

# AGENDA PAPER

IFRS Foundation Trustees' Meeting – Due Process and Oversight Committee

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Agenda ref 2A

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## **Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*: draft Project Report and Feedback Statement**

### **Confirmation requested from the Due Process Oversight Committee (DPOC)**

At its February 2022 meeting the International Accounting Standard Board (IASB) decided that sufficient work had been completed to conclude the Post-implementation Review and requested the staff prepare the Project Report and Feedback Statement on the Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12 (the Report).

The IASB anticipates finalising the Report in the near future, if the DPOC is satisfied the IASB has completed the Post-implementation Review satisfactorily.

**Does the DPOC agree, based on the materials provided, that the IASB has completed the Post-implementation Review satisfactorily and that the Report can be finalised and published?**

### **Introduction**

1. The purpose of this paper is to obtain the DPOC's agreement to finalise the Report on the Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12.
2. The IFRS Foundation Due Process Handbook (*Due Process Handbook*) requires the IASB to report to the DPOC when it has completed a post-implementation review and provide the DPOC with a draft of the Report. A draft of the Report has been circulated to the DPOC (but not as a public paper, given that it is still draft).
3. The DPOC is asked to confirm, based on the materials provided, that the IASB has completed the Post-implementation Review satisfactorily and that the Report can be finalised and published.

## **Background**

4. Paragraphs 6.48 to 6.59 of the *Due Process Handbook* require the IASB to conduct a post-implementation review of each new Standard or major amendment to a Standard. Each review has two phases:
  - (a) The first phase involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the IASB in the form of a request for information.
  - (b) In the second phase, the IASB considers the comments it has received from the request for information along with the information it has gathered through other consultative activities. On the basis of that information, the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.
5. IFRS 10, IFRS 11 and IFRS 12 were issued in 2011 and became effective for annual periods beginning on or after 1 January 2013.<sup>1</sup> When developing the Standards, the IASB aimed to:
  - (a) develop a control model as the single basis for consolidation and robust guidance for applying that control model to situations in which it proved difficult for an entity to assess control;
  - (b) establish a principle applicable to all joint arrangements that the accounting faithfully reflects the economic phenomena that it purports to represent—that is, a party’s rights and obligations arising from the joint arrangements; and
  - (c) enable users of financial statements to evaluate the nature of and risks associated with an investor’s interests in other entities, including joint arrangements, associates and structured entities.
6. The objective of this Post-implementation Review was to assess the effects of the requirements on users of financial statements, preparers and auditors. In particular, the IASB aimed to assess whether:
  - (a) an entity applying the requirements of 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.

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<sup>1</sup> The European Union adopted the Standards with an effective date of 1 January 2014.

## **How the Post-implementation Review was conducted**

7. The Post-implementation Review commenced in September 2019. At its September 2019 meeting the IASB discussed the planned outreach activities in the first phase of the Post-implementation Review.
8. In the first phase of the Post-implementation Review the IASB members and staff held over 30 meetings with a broad range of stakeholders to understand and gather evidence on the experience of implementing and applying the Standards. Stakeholders consulted included investors, preparers, regulators, auditors and standard-setters and the IFRS consultative bodies (Capital Markets Advisory Committee, Global Preparers Forum, Emerging Economies Group, Accounting Standards Advisory Forum), and the IFRS Interpretations Committee. Overall, stakeholders said the Standards are working well.
9. As part of the first phase of the Post-implementation Review an academic literature review was conducted to understand empirical evidence on implementation and application of the Standards.
10. The IASB decided, at its April 2020 meeting, to proceed to the second phase of the Post-implementation Review and publish a request for information. Based on the evidence gathered in the first phase, the IASB decided to focus the request for information on particular matters of the Standards.<sup>2</sup>
11. 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* was published on 9 December 2020, with comments due on 10 May 2021 (a 150-day comment period).
12. During the comment period, IASB members and/or the staff:
  - (a) held over 30 outreach meeting or calls with stakeholders—consulting again with the IASB’s consultative bodies;
  - (b) updated the academic literature review; and
  - (c) examined the disclosures provided by entities applying IFRS 12 in a desk-top review of a sample of financial statements.
13. The IASB received 84 comment letters on the Request for Information. Appendix B of this paper sets out the distribution of respondents by stakeholder type and by geographical region.
14. The IASB discussed the feedback summary on the comment letters, together with an update to the academic literature review and a summary of outreach, at its meeting in July 2021.<sup>3</sup>

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<sup>2</sup> A list of the matters can be found in [Agenda Paper 7A](#) at the IASB’s April 2020 meeting.

