

Post Implementation Review of IFRS 10, 11, 12 Draft Response for Comment

Purpose

1. The purpose of this paper is to:
 - a) Provide an update on the project on IASB's post-implementation review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities.
 - b) Seek board members' comments on the UKEB secretariat's draft response.

Decision

2. Do board members have any questions or comments on the project approach?
3. Do board members have any comments on the draft response?

Background

4. Under its due process, IASB is required to conduct a post-implementation review of all new IFRS standards and major amendments.¹ The purpose of the post-implementation review is to assess whether the standard or amendment is meeting its objectives.
5. In 2011, IASB issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (the Standards). The Standards were effective for annual periods beginning on or after 1 January 2013.
6. IASB's Request for Information (RFI) for its post-implementation review of the Standards was published in December 2020 and is open for comment until 10 May 2021.²
7. IASB's possible actions following the post-implementation review are to:
 - a) Add a project to IASB's standard setting agenda;
 - b) To consider matters for IASB's research programme; or
 - c) Take no action.

¹ IASB Due Process Handbook 6.48

² The IASB's RFI is available on the IASB's website here:
<https://www.ifrs.org/content/dam/ifrs/project/pir-10-11-12/rfi2020-pir10-11-12.pdf>

Approach

8. The UKEB secretariat commenced work on the project in January 2021. The work plan for the project was approved using the governance arrangements at the time, including input from the FRC and the Department for Business, Energy and Industrial Strategy. However, as the delegation of statutory functions to the UKEB is expected to be completed before the comment letter is finalised, we are formally seeking Board members' views on the draft comment letter in anticipation that the UKEB is expected to approve it.
9. We gathered evidence through outreach and desk-based research to assess the effectiveness of the Standards and to develop our draft response to IASB's RFI.
10. Our outreach activities comprised roundtables, interviews and correspondence with preparers, auditors, investors and regulators. We have engaged with approximately 20 stakeholders through our outreach activities.
11. Our desk-based research comprises reviews of:
 - a) A selected sample of 35 annual reports from UK FTSE 250 entities, chosen from sectors we understand are most affected by the changes introduced by the Standards.³
 - b) Relevant literature.⁴

IASB's RFI and UKEB secretariat's draft response

12. The UKEB secretariat published its draft comment letter (DCL) for consultation with stakeholders on 15 April 2021⁵ (see Appendix 1 to this paper). The response is open for comment until 5 May 2021.
13. In the DCL, we:
 - a) Conclude that the standards are functioning as intended.
 - b) Express our support for the standards which provide clear objectives and requirements as well as establishing a framework for applying judgement effectively across a wide range of structures and regulatory regimes.
 - c) Recognise that applying the standards requires judgement and that we see this as an indicator that they are working as intended.

³ To date we have completed reviews of 16 annual reports and the results of these have informed our draft response. We intend to complete the remaining annual reports reviews before finalising our response.

⁴ Relevant literature includes: ESMA Report on the Application of IFRS 10, IFRS 11 and IFRS 12 (2021); Effects of Adopting IFRS 10 and IFRS 11 on Consolidated Financial Statement: an exploratory research, Lopes AI & Lopes M (2019); and Endorsement of IFRS 10, IFRS 11 and IFRS 12 Effect Study, EFRAG (2012).

⁵ Our draft comment letter is published on the UKEB website: <https://www.endorsement-board.uk/influencing-projects/pirs>

- d) Make recommendations on those few areas where the application of the standards can be significantly improved.
14. The remainder of this section considers the key areas of detail in the IASB's RFL and our tentative views included in the DCL.

IFRS 10: establishing whether control exists

15. IFRS 10 introduced a consolidation model based on the single principle of control. In some situations, consolidating on a principles basis involves significant judgement of whether the investor has control, for example if the investor does not hold majority voting rights or if the investor is acting as the agent of another party. The RFI asks about:
- a) The frequency of such situations occurring.
 - b) The sufficiency of the standard and the guidance for preparers and auditors to address these situations.
 - c) The extent to which the information produced meets user needs.
16. Our draft response concludes that the situations referred to in paragraph 14 are infrequent and that the standard and the guidance are sufficient to address them in such a way that the information produced meets user needs. We recommend the inclusion of additional guidance for the assessment of whether an investor's call option on shares held by the non-controlling interest confers control.

IFRS 10: investment entity consolidation exception

17. IFRS 10 introduced a consolidation exception for investment entities, along with guidance on identifying investment entities. The RFI asks whether:
- a) The standard and the guidance are sufficient.
 - b) The guidance leads to consistent outcomes and a faithful representation.
 - c) The resulting information provides useful information for investors.
18. Our draft response concludes that the standard and the guidance are sufficient and lead to consistent outcomes and provide a faithful representation of investment entities. We recommend that IASB reviews the requirement to disclose the rationale for classifying an entity as an investment entity if it does not exhibit the typical characteristics of an investment entity, because this requirement tends to result in anodyne disclosures.

IFRS standards: changes in the relationship between an investor and an investee

19. The RFI asks whether the guidance in IFRS standards is sufficient for situations where there is a change in the relationship between the investor and the investee (for example, a change from joint operator status to parent and subsidiary status).
20. Our draft response concludes that the guidance in IFRS standards is sufficient for such situations. We make recommendations to improve consistency and comparability in measurement of the non-controlling interest where an investor holds shares in a subsidiary indirectly via an associate and where a controlling interest in a single-asset entity is acquired.

IFRS 11: Collaborative arrangements outside the scope of IFRS 11

21. IFRS 11 defines joint arrangements as arrangements of which two or more parties have joint control (IFRS 11 paragraph 4.) The RFI asks whether collaborative arrangements which do not meet this definition because there is not joint control are widespread, and how they are accounted for.
22. Our draft response concludes that such collaborative arrangements occur frequently in some industries and that applying other IFRS Standards to account for them provides a faithful representation.

IFRS 11 and the consideration of other facts and circumstances

23. We conclude that the guidance on other facts and circumstances is considered frequently. We conclude that this frequent consideration indicates that the substance of transactions is reflected in the accounting treatment of joint arrangements.

IFRS 11: Joint operations

24. The RFI asks to what extent applying the requirements in IFRS 11 enables a joint operator to report its assets, liabilities, revenue and expenses in a relevant and faithful manner.
25. Our draft response concludes that a joint operator can report in a relevant and faithful manner by applying IFRS 11.

IFRS 12: Adequacy of disclosure

26. IFRS 12's objective is the disclosure of information that enables users to evaluate the nature of, and risks associated with, its interests in other entities, and the effects of those interests on its primary financial statements. The RFI asks to what extent the requirements of IFRS 12 achieve this.
27. Our draft response concludes that IFRS 12 achieves this objective. We make recommendations on additional disclosures relating to material non-controlling

interests, joint ventures and associates, and relating to immaterial associates and joint ventures which are material in the aggregate, to improve the usefulness of information for users.

Other issues

28. We note that there is interaction between IFRS 11 and both IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* and recommend that illustrative examples are provided to support application.

Next Steps

29. We intend to finalise our response by IASB's 10 May deadline, addressing comments received at the UK Endorsement Board's April meeting and stakeholder feedback received during the consultation period. We intend to share the final response with Board members and publish it on our website.
30. If Board members would prefer to discuss the final response at the May board meeting before it is submitted to IASB, we will discuss the possibility of an extended submission deadline with IASB.n.

Appendices

- Appendix 1 UKEB secretariat's draft response