IFRS® Foundation

# Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12



## Structure of the webinar

- Purpose of the webinar
- Purpose and process of a Post-implementation Review
- Objective of the Standards
- Matters addressed in the Request for Information
- Q&A

## Post-implementation Reviews

- The IASB undertakes a post-implementation review of a new IFRS Standards after it has been implemented internationally for more than two years
- A post-implementation review is a part of the IASB due process and helps to assess the effect of new requirements on investors, preparers and auditors

**Objectives of a post-implementation review**

1. Has the objective of the standard-setting project been met?
2. Is the information provided by the Standard useful to users of financial statements?
3. Are the costs for preparing, auditing, enforcing, or using the information provided by the Standard broadly as expected when the Standard was developed?
4. Are the requirements capable of being applied consistently?



## Timeline of the Post-implementation Review

We are here

| Phase 1 | Q4 2020 | Q2 2021 | H2 2021 | TBA |
|---|---|---|---|---|
| Assess and select matters for further examination | Publish Request for Information | Comment period ends | IASB considers feedback and other evidence | IASB decision and project summary |

**Project outcome**

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.

## Objectives when developing the Standards

- IFRS 10 *Consolidated Financial Statements*
  - Established a single consolidation model, based on principle of control
  - Consolidation exception for investment entities
- IFRS 11 *Joint Arrangements*
  - Classification of joint arrangements based on rights and obligations
  - Elimination of accounting option for joint ventures
- IFRS 12 *Disclosure of Interests in Other Entities*
  - Combined and enhanced disclosure requirements of subsidiaries, joint arrangements, associates and unconsolidated structured entities

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## Matters examined in the Request for Information

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# IFRS 10

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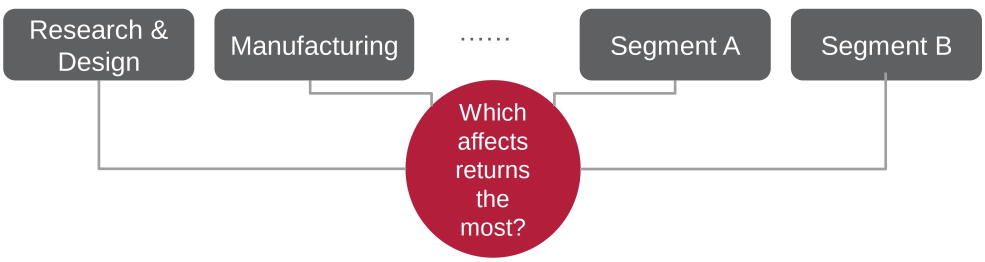
## Identifying relevant activities of an investee

**Feedback**

Identifying relevant activities is challenging when two or more investors each have rights that give them the unilateral ability to direct different activities, especially when those activities occur at different times or are conditional on future events

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## Question

**Question 2(a)**

**Relevant activities**

- To what extent does applying paragraphs 10–14 and B11–B13 of IFRS 10 enable an investor to identify the relevant activities of an investee?
- Are there situations in which identifying the relevant activities of an investee poses a challenge, and how frequently do these situations arise?
- In these situations, what other factors are relevant to identifying the relevant activities?



## Rights that give an investor power

**Feedback**

Assessing whether rights give an investor power can be challenging. Can the guidance on how an investor assesses its own rights and rights of other parties be improved?

- Appointment of key management personnel
- Disposal of significant assets
- Entering or exiting new markets
- Agreeing on financing arrangements
- Appointment of board members, in case of breach of covenant
- Approval of remuneration for key management personnel

## Question

**Question 2(b)**

**Rights that give an investor power**

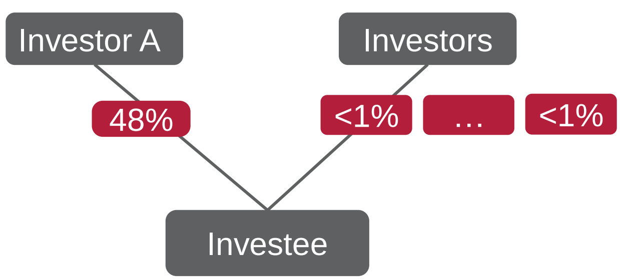
- To what extent does applying paragraphs B26–B33 of IFRS 10 enable an investor to determine if rights are protective rights?
- To what extent does applying paragraphs B22–B24 of IFRS 10 enable an investor to determine if rights (including potential voting rights) are, or have ceased to be, substantive?