<sup>3</sup> Agenda Paper discussed at the IASB’s July 2021 meeting can be accessed [here](#).

15. In October 2021, November 2021 and February 2022, the IASB considered the findings from the second phase to decide what, if any, action to take.
16. At its February 2022 meeting the IASB decided that sufficient work has been completed to conclude the Post-implementation Review and requested the staff to prepare the Report.<sup>4</sup> The IASB expects to publish the Report in June 2022.
17. Appendix A of this paper sets out the due process steps followed in the Post-implementation Review.

### **Findings from the Post-implementation Review**

18. The IASB concluded, based on the analysis of the feedback gathered in the Post-implementation Review, that the Standards have met their objective and that:
  - (a) IFRS 10—using the control model as the single basis for consolidation, including guidance for applying that model to situations in which it can be difficult for an entity to assess control, enables entities to determine whether they control another entity;
  - (b) IFRS 11—classifying joint arrangements based on a party’s rights and obligations provides a faithful representation of an entity’s interest in a joint arrangement; overcoming previous impediments to financial reporting which classified joint arrangements based on legal structure and permitted an entity a choice on accounting for jointly controlled entities;
  - (c) IFRS 12—the information provided in accordance with IFRS 12 enables users of financial statements to evaluate the nature of, and risks associated with an investor’s interests in other entities, including joint arrangements, associates and structured entities; and
  - (d) the implementation and application of IFRS 10, IFRS 11 and IFRS 12, did not give rise to substantial unexpected costs.
19. At its January 2022 meeting the IASB discussed a two-step approach to responding to matters arising from a post-implementation review. For this Post-implementation Review, the IASB assessed *whether* matters arising from this post-implementation review warrant further action and how such matters should be *prioritised*. The IASB decided that the characteristics of a matter that determine prioritisation are:
  - (a) the matter has substantial consequences.
  - (b) the matter is pervasive.
  - (c) the IASB or the IFRS Interpretations Committee can respond to the matter.
  - (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.

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<sup>4</sup> Agenda paper 7A discussed at the IASB’s February 2022 meeting can be accessed [here](#).

20. The IASB evaluated the evidence gathered in the second phase of the Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12. Applying the approach discussed at its January 2022 meeting and reported at the March 2022 DPOC meeting, the IASB assessed there were no matters that required immediate action (high priority) or matters that should be added to the research pipeline (medium priority).<sup>5</sup> The IASB assessed that five matters to be of low priority, to be explored if identified as a priority in the next agenda consultation:
- (a) subsidiaries that are investment entities;
  - (b) transactions that change the relationship between an investor and an investee;
  - (c) transactions that involve ‘corporate wrappers’;
  - (d) collaborative arrangements outside the scope of IFRS 11; and
  - (e) additional disclosures about interests in other entities.
21. The IASB observed only some of the characteristics for determining prioritisations were present, specifically:
- (a) for investment entities that are subsidiaries themselves, information is only lost for multi-layered group structures and the loss of information can be compensated for by voluntary disclosure.
  - (b) IFRS Accounting Standards do not provide guidance for all transactions that alter the relationship between an investor and an investee. However, the IASB found that the transactions identified by respondents occur infrequently and, therefore, did not assess the matter to be pervasive.
  - (c) the concerns of stakeholders regarding transactions that involve ‘corporate wrappers’ extend beyond the scope of this Post-implementation Review and include other IFRS Accounting Standards. The IASB was also concerned whether it could satisfactorily address this matter.
  - (d) collaborative arrangements outside the scope of IFRS 11 were only observed in some industries.
  - (e) although users had called for improved disclosure of interest in other entities the overall feedback was that the disclosure requirements in IFRS 12 enable entities to meet the disclosure objective of IFRS 12.
22. The IASB decided not to take further action on other matters, including responding to calls for further guidance on IFRS 10 and IFRS 11. The IASB also acknowledged the need to balance the costs of developing and implementing guidance with the benefits of introducing new requirements. On balance, the IASB decided that, if stakeholders need further guidance, they could submit application questions to the IFRS Interpretations Committee.

