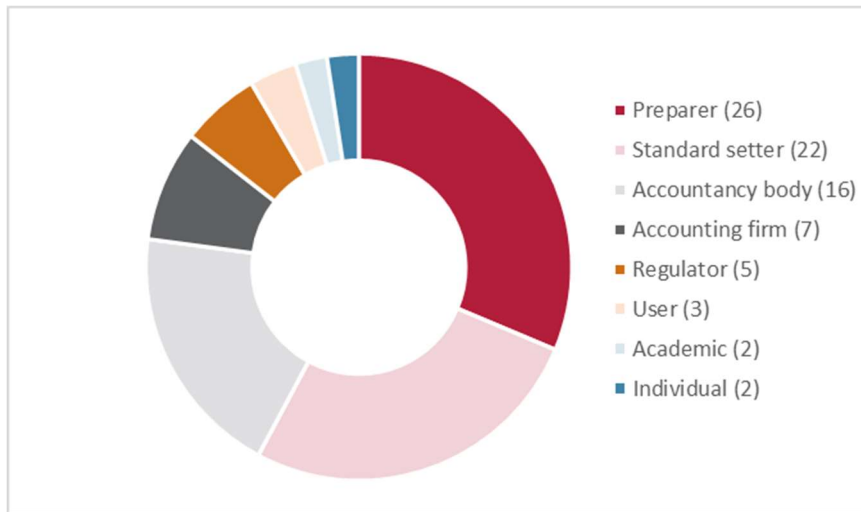
17. Findings from the first phase of the Post-implementation Review identified that stakeholders did not oppose the principle in IFRS 11, that the classification of joint arrangements is based on rights and obligations, but some stakeholders had concerns on how to apply the requirements in IFRS 11 that were the subject of submissions to the IFRS Interpretations Committee. The feedback on the Request for Information highlights the usefulness of the Agenda Decisions in applying IFRS 11 and some respondents asked for the Agenda Decisions to be incorporated into the Standard.
18. The Request for Information (question 6) asked if collaborative arrangements outside the scope of IFRS 11 are widespread and how such arrangements are accounted for. Many respondents to question 6 said that such collaborative arrangements occur in their jurisdiction and are common in certain industry sectors. Most of these respondents said to account for these arrangements an analogy is made to joint operations accounting in IFRS 11, however, some respondents said the equity method is applied.
19. While the Board had received limited feedback on the disclosure requirements in IFRS 12 in the first phase of the Post-implementation Review, feedback on the Request for Information said IFRS 12 had resulted in significant improvements to financial reporting. However, there are requests (particularly from users) for additional information.

### **Next step**

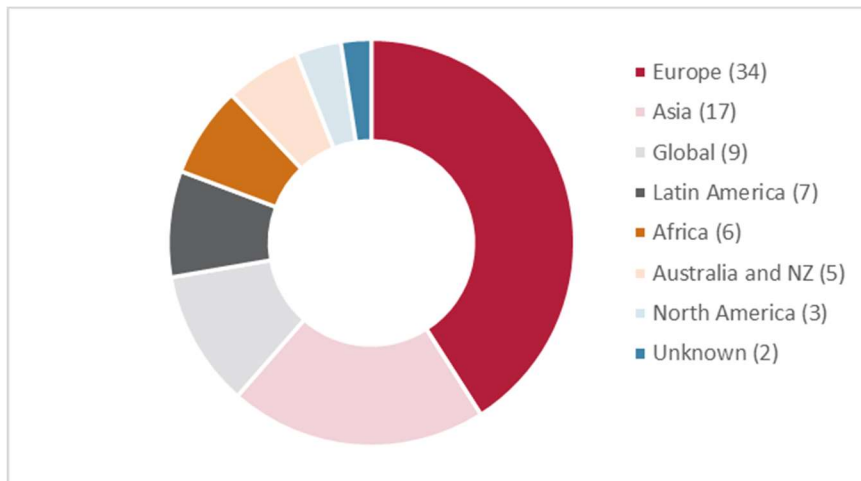
20. The staff will ask the Board, at a future meeting, to decide how to respond to the feedback, that is what steps to take as a result of the Post-implementation Review. The Board then will consider any potential standard-setting activities in the context of the Third Agenda Consultation process.
21. Future agenda papers will refer to the analysis of feedback presented at this meeting, the staff does not envisage performing additional analysis or outreach unless specifically requested by the Board.

## Appendix A—Analysis of comment letters

A1. Analysis of comment letters by stakeholder type is as follows:



A2. Analysis of comment letters by region is as follows:



A3. The number of respondents to each question is as follows:

	<b>Topics</b>	<b>Number of respondents</b>
<b>Question 2</b>	<b>Control—Power over an investee</b>	
<b>Question 2(a)</b>	Relevant activities	56
<b>Question 2(b)</b>	Rights that give an investor power	55
<b>Question 2(c)</b>	Control without a majority of the voting rights	53
<b>Question 3</b>	<b>Control—The link between power and returns</b>	
<b>Question 3(a)</b>	Principals and agents	53
<b>Question 3(b)</b>	Non-contractual agency relationships	42
<b>Question 4</b>	<b>Investment entities</b>	
<b>Question 4(a)</b>	Criteria for identifying an investment entity	43
<b>Question 4(b)</b>	Subsidiaries that are investment entities	42
<b>Question 5</b>	<b>Accounting requirements</b>	
<b>Question 5(a)</b>	Change in the relationship between an investor and an investee	57
<b>Question 5(b)</b>	Partial acquisition of a subsidiary that does not constitute a business	48
<b>Question 6</b>	<b>Collaborative arrangements outside the scope of IFRS 11</b>	47
<b>Question 7</b>	<b>Classifying joint arrangements</b>	53
<b>Question 8</b>	<b>Accounting requirements for joint operations</b>	50
<b>Question 9</b>	<b>Disclosure of interests in other entities</b>	64
<b>Question 10</b>	<b>Other topics</b>	54

