STAFF PAPER

February 2022

IASB® Meeting

Project	**Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities***
Paper topic	Responding to the feedback

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Background

1. At its July 2021 meeting, the International Accounting Standards Board (IASB) discussed the feedback summary on the Request for Information *Post-implementation Review of IFRS 10* Consolidated Financial Statements, *IFRS 11* Joint Arrangements *and IFRS 12* Disclosure of Interests in Other Entities (Request for Information).

2. At its October 2021 meeting, the IASB concluded that IFRS 10, IFRS 11 and IFRS 12 are working as intended. The IASB also decided that while developing its work plan for 2022 to 2026 as part of the Third Agenda Consultation, it will consider further work on five topics arising from the Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12.[1]

3. At its November 2021 meeting, the IASB considered whether to take further action on two other topics:

   (a) disclosure of interests in other entities; and

   (b) applications questions on IFRS 10 and IFRS 11.

   The IASB decided to develop further aspects of its strategy for deciding whether and when to take further action based on feedback from post-implementation reviews before

[1] Agenda paper 7 of the October 2021 IASB meeting can be accessed here.

deciding to take action on these two topics and therefore concluding this Post-implementation Review.[2]

4. At its January 2022 meeting, the IASB discussed the approach for deciding whether and when to take further action based on feedback from post-implementation reviews. [3]

Purpose of the paper

5. The purpose of this paper is for the IASB to:
   (a) prioritise topics it has previously agreed to take further action on (topics 1, 2, 3, 4 and 5 of this paper) arising from the Post-implementation Review, applying the approach the IASB agreed at its January 2022 meeting.
   (b) decide whether to take further action on topics 6 and 7 of this paper, and if so, the priority of these topics.
   (c) decide not to act on other matters raised in the feedback on the Request for Information.

6. If the IASB reaches agreement on the additional topics to take action on and the priority of topics it will be asked to consider agenda paper 7A of this meeting. Agenda paper 7A summarises work undertaken in the Post-implementation Review and asks the IASB whether it agrees that sufficient work has been completed to conclude the Post-implementation Review and for the staff to prepare the Report and Feedback Statement on the Post-implementation Review.

[2] Agenda paper 7 of the November 2021 IASB meeting can be accessed here.

[3] Agenda paper 8A of the January 2022 IASB meeting can be accessed here.

Structure of the paper

7. This paper is structured as follows:

   (a) Staff recommendations (paragraphs 8–11);

   (b) The IASB approach to addressing matters arising from post-implementation reviews (paragraphs 12–15);

   (c) Priority allocation for topics 1, 2, 3 and 5 (paragraphs 16–41);

   (d) Whether, and if so, when to take action on topic 6—disclosure of interests in other entities (paragraphs 42–52);

   (e) Whether to address topics 4 and 7—application questions on IFRS 10 and IFRS 11 (paragraphs 53–89);

   (f) Topics it is not recommended the IASB considers further (paragraphs 90–91);

   (g) Appendix A—overview of topics 1, 2, 3 and 5; and

   (h) Appendix B—application questions on IFRS 10 and IFRS 11.

Staff recommendations

8. Applying the approach the IASB discussed at its January 2022 meeting, the staff recommend the IASB prioritise the topics arising from the Post-implementation Review which it previously agreed to take further action on, as follows:

   (a) medium priority, to be added to the research pipeline:

      (i) investment entities—subsidiaries that are investment entities (topic 1);

      (ii) collaborative arrangements outside the scope of IFRS 11 (topic 2); and

      (iii) transactions that involve corporate wrappers (topic 3);

   (b) refer to the IFRS Interpretations Committee (Interpretations Committee) topic 4: investment entities—definition of an investment entity; and

   (c) low priority, to be addressed only if identified as a priority in the next Agenda Consultation or when the related IFRS Accounting Standard is next amended in some cases—transactions that change the relationship between an investor and an investee (topic 5).

9. Applying the approach the IASB discussed at its January 2022 meeting, the staff recommend the IASB addresses disclosure of interests in other entities (topic 6) as a low priority topic.

10. The staff recommend that four subtopics related to the application of IFRS 10 and IFRS 11 (topic 7) are referred to the Interpretations Committee:

    (a) the relationship between substantive rights and protective rights;

    (b) changes in the relevant activities during the lifecycle of an investee;

    (c) assessing non-contractual agency relationships; and

    (d) accounting for a joint operator's disproportionate share of output compared to share of ownership.

11. Applying the approach the IASB discussed at its January 2022 meeting, the staff recommend not addressing matters raised in paragraphs 90 to 91 of this paper and the remaining 11 subtopics of topic 7 set out in Appendix B of this paper.

The IASB approach to addressing matters arising from post-implementation reviews

12. At its January 2022 meeting, the IASB discussed a two-step approach to responding to and prioritising matters arising from post-implementation reviews[4]:

    (a) first to decide *whether* to take further action considering the evidence in paragraph 13 of this paper; and

    (b) then to *prioritise* matters as high, medium or low considering the characteristics of the matter as set out in paragraph 14 of this paper.

