

# IFRSs 10, 11 and 12

## *Post-implementation Review*

### *Phase 1*

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- Purpose of the session
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  - IFRS 11 *Joint Arrangements*
  - IFRS 12 *Disclosure of Interests in Other Entities*
- Appendix 3 – Interpretations Committee work on IFRS 10, 11 and 12

# Purpose of the session

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- The purpose of this session is:
  - a) for staff to provide information about the PIR of IFRSs 10, 11 and 12;
  - b) for staff to summarise the input received so far; and
  - c) for ASAF members to comment on the list of topics and provide your views.
- This session forms part of phase 1 of the PIR of IFRSs 10, 11 and 12 and aims to help the Board identify what topics should be considered for inclusion in the Request for Information.

# Activities carried out in Phase 1

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As part of phase 1 we have asked the following consultative groups and stakeholders for input:

- IFRS Interpretations Committee\*
- Global Preparers Forum
- Capital Markets Advisory Committee
- Accounting firms
- Regulators\*
- Users' groups
- National standard-setters and regional groups\*
- Preparers' groups from different industries\*

\* some outreach occurred after the date this presentation was prepared

# Summary of feedback so far

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- Several stakeholders said the Standards are generally working well.
- However, stakeholders noted that, in some situations, there are:
  - challenges in applying the Standards; and
  - additional information needs.

## Areas of focus on IFRS 10 (1/2)

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- Identifying the relevant activity when two investors have right to direct different activities in different periods
- Assessing if investor's rights are protective or substantive
  - lenders' rights to appoint majority of the board members upon occurrence of particular facts
- Assessing control with less than majority of voting rights arising from:
  - disperse shareholding
  - special relationship with the investee
  - *de facto* agent (without contractual arrangement)

## Areas of focus on IFRS 10 (2/2)

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- Assessing if an investor acts as a principal or an agent
  - assessing the magnitude of, and variability associated with its economic interest
- Identifying investment entities (IE)
  - level of formalisation for exit strategy and performance measurement
- IE parent with IE subsidiaries
  - information on indirectly held investments and liabilities
- Accounting for changes in ownership interest
  - measurement of retained interest in a joint operation after loss of control (literature gaps)

# Areas of focus on IFRS 11

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- Accounting for collaborative arrangements without joint control
- Classification of joint arrangements according to ‘other facts and circumstances’
- Accounting for interests in joint operations
  - disproportion between the share of economic output obtained by the joint operators and their share of economic interest
  - interaction with IFRS 16



# Areas of focus on IFRS 12

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- Identification of unconsolidated structured entities
- More information on the impact of significant NCI on results and cash flows
- More granular disclosures for
  - subsidiaries with significant NCI
  - joint ventures and associates