## Appendix B—Background on the Post-implementation Review

### Introduction

- B1. This appendix provides the International Accounting Standards Board (Board) with an overview of the Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* (Post-implementation Review) and is provided for information only.
- B2. This appendix is structured as follows:
- (a) overview on the Post-implementation Review (paragraphs B3–B5);
  - (b) phases of the Post-implementation Review (paragraphs B6–B8);
  - (c) work undertaken in the first phase (paragraphs B9–B10);
  - (d) work undertaken after publishing the Request for Information (paragraph B11).

### Overview on the Post-implementation Review

- B3. Post-implementation reviews are part of the Board’s due process and help the Board assess the effects of requirements on users of financial statements, preparers and auditors.<sup>2</sup>
- B4. The Board’s aim in undertaking the Post-implementation Review was set out in paragraph 1 of the Request for Information. It stated:

In particular, the Board aims to assess whether:

- (a) an entity applying the requirements in a Standard produces financial statements that faithfully portray the entity’s financial position and performance, and whether this information helps users of financial statements to make informed economic decisions;
  - (b) areas of the Standard pose challenges;
  - (c) areas of the Standard could result in inconsistent application;
- and

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<sup>2</sup> The [Due Process Handbook](http://www.ifrs.org) is available on the IFRS Foundation’s website, [www.ifrs.org](http://www.ifrs.org).

- (d) unexpected costs arise when applying or enforcing the requirements of the Standard, or when using or auditing information the Standard requires an entity to provide.

B5. To achieve its aim the Board took into considerations its objectives when IFRS 10, IFRS 11 and IFRS 12 were issued. These were to:

- (a) develop a single basis for consolidation and robust guidance for applying that basis to situations in which it proved difficult for an entity to assess control.
- (b) address two features of IAS 31 *Interests in Joint Ventures* the Board regarded as impediments to high-quality reporting on joint arrangements. Applying IAS 31:
  - (i) the structure of the joint arrangement was the sole determinant of the accounting for that arrangement; and
  - (ii) an entity could choose the accounting treatment for interests in jointly controlled entities.
- (c) enable users of financial statements to evaluate the nature of and risks associated with an investor's interests in other entities, including joint arrangements, associates and structured entities.

### **Phases of the Post-implementation Review**

B6. This Post-implementation Review was conducted in two phases. In the first phase the Board identified and assessed the matters to be examined further in a request for information. In the second phase, the Board will consider responses on the Request for Information, feedback from outreach activities and a review of relevant research, including academic literature, on the effect on financial reporting of applying the Standards.

B7. As a result of a post-implementation review, the Board could decide to add a standard-setting project to its agenda, consider one or more matters further as part of its research programme, or both. The Board could also decide to take no action.

B8. In deciding whether to add a standard-setting project to the Board's work plan, the Board will apply the assessment criteria for potential projects. If the Board decides to



action any matters arising from the post-implementation review it will consider this work with potential projects in the Third Agenda Consultation process.<sup>3</sup>

### **Work undertaken in the first phase**

B9. In the first phase of the Post-implementation Review, which took place from September 2019 to April 2020, the Board identified matters to examine further. The Board identified these matters from:

- (a) reviewing the Board publications, including the project summaries and feedback statements published when IFRS 10, IFRS 11 and IFRS 12 were issued, submissions to the IFRS Interpretations Committee and amendments to IFRS 10, IFRS 11 and IFRS 12.
- (b) undertaking more than 20 meetings with users and preparers of financial statements, auditors, regulators and national standard-setters, including the Board’s consultative bodies. Stakeholders were asked to share their experience of applying IFRS 10, IFRS 11 and IFRS 12 and to identify areas for the Board to examine further.
- (c) reviewing academic research and other literature.

B10. The Board used the findings from the activities listed in paragraph B9 to identify matters that warranted further examination, based on the following criteria:

- (d) the importance of the matter to those who raised it, including whether financial statements faithfully portray the reporting entity’s financial position and performance, and whether the requirements result in reporting entities providing financial information that is useful in making economic decisions;
- (e) how application challenges affect the consistent application of IFRS 10, IFRS 11 and IFRS 12; and
- (f) the importance of the matter relative to the objectives of or main changes introduced by IFRS 10, IFRS 11 and IFRS 12.

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<sup>3</sup> The project page of the Third Agenda Consultation is available [here](#).

## **Work undertaken after publishing the Request for Information**

B11. After publishing of the Request for Information, the following work has been undertaken:

- (a) an update of the review of academic literature relating to IFRS 10, IFRS 11 and IFRS 12;
- (b) stakeholder meetings including:
  - (i) nine meetings with users, including the Board’s consultative bodies;
  - (ii) six meetings with regulators; and
  - (iii) 24 meetings with other stakeholders, including preparers of financial statements, auditors, national standard-setters;
- (c) a desktop review of financial statements of 38 listed entities focusing on disclosure in accordance with IFRS 12. The findings from the review have been incorporated into the outreach with stakeholders.