13. The IASB will respond to matters arising from a post-implementation review when the findings provide evidence that:

    (a) the objective of the new IFRS Accounting Standard is not being met;

[4] This agenda paper uses the approach set out in agenda paper 24B of this IASB meeting (February 2022)—which has been updated for suggestions made by the IASB members at the January 2022 IASB meeting.

(b) there is significant deficiency in how information arising from application of the new IFRS Accounting Standard is meeting the needs of users of financial statements (for example significant diversity in application); or

(c) the costs or challenges of applying the new IFRS Accounting Standard or auditing, enforcing or using information arising from the application of the new IFRS Accounting Standard are significantly greater than expected (for example, there are differences from the effects analysis issued with the new IFRS Accounting Standard).

14. The timing of when such a matter would be actioned would be based on the characteristics of the matter— that is, the extent to which:

(a) the consequences of the matter are significant.

(b) the matter is pervasive.

(c) the matter can be addressed by the IASB or the Interpretations Committee.

(d) the benefits of any action would be expected to outweigh the costs. This would include considering the extent of disruption and operational costs from change and the importance of the matter to users of financial statements.

15. Matters are categorised as follows:

(a) ***high priority matters***, would be addressed as soon as possible. These matters are expected to be rare, but would involve:

(i) issues relating to the objective or core principle of a new IFRS Accounting Standard that mean the IASB is unable to conclude that the new IFRS Accounting Standard is working as intended; or

(ii) issues for which solutions are needed urgently (like, for example, urgent projects on IBOR Reform and its Effects on Financial Reporting and covid-19-related rent concessions, recently undertaken by the IASB).

(b) ***medium priority matters***, would be added to the IASB's research pipeline or the Interpretations Committee's pipeline. These matters would consist of those for which most of the characteristics in paragraph 14 of this paper are present to a large extent and for which the benefits are expected to exceed the costs.

(c) ***low priority matters*** are those that the IASB would address only if they are identified as a priority in the next Agenda Consultation or when the IFRS Accounting Standard is next amended in some cases. These matters would consist of those for which:

(i) some of the characteristics in paragraph 14 of this paper are present to some extent; and

(ii) the remainder of the characteristics in paragraph 14 of this paper are not met or there is insufficient information to conclude whether the characteristic is present.

(d) ***no action matters,*** are those that on which neither the IASB nor the Interpretations Committee would take further action. These matters would consist of those for which few or none of the characteristics in paragraph 14 of this paper are present.

Priority allocation for topics 1, 2, 3 and 5

16. At its October 2021 meeting, the IASB decided that while developing its work plan for 2022 to 2026 as part of the Third Agenda Consultation, it will consider further work on five topics arising from the Post-implementation Review of IFRS 10 and IFRS 11:

(a) investment entities—subsidiaries that are investment entities (topic 1);

(b) collaborative arrangements outside the scope of IFRS 11 (topic 2);

(c) transactions that involve corporate wrappers (topic 3);

(d) investment entities—definition of an investment entity (topic 4); and

(e) transactions that change the relationship between an investor and an investee (topic 5).

17. Topic 4 relates to the application of the definition of an investment entity. The staff analysis of topic 4, along with other application questions, is set out in paragraphs 87 to 89 of this paper.

18. A description of topics 1, 2, 3 and 5 is in Appendix A of this paper. The staff applied the IASB approach to prioritising matters arising from a post-implementation review (paragraphs 14 and 15 of this paper) to assess the priority for topics 1, 2, 3 and 5.

High priority matters

19. At its October 2021 meeting, having considered the feedback and evidence gathered during the Post-implementation Review, the IASB concluded that IFRS 10, IFRS 11 and IFRS 12 are working as intended.

20. Applying the criteria for high priority matters, topics 1, 2, 3 and 5 do not relate to the objective or core principle of IFRS 10 or IFRS 11, therefore none of these topics are of high priority to be addressed as soon as possible.

Medium priority matters

21. The table below shows the assessment of topics 1, 2 and 3 applying the criteria in paragraph 14 of this paper.

Topic	Description	The consequences of the matter are significant or severe	The matter is pervasive	The matter can be addressed by the IASB	The benefits would outweigh the costs
1	Investment entity—subsidiaries that are investment entities	Yes	Yes	Yes	Yes
2	Collaborative arrangements outside the scope of IFRS 11	Yes	Yes	Initial research would be needed to investigate these criteria	
3	Transactions that involve corporate wrappers	Yes	Yes	Initial research would be needed to investigate these criteria	

22. In the staff's view, most of the characteristics in paragraph 14 of this paper are present in topics 1 to 3. Therefore, the staff view these topics as medium priority meaning they should be added to the research pipeline following the Post-implementation Review. Paragraphs 23 to 34 of this paper explain the staff's rationale for prioritising these topics as medium priority.