# Questions for ASAF members

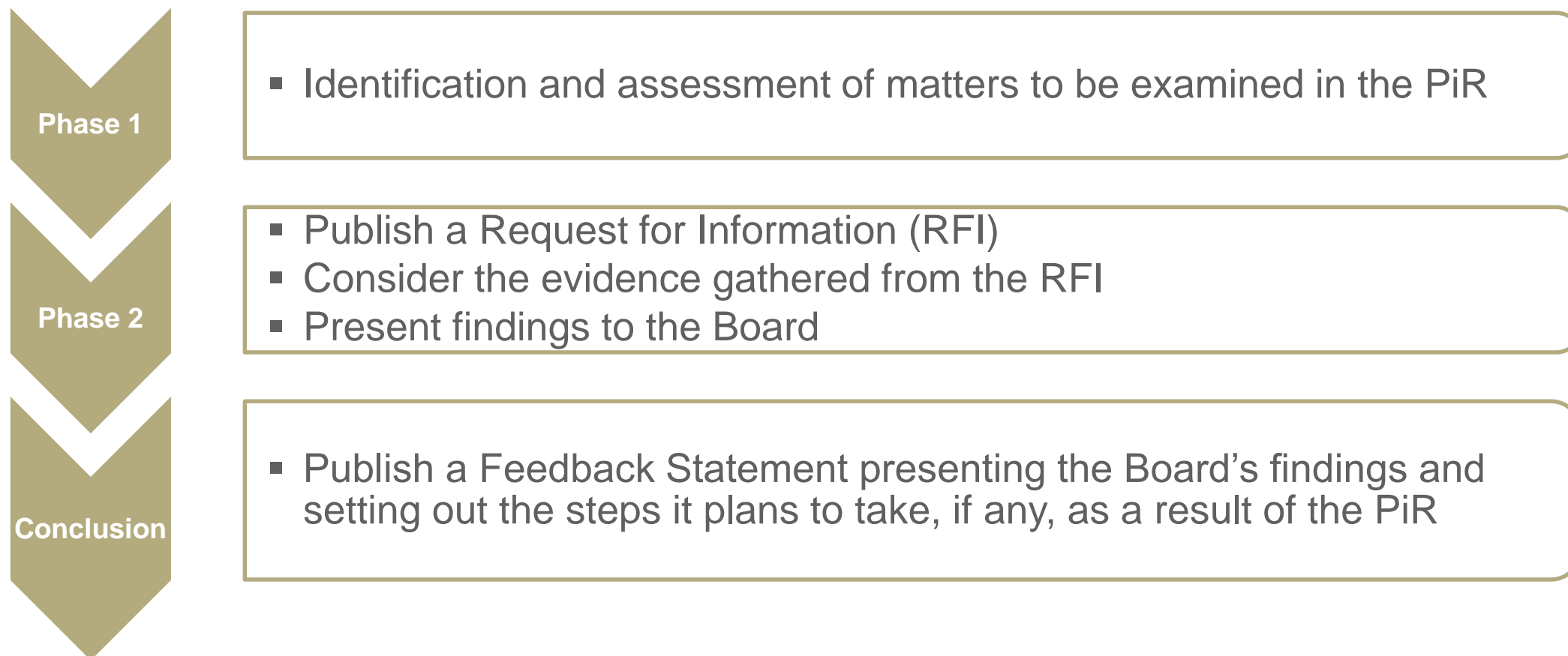
- Overall, how do you assess the effects of IFRSs 10, 11 and 12 in your jurisdiction?
- Are the matters on IFRSs 10, 11 and 12 the staff have been informed of so far consistent with the feedback from stakeholders in your jurisdiction?
- In your view, which of the aspects brought to the staff's attention so far should be investigated further?
- Are you aware of other significant or widespread matters with the application of the Standards in your jurisdiction?

## Phase I of PIR

- 2020: present findings to the Board
- 2020 H1: issue Request for Information

# Appendix 1 - Post-implementation Review Process (1/2)

- The Board's due process requires it to conduct a PiR of each new Standard or major amendment.



# Post-implementation Review Process (2/2)

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- The Due Process Handbook requires that the PIR considers:
  - a. the matters that were important or contentious during the development of the Standard;
  - b. any matters that have come to the attention of the Board after the Standard was issued; and
  - c. unexpected costs and implementation problems.

# Appendix 2 – Background to the Standards

## IFRS 10

- A single consolidation (control) model
- Exemption from consolidation—investment entities

## IFRS 11

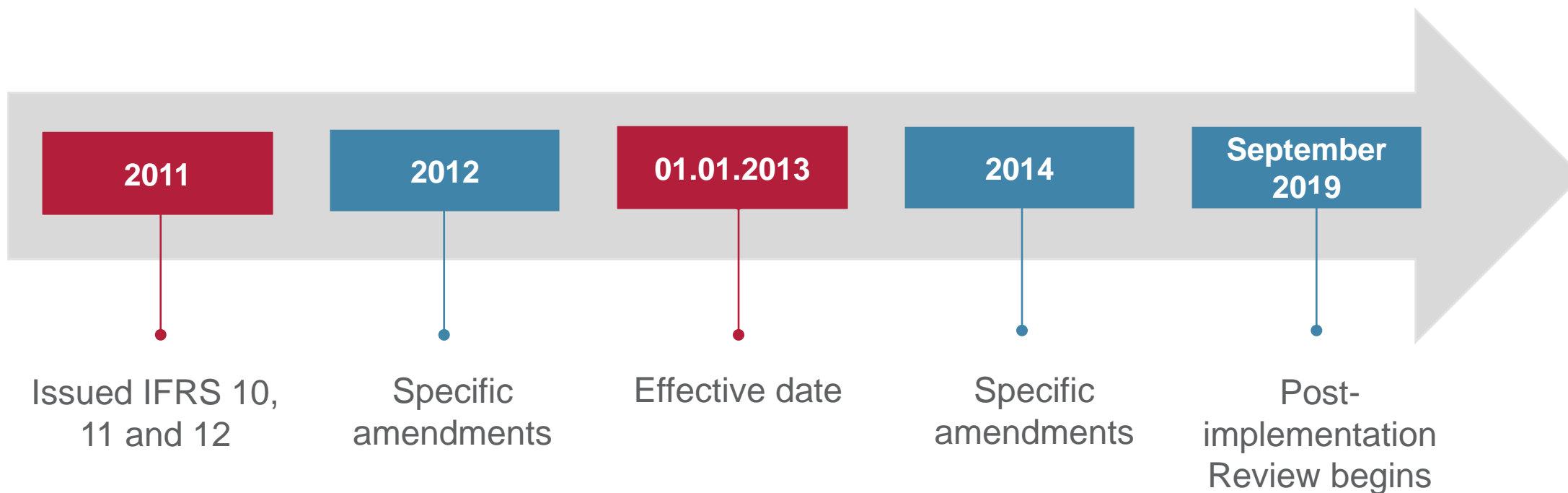
- Classification of joint arrangements based on rights and obligations
- Elimination of accounting options