## Control without a majority of the voting rights

**Feedback**

Judgment is required to assess whether an investor has the practical ability to direct an investee's relevant activities because of the size of the investor's voting rights relative to the size and dispersion of the other shareholdings



## Question

**Question 2(c)**

### Control without a majority of voting rights

- To what extent does applying paragraphs B41–B46 of IFRS 10 in situations in which the other shareholdings are widely dispersed enable an investor that does not hold a majority of the voting rights to make an appropriate assessment of whether it has acquired (or lost) the practical ability to direct an investee's relevant activities?
- How frequently does the situation in which an investor needs to make the assessment described in question 2(c)(i) arise?
- Is the cost of obtaining the information required to make the assessment significant?



## Assessing if a decision maker acts as a principal or an agent

**Feedback**

Judgment is required to assess whether a decision maker's exposure to variability of returns is consistent with being an agent

| | | | |
|---|---|---|---|
| Scope of investor's decision-making authority over the investee | Rights held by other parties | Remuneration agreement(s) | Decision maker's exposure to variability of returns from other interests it holds in the investee |

Weightings shall be applied to each factor based on facts and circumstances

## Question

**Question 3(a)**

### Agency relationships

- To what extent does applying the factors listed in paragraph B60 of IFRS 10 (and the application guidance in paragraphs B62–B72 of IFRS 10) enable an investor to determine whether a decision maker is a principal or an agent?
- Are there situations in which it is challenging to identify an agency relationship? If yes, please describe the challenges that arise in these situations.
- How frequently do these situations arise?

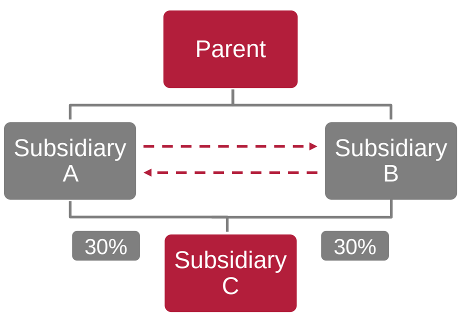


## Identifying non-contractual agency relationships

**Feedback**

Proving or disproving an agency relationship can be challenging when there is no contractual arrangement (a de facto agency relationship)

Does Subsidiary A or Subsidiary B have control of Subsidiary C?



## Question

**Question 3(b)**

**Non-contractual agency relationships**

- To what extent does applying paragraphs B73–B75 of IFRS 10 enable an investor to assess whether control exists because another party is acting as a de facto agent (ie in the absence of a contractual arrangement between the parties)?
- How frequently does the situation in which an investor needs to make the assessment described in question 3(b)(i) arise?
- Please describe the situations that give rise to such a need?



## Identifying an investment entity

**Feedback**

Definition of an investment entity—stakeholders asked for clarification

| | | | |
|---|---|---|---|
| Criteria | • business purpose<br>• exit strategy<br>• fair value measurement | Characteristics | • more than one investment<br>• more than one investor<br>• investors that are not related parties of the entity<br>• ownership interests in the form of equity or similar interests |