Investment entity—subsidiaries that are investment entities

23. Many respondents to the Post-implementation Review consider there is a significant loss of information in the circumstance an investment entity measures its subsidiary, that is itself an investment entity, at fair value. These respondents think that when a subsidiary that is an investment entity itself is measured at fair value, the information on the assets and liabilities held by the subsidiary is aggregated to an extent that the users are not able to understand the investment entity group's operation. The information requested includes:

    (a) the revenue, expense, assets and liabilities of the subsidiary's investment related activities.

    (b) the disaggregated fair value information of an investment portfolio held by the subsidiary.

24. The staff consider there is evidence of a deficiency in how information arising from the application of IFRS 10 is meeting the needs of users of financial statements (paragraph 13(b) of this paper). The consequences of the matter are significant (paragraph 14(a) of this paper) because measuring the subsidiary at fair value aggregates information about the subsidiary that users say they need.

25. When assessing pervasiveness (paragraph 14(b) of this paper), the staff noted this topic is pervasive in specific industries, such as investment and fund management industries.

26. The staff think the loss of information for investment entities could be addressed by the IASB by amending the disclosure requirements of IFRS 12, as described in Appendix A of this paper.

27. Furthermore, the staff think that the benefits would outweigh the costs if the IASB decides to introduce new disclosure requirements. The information required for the disclosure is likely to be readily available as it is information management uses to assess performance of an investment entity. For example, one preparer noted that it has used alternative measures to convey the additional information related to the investment entity subsidiaries since the implementation of the investment entity requirements.

Collaborative arrangements outside the scope of IFRS 11

28. Stakeholders noted that it is challenging to apply requirements in IFRS Accounting Standards to collaborative arrangements that are outside of the scope of IFRS 11. For example, three GPF members said guidance on how to account for these arrangements would be helpful.

29. The feedback on the Request for Information identified diversity in the application of IFRS Accounting Standards which may result in significant consequences (paragraph 13(b) of this paper). However, the staff cannot assess if this diversity significantly impedes faithfully representation of the transaction due to the wide range of arrangements that are considered to be collaborative arrangements (paragraph 14(a) of this paper).

30. When assessing pervasiveness (paragraph 14(b) of this paper), the staff took into consideration that collaborative arrangements are commonly used (and therefore pervasive) in the following industries:

    (a) extractive;

    (b) real estate;

    (c) pharmaceutical;

    (d) entertainment; and

    (e) telecommunication.

31. In Appendix A of this paper the staff recommend the IASB undertakes initial research to determine if it can define a homogeneous group of collaborative arrangements, to assess whether the matter needs to be addressed by the IASB (either by standard-setting or educational materials) and if the benefits would outweigh the costs.

Transactions that involve corporate wrappers

32. The staff believe the consequences of transactions that involve corporate wrappers are significant (paragraph 14(a) of this paper) because different IFRS Accounting Standards may be applicable depending on whether assets and liabilities are exchanged separately or within a corporate wrapper. Consequently, the same transaction with the same economic

phenomena may have different outcomes depending on the IFRS Accounting Standard that is applied and may not be a faithful representation of the transaction.

33. Transactions involving corporate wrappers are used for various purposes such as tax or statutory purposes. Therefore, topic 3 is pervasive in jurisdictions in which corporate wrappers play an important role in structuring relevant transactions (paragraph 14(a) of this paper).

34. In Appendix A of this paper the staff recommend the IASB undertakes initial research to assess whether the matter could be addressed by developing a principle for transactions that involve a corporate wrapper or whether only particular types of transactions need to be addressed, and if the benefits would outweigh the costs.

Low priority matters

Transactions that change the relationship between an investor and an investee

35. The table below shows the assessment of topic 5 applying the criteria in paragraph 14 of this paper.

Topic	Description	The consequences of the matter are significant or severe	The matter is pervasive	The matter can be addressed by the IASB	The benefits would outweigh the costs
5	Transactions that change the relationship between an investor and an investee	Initial research would be needed to investigate these criteria	Initial research would be needed to investigate these criteria	Yes	Initial research would be needed to investigate these criteria

36. Respondents to the Request for Information asked for guidance on some transactions not addressed in IFRS Accounting Standards that change the relationship between an investor and an investee. The absence of requirements for transactions can result in diversity that significantly reduces the comparability of financial statements. However, it is unclear if

the consequences of this topic are significant because it is unclear how diversified the accounting for these types of transactions is (paragraph 14(a) of this paper).

37. Respondents had mixed views on the frequency of those transactions that IFRS Accounting Standards do not address (paragraph 14(b) of this paper).

38. In July 2015, the Interpretations Committee discussed a topic—remeasurement of previously held interests in the assets and liabilities of a joint operation, when an investor's acquisition of an additional interest results in the investor assuming joint control of the investee. The agenda paper for that meeting include a matrix of transactions involving changes of interest in a business and guidance on the remeasurement of previously held/ retained interests. According to the outreach conducted in 2015:

(a) transactions in which a subsidiary becomes a joint operation may be common and widespread;

(b) transactions in which a joint venture becomes a joint operation are not common or widespread; and

(c) transactions in which a joint operator becomes to a party to a joint operation without having joint control are not common or widespread.

