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**Draft UK Endorsement Board response: Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interest in Other Entities**

We welcome the UK Endorsement Board's ("UKEB") intention to comment on the above-named Post-implementation Review ("the PIR") of IFRS 10, IFRS 11 and IFRS 12 and the opportunity to provide input on the Draft Response. Early engagement to influence IASB projects and proposals will be an important part of the UK's endorsement processes. We support the approach that the UKEB is taking to engage with UK stakeholders and with the International Accounting Standards Board (IASB) on this important project.

The PIR is part of the IASB's due process and seeks to help the Board assess the effects of requirements on users of financial statements, preparers and auditors. The views of investors are vital to judging the effectiveness of the standards and we urge the UKEB to prioritise such input.

KPMG LLP is part of a global network of firms. Views on IFRSs are developed globally by KPMG International Standards Group. The KPMG network of firms' response to the PIR has not yet been finalised but will be provided publicly to the IASB in due course. In advance of the finalisation of global views the comments in this letter are the preliminary views of KPMG LLP only.

Overall, we agree that IFRS 10, IFRS 11 and IFRS 12 have been successful in addressing many of the historical shortfalls in this area. However, ongoing application has revealed areas where further guidance would be welcome. We believe the Request for Information on the PIR has appropriately identified most of these areas, in particular the investment entities framework.

We agree with the UKEB that standards should provide a framework for applying judgement. However, our ongoing experience is that there are some areas where that judgement can be particularly difficult and can lead to diversity in practice. In such cases, as well as improved articulation of the principles involved, we would appreciate further application guidance in the standards, for example:

- Determining relevant activities, e.g. of a single asset, single lease vehicle, of a vehicle where relevant activities are largely pre-determined and of a vehicle where there are a number of relevant activities and/or where different investors have unilateral rights to make decisions over different relevant activities.
- Determining whether rights are substantive or protective, e.g. where options exist or in troubled debt or liquidation (or similar) scenarios.
- Principal vs agent assessment, particularly in corporate/non-fund structures.

We appreciate that the investment entities framework was developed to address specific sector needs and their business models and we are supportive of the principle of having such a framework. However, our experience is that application of the criteria and typical characteristics in identifying an investment entity remains very judgmental, which leads to diversity in practice. In addition, the accounting for intermediate holding companies in an investment entity structure can lead to loss of information to the user of the accounts. We therefore believe the Board should undertake a thorough review of the investment entity framework. We note that FRS 102 has a fundamentally different approach to this issue, looking at the purpose of each investee to a parent, rather than the purpose of the parent itself. We have found this better reflects the purpose for which each investment is held and hence results in accounting which represents faithfully the financial position, performance and cash flows, although is not without its own difficulties.

We agree that there is a lack of clarity on how IFRSs 10 and 11 should be applied in conjunction with other Standards, in particular IFRSs 15 and 16. However, we disagree with the IFRS Interpretations Committee's March 2019 decision on Liabilities in relation to a joint operator's interest in a joint operation and the UKEB's view that it is clear how 'share' in IFRS 11.20 should be interpreted (please refer to [KPMG IFRG's response](#) to the tentative agenda decision).



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Yours faithfully

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