## Question

**Question 4(a)**

### Investment entities

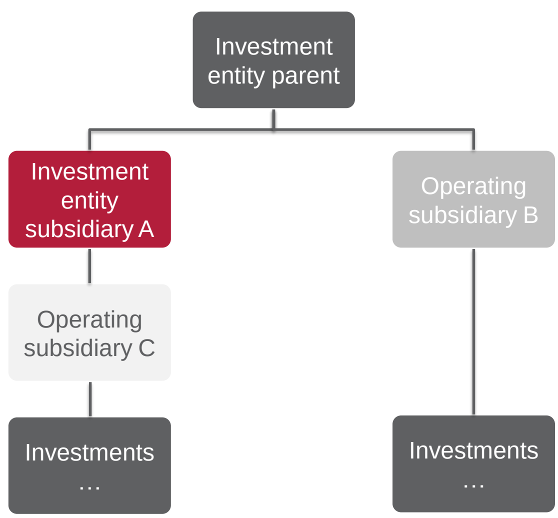
- To what extent does applying the definition and the description of the typical characteristics lead to consistent outcomes? If you have found that inconsistent outcomes arise, please describe these outcomes and explain the situations in which they arise.
- To what extent does the definition and the description of typical characteristics result in classification outcomes that, in your view, fail to represent the nature of the entity in a relevant or faithful manner? Please provide the reasons for your answer.



## Accounting for a subsidiary of an investment entity that is also an investment entity

**Feedback**

Measuring at fair value an investment in a subsidiary which is an investment entity itself (rather than consolidating the assets and liabilities of the subsidiary) results in loss of information



## Question

**Question 4(b)**

### Subsidiaries that are investment entities

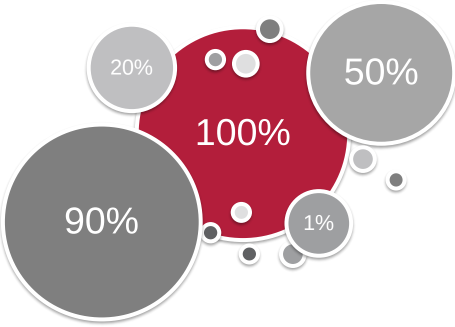
- Are there situations in which requiring an investment entity to measure at fair value its investment in a subsidiary that is an investment entity itself results in a loss of information? If so, please provide details of the useful information that is missing and explain why you think that information is useful.
- Are there criteria, other than those in paragraph 32 of IFRS 10, that may be relevant to the scope of application of the consolidation exception for investment entities?



## Change in the relationship between an investor and an investee

**Feedback**

Requirements on how to account for a transaction, event or circumstance that alters the relationship between an investor and an investee do not address all situations



## Question

**Question 5(a)**

### Change in the relationship

- How frequently do transactions, events or circumstances arise that:
  – alter the relationship between an investor and an investee; and
  – are not addressed in IFRS Standards?
- How do entities account for these transactions, events or circumstances?
- In transactions, events or circumstances that result in a loss of control, does remeasuring the retained interest at fair value provide relevant information? If not, please explain why not, and describe the relevant transactions, events or circumstances.



## Partial acquisition of a subsidiary that does not constitute a business

**Feedback**

IFRS Standards do not address the accounting for the partial acquisition of a subsidiary that does not constitute a business

Two practices:

(a) allocate the consideration paid to the identifiable assets and liabilities acquired based on their relative fair values; or

(b) apply the acquisition method in IFRS 3 *Business Combinations*

## Question

**Question 5(b)**

**Partial acquisition of a subsidiary that does not constitute a business**

- How do entities account for transactions in which an investor acquires control of a subsidiary that  does not constitute a business, as defined in IFRS 3, and does the investor recognises a non-controlling interest for equity not attributable to the parent?
- How frequently do these transactions occur?

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# IFRS 11

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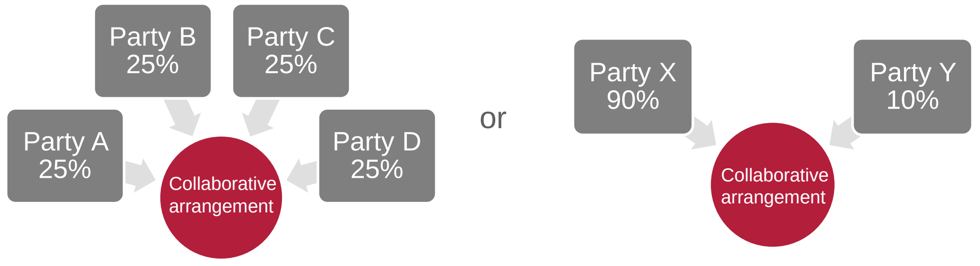
## Collaborative arrangements outside the scope of IFRS 11