39. The staff think that before undertaking standard-setting the IASB would need to assess whether these transactions are pervasive as the situation might have changed since 2015.

40. In Appendix A of this paper the staff set out the possible actions the IASB could take on this topic. Because the IASB would need to assess the pervasiveness of the transactions, the staff cannot assess whether the benefits of standard-setting can outweigh the cost. And this also depends on the approach the IASB would like to take, that is to explore principles for all types of transactions or to address particular types of transactions.

41. Overall, not all the characteristics in paragraph 14 of this paper are present in topic 5. Therefore, the staff recommend prioritising topic 5 as of low priority and addressing it only if it is identified as a priority in the next Agenda Consultation or when the related IFRS Accounting Standard is next amended in some cases.

Question 1 for the IASB
Does the IASB agree to prioritise topics 1, 2, 3 and 5, decided on for further action at its October 2021 meeting, as follows: (a) Topics that are of medium priority, to be added to the research pipeline: (i) investment entities—subsidiaries that are investment entities (topic 1); (ii) collaborative arrangements outside the scope of IFRS 11 (topic 2); and (iii) transactions that involve corporate wrappers (topic 3); (b) Topic 5, transactions that change the relationship between an investor and an investee, as low priority, that the IASB will address only if identified as a priority in the next Agenda Consultation or when the related IFRS Accounting Standard is next amended in some cases.

Whether, and if so, when to take action on topic 6—*Disclosure of interests in other entities*

42. The objective of IFRS 12 is to require an entity to disclose information that enables users of its financial statements to evaluate:

    (a) the nature of, and risks associated with, its interests in other entities; and

    (b) the effects of those interests on its financial position, financial performance and cash flows.

43. Respondents to question 9 of the Request for Information generally agreed that the IFRS 12 disclosure requirements enable an entity to meet the disclosure objective of IFRS 12. However, users of financial statements identified additional information they believe should be disclosed.

44. Many users, both via comment letters and outreach activities, said that additional information would be helpful for them to understand an entity's interests in other entities. The additional information requested relates to:

    (a) significant judgements and assumptions;

    (b) subsidiaries with material non-controlling interests;

(c) unconsolidated structured entities;

(d) information on joint ventures and associates by operating segment, including line items, such as revenue from joint ventures; and

(e) joint operations.

45. The feedback to question 9 of the Request for Information is summarised in paragraphs 34 to 50 of agenda paper 7B of the July 2021 IASB meeting.[5]

46. The staff assessed whether the IASB should address this topic by considering the criteria in paragraph 13 of this paper:

(a) the requests for additional disclosures did not prevent the IASB from concluding that IFRS 12 is working as intended;

(b) lack of particular information might have an impact on meeting the information needs of users of financial statements. However, this could also stem from application of IFRS 12;

(c) no significant diversity has been identified in practice;

(d) preparers generally agreed with IFRS 12 disclosure requirements; and

(e) concerns were not specifically raised regarding the costs of providing the information required by IFRS 12.

47. The feedback on the Request for Information, and evidence gathered in outreach activities suggests that users consider there is a deficiency in the information disclosed applying IFRS 12, consequently, the staff think the IASB should take further action on this topic.

[5] Agenda paper 7B of July 2021 IASB meeting can be accessed here.

48. In the table below staff have assessed the priority of topic 6 applying the characteristics in paragraph 14 of this paper:

Topic	Description	The consequences of the matter are significant or severe	The matter is pervasive	The matter can be addressed by the IASB	The benefits would outweigh the costs
6	Disclosure of interests in other entities	See paragraph 49 of this paper	Yes	Yes	Initial research would be needed to investigate this criteria

49. In assessing the consequence of topic 6, the staff noted:

(a) the additional information requested by users would complement the existing requirements but is not essential to achieve the disclosure objective of IFRS 12;

(b) in outreach meetings, some users requested information that is already required by IFRS 12, therefore the issue might stem from application of requirements in IFRS 12; and

(c) overall feedback to question 9 of the Request for Information is that information provided applying IFRS 12 enables the disclosure objective of the Standard to be met.

50. However, the additional information set out in paragraph 44 of this paper is requested by many users which provides evidence that this topic is pervasive.

51. In staff's view, the IASB could address the topic by introducing additional disclosure requirements to IFRS 12 to fulfil some or all of the information needs listed in paragraph 44 of this paper. Additional information would improve users' understanding of an entity's interests in other entities. However, this would need to be weighed against the cost to prepare the information, which would increase depending on what additional information would be required.

52. Some of the characteristics in paragraph 14 of this paper are present in topic 6. Thus, the staff recommend the IASB prioritises the topic as of low priority and addresses it only if it is identified as a priority in the next Agenda Consultation or when IFRS 12 is next amended in some cases.