## IFRS 12

- Combined and enhanced disclosure requirements

# Background to the Standards - timeline

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## 2012 amendments

- June: Transition Guidance
- October: **Investment Entities**

## 2014 amendments

- May: Accounting for Acquisitions of Interests in Joint Operations
- September: Sale or Contribution of Assets between an investor and its Associate or Joint Venture\*
- December: Investment Entities: Applying the Consolidation Exception

\*Effective Date of Amendments to IFRS 10 and IAS 28 deferred indefinitely

- **Key highlights of the Standard**

- established a single consolidation model, based on principle of control
- introduced an exemption for investment entities, that are required to measure their subsidiaries at fair value with changes in fair value recognised in profit or loss

- **Reason**

- the global financial crisis illustrated that the existing definition of control was not flawed but could be improved. In particular, it was perceived that the consolidation principles in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* were not fully consistent.



- **Key highlights of the Standard**
  - classification of joint arrangements based on the rights and obligations arising from the arrangements
  - elimination of accounting option for joint ventures
  
- **Replaced**
  - IAS 31 *Interests in Joint Ventures* in which the accounting was based by the existence of a legal vehicle
  - IAS 31 allowed entities to apply either proportionate consolidation or the equity method

- **Key highlights of the Standard**

- combined and enhanced disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities

- **Reason**

- the global financial crisis highlighted the importance of enhancing disclosure requirements, in particular for special purpose or structured entities
- notable new disclosures introduced by this Standard include:
  - subsidiaries with significant non-controlling interests
  - significant joint ventures or associates
  - unconsolidated structured entities (eg financial support)

## Appendix 3 - Interpretations Committee work on IFRSs 10, 11 and 12 (1/3)

- Agenda decisions published in relation to:
  - effect of protective rights on an assessment of control (IFRS 10)
  - transition—impairment, foreign exchange and borrowing costs (IFRS 10 and IFRS 11)
  - investment entities amendments—the definition of investment-related services or activities (IFRS 10)
  - disclosure of summarised financial information about material joint ventures or associates (IFRS 12)
  - disclosures for a subsidiary with a material non-controlling interest (IFRS 12)
  - joint operation that is a separate vehicle in its financial statements (IFRS 11)

- Agenda decisions published in relation to:
  - classification—other facts and circumstances (IFRS 11)
  - classification—other facts and circumstances—specific fact patterns (IFRS 11)
  - joint operator’s share of output purchased differs from its share of ownership interest (IFRS 11)
  - joint arrangements with similar features that are classified differently (IFRS 11)
  - recognition of revenue by a joint operator (IFRS 11)
  - accounting by the joint operator in its separate financial statements (IFRS 11 and IAS 27)

- Agenda decisions published in relation to:
  - single-asset, single-lessee lease vehicles (IFRS 10)
  - remeasurement of previously held interests (IFRS 11 and IFRS 3)
  - accounting for loss of control transactions (IFRS 10 and IFRS 11)
  - investment entities and subsidiaries (IFRS 10)
  - liabilities in relation to a joint operator's interest in a joint operation (IFRS 11)
  - sale of output by a joint operator (IFRS 11)

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