**Feedback**

IFRS Standards do not provide sufficient requirements for all types of collaborative arrangements, such as arrangements in which two or more parties manage activities together but do not have joint control






## Question

**Question 6**

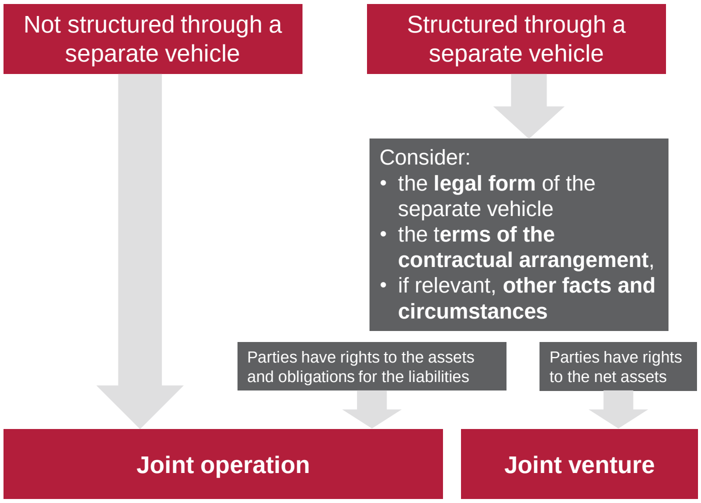
### Collaborative arrangements not in the scope of IFRS 11

- How widespread are collaborative arrangements that do not meet the IFRS 11 definition of 'joint arrangement' because the parties to the arrangement do not have joint control? Please provide a description of the features of these collaborative arrangements, including whether they are structured through a separate legal vehicle.
- How do entities that apply IFRS Standards account for such collaborative arrangements? Is the accounting a faithful representation of the arrangement and why?

## Classifying joint arrangements

**Feedback**

Classifying some joint arrangements requires significant judgement






## Question

**Question 7**

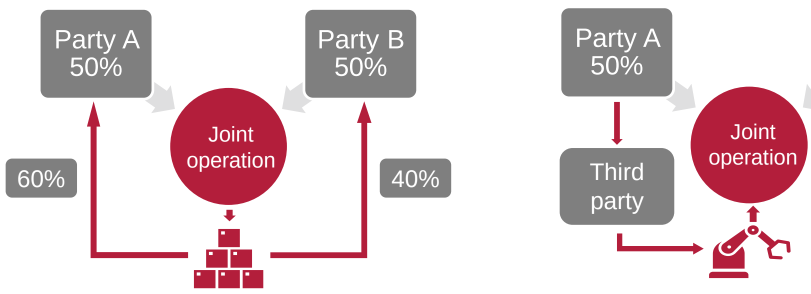
### Classifying joint arrangements

- Are you aware of how frequently a party to a joint arrangement, after considering its legal form and contractual arrangements, needs to consider other facts and circumstances to determine the classification of the joint arrangement?
- Are you aware of other factors that may be relevant to the classification that are not included in IFRS 11?

## Accounting requirements for joint operations

**Feedback**

Further guidance is requested on accounting for joint operations in some situations, for example, when joint operators are committed to buying a share of output that differs from their share of ownership in the joint operation






## Question

**Question 8**

### Accounting requirements for joint operations

- To what extent does applying the requirements in IFRS 11 enable a joint operator to report its assets, liabilities, revenue and expenses in a relevant and faithful manner?
- Are there situations in which a joint operator cannot so report? If so, please describe these situations and explain why the report fails to constitute a relevant and faithful representation of the joint operator's assets, liabilities, revenue and expenses.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## IFRS 12

**Feedback**

Only a few stakeholders commented on IFRS 12 requirements and feedback was mixed—some stakeholders called for additional disclosures while others argued that the disclosure requirements are excessive.

## Question

**Question 9**

**IFRS 12**

Are you aware of:

- information that is not required by IFRS 12 you consider useful?
- information required by IFRS 12 you consider unnecessary?

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# Questions?

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