Question 2 for the IASB
Does the IASB agree to address disclosure of interests in other entities (topic 6) as prioritised as a low priority matter, that the IASB will address only if identified as a priority in the next Agenda Consultation or when the related IFRS Accounting Standard is next amended in some cases.?

Whether to address topics 4 and 7—application questions on IFRS 10 and IFRS 11

53. Questions 2, 3, 7 and 8 of the Request for Information share a common feature, in that application of the requirements related to these questions can require the exercise of judgement. The extent of judgement required depends on the complexity of the facts and circumstances and can sometimes be significant.

54. Overall respondents to questions 2, 3, 7 and 8 of the Request for Information agreed that the requirements in IFRS 10 and IFRS 11 enable an entity to assess control, joint control and the classification of joint arrangements. Furthermore, many respondents to the Request for Information acknowledged the need for judgment and highlighted that, in complex arrangements, applying judgement and making the decision itself can be challenging.

55. Some 15 subtopics were summarised from the feedback to questions 2, 3, 7 and 8 of the Request for Information. The staff recommends the IASB refers four of these subtopics of topic 7and also topic 4 (investment entities—definition of an investment entity) to the Interpretations Committee, see paragraphs 65 to 89 of this paper. The remaining 11 subtopics together with the staff's explanation why no further action is recommended is set out in Appendix B of this paper.

Should the IASB address the application questions from the feedback on the Request for Information?

56. Agenda paper 8A of the January 2022 IASB meeting, stated that a post-implementation review is not intended to identify and resolve all application questions. However, questions 2, 3, 7 and 8 of the Request for Information sought information on the experience of applying requirements in IFRS 10 and IFRS 11. Consequently, the IASB has received feedback on the application of the Standards. In the staff's view it is not unreasonable to expect some respondents to the Request for Information to seek clarification on how to apply the Standards, given that the IASB requested information on the experience of applying the Standards.

57. It should be noted that the Request for Information was published in December 2020, which was before the IASB decided on its approach for addressing matters arising from post-implementation reviews (paragraphs 13 to 15 of this paper). Had the IASB decided on its approach when it published the Request for Information it may have framed the questions in the Request for Information differently.

58. The staff also consider that the IASB should be cognisant that it did not provide the same level of implementation support on IFRS 10 and IFRS 11 as it did for other IFRS Accounting Standards, for example the IFRS 15 *Revenue* Transition Resource Group.

59. Taking into consideration paragraphs 56 to 58 of this paper, the staff do not recommend applying the approach for addressing matters arising from a post-implementation review retrospectively to the application questions arising from the feedback to the Request for Information. Consequently, the staff has analysed the application questions and recommended which questions the IASB should take further action on.

Which topics should the IASB address?

60. The staff consider the IASB could refer topic 4 and four subtopics of topic 7 to the Interpretations Committee. Paragraph 5.15 of the Due Process Handbook states:

> Stakeholders are encouraged to submit application questions to the Interpretations Committee when they view it as important that the IASB or the Interpretations Committee address the matter. Such matters could include cases of doubt about the required accounting for a particular circumstance or transaction, or concerns expressed by investors about the application of specified disclosure requirements.

61. The Interpretations Committee would be in a better position than the IASB to address the concerns on application of the related requirements because the Interpretations Committee, as the interpretative body of the IASB, responds to questions about the application of the Standards.

62. The staff's recommendation to refer the application questions to the Interpretations Committee does not necessarily mean the Interpretations Committee must take action on them. The Interpretations Committee could conduct initial research to supplement that obtained in the Post-implementation Review before deciding whether to address the application questions. The Interpretations Committee could consider issuing either agenda decisions or educational material to assist application of the relevant requirements.

63. Given the work undertaken during the Post-implementation Review the staff recommend the IASB refer only some subtopics to the Interpretations Committee. To decide which subtopics could be referred, the staff have analysed the following sources of information:

    (a) feedback on questions 2, 3, 7 and 8 of the Request for Information.

    (b) outreach activities on relevant topics.

    (c) additional information requested from IFASS members and accounting firms regarding the frequency and significance of the 15 subtopics. The staff asked IFASS members and accounting firms to share their views on the priority of the subtopics. The staff took into consideration the feedback on the priority and combined it with other evidence from (a) and (b).

64. Based on the analysis the staff recommend the IASB refer to the Interpretations Committee topic 4 and four subtopics of topic 7 on the application of IFRS 10 and IFRS 11:

    (a) the relationship between substantive rights and protective rights (paragraphs 65–71);

    (b) changes in the relevant activities during the lifecycle of an investee (paragraphs 72–76);

    (c) assessing non-contractual agency relationships (paragraphs 77–82);

    (d) accounting for a joint operator's disproportionate share of output compared to share of ownership (paragraphs 83–86); and

(e) investment entities—the definition of an investment entity (paragraphs 87–89).

