

IFRS in Focus

IASB seeks information on its post-implementation review of IFRS 10, IFRS 11 and IFRS 12

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This *IFRS in Focus* addresses the International Accounting Standard Board's (Board's) recent Request for Information (RFI) titled 'Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*'. The focus of the RFI is to obtain views to assess the effect of the requirements on investors, preparers and auditors.

Background

In 2011, the Board issued IFRS 10, IFRS 11 and IFRS 12 as new Standards addressing the accounting for consolidation and joint arrangements, and the disclosure of interests in other entities. The Standards were effective for annual periods beginning on or after 1 January 2013.

The Board is required to conduct a post-implementation review (PIR) of each new IFRS Standard or major amendment. PIRs 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.

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
- (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.

The Board is conducting the PIR for IFRS 10-12 in two phases. In the first phase, the Board identified and assessed the matters to be examined further in the now published RFI.

Questions for respondents

IFRS 10

Control—Power over an investee

IFRS 10 requires an investor to present consolidated financial statements when it controls one or more other entities (subsidiaries). An investor has control when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

An investor has power over the investee if the investor has the current ability to direct the relevant activities of the investee. Having a majority of the voting rights provides power over an investee in some situations. In other situations, other rights and factors need to be considered to assess whether the investor has the current ability to direct the relevant activities of the investee.

The RFI asks to what extent applying the guidance in IFRS 10 enables an investor to identify the relevant activities of an investee and whether there are situations in which identifying the relevant activities of an investee poses a challenge. The Board would like to know what other factors are relevant to identifying the relevant activities in these situations.

Stakeholders are also asked to which extent the guidance in IFRS 10 enables an investor to determine if rights are protective rights and to what extent it enables an investor to determine if rights (including potential voting rights) are, or have ceased to be, substantive.

For more information please see the following websites:

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In situations in which the other shareholdings are widely dispersed, the Board would like to know to which extent IFRS 10 enables 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. The Board asks how frequently this situation arises and whether the cost of obtaining the information required to make the assessment is significant.

Control—The link between power and returns

One element of control is the link between power and returns. An investor needs to be able to use its power over the relevant activities of an investee to affect its returns from its involvement with the investee. An investor cannot use its power to affect its returns when it acts as an agent on behalf of another party.

The Board would like to know to what extent the factors in IFRS 10 enable an investor to determine whether a decision maker is a principal or an agent and whether there are situations in which it is challenging to identify an agency relationship.

The RFI also asks to what extent the guidance in IFRS 10 enables an investor to assess whether control exists because another party is acting as a de facto agent (i.e. in the absence of a contractual arrangement between the parties).

Investment entities

IFRS 10 requires investment entities to measure their investments in subsidiaries at fair value and to recognise any changes in fair value in profit or loss. An investment entity consolidates a subsidiary if the subsidiary is not an investment entity itself and its main purpose and activities are to provide services that relate to the investment entity's investment activities. IFRS 10 defines an investment entity and describes its typical characteristics.

The RFI is asking to what extent applying the definition and the description of the typical characteristics of an investment entity lead to consistent outcomes. In case of inconsistent outcomes, the Board asks to describe these outcomes and explain the situations in which they arise.

The Board also asks to what extent the definition and the description of typical characteristics result in classification outcomes that fail to represent the nature of the entity in a relevant or faithful manner. For example, do the definition and the description of typical characteristics include entities in (or exclude entities from) the category of investment entities that should be excluded (or included)?

Stakeholders are also asked to provide information as to whether there are 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, and if yes, to provide details of the useful information that is missing and explain why that information is useful.

The RFI also seeks information on whether there are criteria, other than those in 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

The Board asks stakeholders how frequently transactions, events or circumstances arise that alter the relationship between an investor and an investee (for example, a change from being a parent to being a joint operator) that are not addressed in IFRS Standards.

Stakeholders are requested to explain how entities account for these transactions, events or circumstances and, if they result in a loss of control, whether remeasuring the retained interest at fair value provides relevant information.

Partial acquisition of a subsidiary that does not constitute a business

The RFI seeks information as to how entities account for transactions in which an investor acquires control of a subsidiary that does not constitute a business, as defined in IFRS 3 *Business Combinations*. The Board would like to know whether the investor recognises a non-controlling interest for equity not attributable to the parent.

IFRS 11

Collaborative arrangements outside the scope of IFRS 11

The RFI asks stakeholders how widespread collaborative arrangements are that do not meet the IFRS 11 definition of 'joint arrangement' because the parties to the arrangement do not have joint control. The Board would like a description of the features of these collaborative arrangements, including whether they are structured through a separate legal vehicle. The Board further asks how entities account for such collaborative arrangements and whether the accounting is a faithful representation of the arrangement and why.

Joint operations

The Board asks stakeholders to what extent the requirements in IFRS 11 enable a joint operator to report its assets, liabilities, revenue and expenses in a relevant and faithful manner and whether there are situations in which a joint operator cannot so report. Stakeholders are requested to 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.

IFRS 12

With regard to the disclosure requirements in IFRS 12, the RFI asks to what extent those requirements assist an entity to meet the objective of IFRS 12, especially the new requirements introduced by IFRS 12 (for example the requirements for summarised information for each material joint venture or associate).

The Board would like to know whether the disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics.

Stakeholders are requested to state what additional information, if any, would be useful to meet the objective of IFRS 12. If there is such information, stakeholders should explain why and how it would be used and provide suggestions on how such information could be disclosed.

The RFI also asks whether IFRS 12 requires information that is not useful to meet the objective of IFRS 12 and if yes, to specify the unnecessary information, why it is unnecessary and what requirements in IFRS 12 give rise to the provision of this information.

Other topics

The Board asks whether there are topics not addressed in the RFI, including those arising from the interaction of IFRS 10 and IFRS 11 and other IFRS Standards. If so, stakeholders should explain the topic and why they think it should be addressed in the PIR.

Comment period

The comment period for the RFI ends on 10 May 2021. After the comment period ends, the Board will summarise its findings and determine what steps, if any, it plans to take as a result of the 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.

Further information

If you have any questions about the RFI please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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