The relationship between substantive rights and protective rights

65. The feedback on the Request for Information for this subtopic is summarised in paragraph 36 of agenda paper 7A of the July 2021 IASB meeting.[6]

66. Three respondents to the Request for Information said they observed a common misinterpretation of IFRS 10 requirements that a right is either protective or substantive. This misinterpretation was also frequently observed by the staff during outreach activities of the Post-implementation Review.

67. The misinterpretation can lead to a conclusion that a right is either a substantive right or a protective right. However, IFRS 10:

(a) paragraphs B22–B25 require an entity to consider only substantive rights relating to an investee (held by the investor and others) in assessing whether it controls the investee.

(b) paragraphs B26–B28 require an entity to assess whether its rights, and rights held by others, are protective rights.

(c) paragraph B22 states that for a right to be substantive, the holder must have the practical ability to exercise that right.

(d) defines protective rights as rights designed to protect the interest of a party holding those rights without giving that party power over the entity to which those rights relate. However, the Basis for Conclusion on IFRS 10 does not set out the relationship between substantive rights and protective rights.

[6] Agenda paper 7A of the July 2021 IASB meeting can be accessed here.

68. The staff acknowledge that the definitions of the substantive right and protective right are not mutually exclusive. Deciding whether rights are substantive and whether rights are protective requires separate assessments. In some circumstances, a protective right could be substantive, for example, Grant Thornton International Ltd commented:

> …a right that gives the holder the power to veto a decision for merging the entity with another for instance might be a protective right, but in other circumstances it might be considered a substantive right if the holder has the ability to effectively block such a decision when a merger is planned.

69. The staff think misinterpretation of the requirements could result in unintended consequences, for example, a non-protective right can be assessed as substantive without assessing whether an investor has the practical ability to exercise the right. Clarification on whether a right is protective and/or a right is substantive refers to distinct qualities and requires separate assessments could improve consistent application.

70. The staff would like to remind the IASB that this subtopic does not arise from specific facts and circumstances when an investor assesses whether a right itself gives power. This subtopic refers to a common misinterpretation of the requirements in IFRS 10 that relate to assessing power over an investee.

71. The staff recommend the IASB refers this subtopic to the Interpretations Committee to assess if it can clarify the relationship between protective rights and substantive rights.

Change in relevant activities during the lifecycle of an investee

72. The feedback on the Request for Information on this subtopic is summarised in paragraphs 12–16 of agenda paper 7A of the July 2021 IASB meeting.

73. Paragraph B13 of IFRS 10 requires an entity to assess which investor is able to direct the activities that most significantly affect the returns. Application example 1 in paragraph B13 of IFRS 10 sets out various aspects the investor needs to consider.

74. Some respondents said when different relevant activities of an investee occur at different stages of an investee's lifecycle and two or more parties have the unilateral ability to direct different relevant activities it is not clear if the activities that most significantly affect the investee's returns are identified by:

(a) considering the relevant activities over the entire life of the entity, even if the entity has different stages during its lifecycle; or

(b) considering each stage of the entity's lifecycle separately, noting that only some activities are relevant at a particular stage.

75. Clarifying how relevant activities that most significantly affect the returns are identified would remove the divergent views in paragraphs 74(a) and 74(b) of this paper and thereby improve consistent application of the requirements.

76. Therefore, the staff recommend the IASB refers this subtopic to the Interpretations Committee to assess if it can clarify which view set out in paragraph 74 of this paper is an appropriate interpretation of the relevant requirements.

Assessing non-contractual agency relationships

77. The feedback on the Request for Information on this subtopic is summarised in paragraphs 57–60 of agenda paper 7A of the July 2021 IASB meeting.

78. Paragraph B73 of IFRS 10 requires an investor to consider the nature of the relationship with other parties and whether those other parties are acting on the investor's behalf. Paragraph B75 of IFRS 10 sets out examples of other parties that might act as non-contractual agents (or de facto agents), for example, the investor's related parties. However, the IASB noted in paragraph BC146 of Basis for Conclusion on IFRS 10, that it would be inappropriate to assume that all other parties listed in paragraph B75 of IFRS 10 would always or never act for the investor.

79. Respondents to the Request for Information requested additional guidance to help an investor assess whether it controls an investee because another party acts as a non-contractual agent, for example, a sister company (under common control of an investor's parent) who holds an interest in an investee could act as a non-contractual agent of the investor.

80. In requesting additional guidance respondents asked what factors to consider in assessing whether another party (or parties) is acting on behalf of an investor when there is no contractual agreement. For example, when assessing the relationship with an investor's related party, what factors does an entity consider?

81. The staff think that the factors for an entity to consider might vary for different parties, for example for an investor's related party or for a party that has a close business relationship with an investor. However, the staff think providing factors an entity could consider would assist entities to apply judgement when assessing whether another party is acting on behalf of an investor.

82. The staff recommend the IASB refers this subtopic to the Interpretations Committee to assess if it can clarify what factors an entity should consider when assessing non-contractual agency relationships.

Accounting for a joint operator's disproportionate share of output compared to share of ownership

83. The feedback on the Request for Information on this subtopic is summarised in paragraphs 27–28 of agenda paper 7B of the July 2021 IASB meeting.

84. The Interpretations Committee issued an Agenda Decision *IFRS 11* Joint Arrangements—*Accounting by the joint operator: the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation* in March 2015. The Agenda Decision states that it is important to understand why the share of the output purchased differs from the ownership interests in the joint operation and judgement will therefore be needed to determine the appropriate accounting.

85. Many respondents said it is not clear how IFRS 11 requirements should be applied in the situation that a joint operator's share of output purchased differs from its share of ownership interest in the joint operation. Respondents asked:

    (a) for the basis on which a joint operator determines its share of jointly held assets and jointly incurred liabilities; and

    (b) how an entity accounts for a difference between the amount of assets and liabilities initially recognised and the equity that was contributed initially.

86. The staff recommend the IASB refers this subtopic to the Interpretations Committee to assess if it can clarify how the accounting requirements for a joint operation should be applied when the share of output is disproportionate compared to share of ownership.

Investment entities—definition of an investment entity (topic 4)

87. Respondents did not have significant concern on the definition of investment entities, their concern was related to challenges in assessing elements of the definition in determining if an entity is an investment entity. The elements include:

(a) exit strategy—respondents asked what evidence is required to determine whether an entity has an exit strategy; and

(b) business scope—respondents asked what extent of involvement in the activities of an investee would prevent an entity from qualifying as an investment entity.

Inconsistent application can arise if the elements of the definition of an investment entity are not assessed consistently across entities.

88. The feedback on the Request for Information on this topic is summarised in paragraphs 64–70 of agenda paper 7A of the July 2021 IASB meeting.

89. The staff recommend the IASB refer this topic to the Interpretations Committee to assess if it can clarify how an entity applies some elements of the definition of an investment entity.

Question 3 for the IASB
Does the IASB agree to refer topic 4 and four subtopics of topic 7 that relate to application of IFRS 10 and IFRS 11 to the Interpretations Committee as set out in paragraph 64 of this paper and not to address the remaining subtopics in Appendix B of this paper?

Topics it is not recommended the IASB considers further

90. In responding to question 10 of the Request for Information, which asked whether there are other topics not addressed in the Request for Information, several topics were identified. However, the staff do not recommend the IASB considers further action for the following reasons:

   (a) the topics will be addressed by another project, such as:

      (i) application questions on the equity method which may be addressed in the Equity Method project; and

      (ii) put option on non-controlling interests which is in the scope of the Financial Instruments with Characteristics of Equity project.

   (b) the IASB might be able to address some other issues, however, the other characteristics in paragraph 14 of this paper are not present, that is they are not pervasive as only a few respondents referred to them, the consequences of these issues are not significant or severe and thus the benefit cannot outweigh the cost. These issues include:

      (i) non-investment entity parent;

      (ii) separate financial statements of a joint operation;

      (iii) control assessment of a not-for-profit investee;

      (iv) the interaction between the definition of an investment entities in IFRS 10 and 'venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds' in paragraph 18 of IAS 28;

      (v) consolidation exemption in paragraph 4 of IFRS 10;

      (vi) independent directors in the control assessment; and

      (vii) accounting outcome from consolidating a fund.

91. Some respondents also referred to proportionate consolidation for joint ventures which was superseded by IFRS 11. The staff do not recommend the IASB reconsidering this topic because only a few respondents referred to the topic. Furthermore, the staff is recommending in paragraph 44 of this paper, the IASB considers whether the disclosure on individually material joint ventures and associates including the information on joint ventures and associates in the segment reporting could be improved. Improving the disclosure may address this matter.

Question 4 for the IASB
Does the IASB agree not to consider further actions, as a result of this Post-implementation Review, on topics set out in paragraphs 90 and 91 of this paper?

Appendix A—Overview of Topic 1, 2, 3 and 5

See agenda paper 7, October 2021 for a detailed description of these topics.

	Topics	Description	Action recommended
1	Investment entity—subsidiaries that are investment entities	Respondents said information is lost when an investment entity measures at fair value a subsidiary that is itself an investment entity, including information on: (a) investments held by the subsidiary, for example, information on fair value and changes in the fair value of these investments; (b) other assets and liabilities held by the subsidiary, such as cash balances and borrowings; and (c) investment-related services provided by the subsidiary, for example, revenue and the cost of the service.	Initial research—the IASB could either: (a) research additional disclosure requirements for subsidiaries that are investment entities themselves; or (b) reconsider which subsidiaries an investment entity parent consolidates and which subsidiaries are measured at fair value.
2	Collaborative arrangements outside the scope of IFRS 11	Respondents said collaborative arrangements that do not meet the definition of a joint arrangement in IFRS 11 are commonplace in several industries. Those collaborative arrangements outside the scope of IFRS 11are accounted for in different ways.	Initial research—the IASB should first identify if there are common features of collaborative arrangements outside the scope of IFRS 11 to determine if a homogenous group of arrangements can be defined. If the IASB can identify common features of the arrangements, it could then identify whether the current accounting practice is appropriate before undertaking standard-setting,

	Topics	Description	Action recommended
3	Transactions that involve corporate wrappers	Respondents said there are transactions that are structured through corporate wrappers to achieve particular purposes, for example, tax, legal or regulatory purposes. Respondents asked whether the accounting outcome of these transactions differs depending on whether the transaction is structured through a corporate entity or not.	Initial research—the IASB could either: (a) conduct research to decide whether it is appropriate, and if so, whether it is possible to develop a principle for transactions that involve a corporate wrapper; or (b) consider addressing only particular types of transactions.
5	Transactions that change relationship between an investor and investee	Respondents said some transactions that change the relationship between an investor and an investee are not addressed by IFRS Accounting Standards. Transactions not explicitly addressed in IFRS Accounting Standards and which are not in the scope of the equity method project include: (a) a subsidiary becoming a joint operation; (b) a joint venture becoming a joint operation; (c) changes in ownership interest without losing control (reclassifying goodwill between equity interest attributable to the parent and non-controlling interest and the impact on subsequent impairment assessment of the goodwill); and (d) changes from a joint operator to a party to a joint operation without having joint control.	Initial research—the IASB could either: (a) provide guidance for specific transactions that the IFRS Accounting Standards do not address; or (b) explore the feasibility of identifying principles in dealing with transactions that change the relationship between an investor and an investee.

Appendix B—Application questions on IFRS 10 and IFRS 11

B1. Respondents to the Request for Information asked for additional guidance to support the application of judgement when applying IFRS 10 and IFRS 11. Some 15 subtopics were summarised from the feedback on the Request for Information including:

(a) IFRS 10—assessing control:

i. identifying relevant activities when:

1. more than one investors simultaneously have the ability to direct different activities of an investee;

2. relevant activities of an investee change during the lifecycle of the investee; and

3. an investee is a structured entity.

ii. assessing rights that give an investor power including:

4. assessing whether rights held by a franchisor in a franchisee are protective;

5. assessing whether veto rights give an investor power;

6. assessing whether lender's rights are protective;

7. assessing whether potential voting rights are substantive; and

8. the relationship between protective rights and substantive rights.

iii. assessing control without a majority of the voting rights including:

9. whether there is a size of voting rights that is compatible with control without a majority of the voting rights; and

10. how an entity considers the historical voting pattern.

iv. assessing agency relationships, in particular:

11. assessing the variability of returns; and

12. assessing if a non-contractual agency relationship exists.

(b) IFRS 11—classifying joint arrangements, in particular:

13. assessing other facts and circumstances when classifying joint arrangements.

(c) IFRS 11—accounting for joint operations, in particular:

14. accounting for disproportionate share of output compared to ownership; and

15. liabilities arising from a contract signed by a joint operator on behalf of a joint operation.

B2. Subtopics 2, 8 12 and 14 have been analysed and the staff recommend the IASB refer these subtopics to the Interpretations Committee.

B3. The staff do not recommend the IASB consider the remaining subtopics for the following reasons:

(a) the relevant issue does not arise frequently (paragraph B4);

(b) the benefit of additional requirements would not exceed the cost (paragraphs B4–B5); or

(c) some respondents requested additional examples while other respondents were concerned about the unintended consequences of additional examples in the Standards (paragraph B6).

B4. In relation to subtopics that do not arise frequently, it was noted that the challenges referred to by respondents arise primarily because of the complexity of the transactions and thereby relate to specific facts and circumstances. Adding or clarifying requirements in the Standards to address complex transactions that do not arise frequently could trigger reassessments of whether an entity controls another entity or the classification of joint arrangements. Given that respondents generally agreed that IFRS 10 and IFRS 11 enable an entity to make relevant decisions, including the assessment of control, joint control and classification of joint arrangements, the benefit of amending or adding requirements to address such transactions may not exceed the cost of implementing amended or new requirements.

B5. The IASB also needs to consider the cost and allocation of resources of standard-setting activities; that is the cost of developing additional requirements to address specific transactions or particular facts and circumstances might not exceed the benefits because the requirements would address a limited number of transactions or facts and circumstances.

B6. Some respondents requested additional application examples to help apply the requirements in specific and complex circumstances. The staff agree that application examples are helpful for an entity to understand how to apply the requirements. However, introducing more examples, especially complex examples, may not be beneficial because:

(a) examples can only reflect particular facts and circumstances;

(b) developing complex examples that apply only to a limited number of real-life identical transactions is not an efficient use of the IASB or stakeholders' resources;

(c) it is impractical for the IASB to construct examples that can capture all the facts and circumstances; and

(d) the feedback on the Request for Information included concerns that implicit 'bright lines' have been developed in practice based on examples in the Standards; this was not the IASB's intention when it developed those examples.