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<sup>5</sup> The paper reported at the March 2022 DPOC can be accessed [here](#).

**Appendix A—Confirmation of Due Process Steps**

**Table A1—Due Process Steps**

Step	Required/ optional Due Process step	IASB	DPOC
<b>Timetable for the Post-implementation Review established.</b>	Required	The IASB added the Post-implementation Review to its work plan in September 2019. The IASB discussed the purpose of the first phase and the timetable.	The DPOC were informed in October 2019 that the work on the first phase of the Post-implementation Review had commenced.

Step	Required/ optional Due Process step	IASB	DPOC
<p><b>Establishment of scope, including identifying the important or contentious issues that arose during development of the Standard.</b></p>	<p>Required</p>	<p>In the first phase, over 20 meetings were held with stakeholders including preparers, auditors, investors, standard-setters and regulators. This included meetings with the IFRS Interpretations Committee and the IASB's consultative bodies. The history of the development of the Standards together with matters subsequently brought to the attention of the IASB and/or the IFRS Interpretations Committee were analysed to identify the important and contentious issues.</p> <p>The IASB also performed an academic literature review to understand empirical evidence on implementation and application of the Standards.</p> <p>The IASB identified matters it considered warranted further examination at its April 2020 meeting.</p>	<p>The DPOC were informed of progress in its June 2020 meeting; including the work undertaken in the first phase and the matters needing further examination through the Request for Information.</p>

Step	Required/ optional Due Process step	IASB	DPOC
<p><b>After the initial assessment, one of two routes may be taken:</b></p> <ul style="list-style-type: none"> <li>• <b>a request for information published to invite public comment, with appropriate response period; or</b></li> <li>• <b>on the basis of its initial assessment, the IASB may decide that it would be premature to undertake a review at the time.</b></li> </ul>	<p>Required</p>	<p>The IASB decided at its November 2020 meeting to publish a request for information with a comment period of 150 days.</p>	<p>The DPOC were informed in March 2021 that the Request for Information was published with a comment period of 150 days. This was longer than the 120 days minimum specified by the <i>Due Process Handbook</i> to assist stakeholders in the light of challenges arising from the covid-19 pandemic.</p>



Step	Required/ optional Due Process step	IASB	DPOC
<p><b>The IASB considers whether it is necessary to supplement the findings from the Request for Information with other evidence, such as an analysis of financial information, a review of academic or other related research on the implementation of the Standard being reviewed, or consultations with relevant parties.</b></p>	<p>Optional</p>	<p>At its November 2020 meeting, the IASB discussed an agenda paper describing possible additional activities to supplement the findings from the Request for Information and decided that such additional activities should include:</p> <ul style="list-style-type: none"> <li>• an update to the academic literature review;</li> <li>• targeted consultation with various stakeholders on matters in the Request for Information; and</li> <li>• a desk-top review of financial statements to look at disclosures provided by entities applying IFRS 12.</li> </ul>	<p>Not applicable</p>

Step	Required/ optional Due Process step	IASB	DPOC
<p><b>Project teams analyse and summarise comment letters for the IASB’s consideration. The IASB posts all comment letters in relation to the Request for information online.</b></p>	<p>Required</p>	<p>The IASB discussed the evidence gathered in the second phase at its July 2021 meeting. This included:</p> <ul style="list-style-type: none"> <li>• feedback from the Request for Information;</li> <li>• the updated academic literature review; and</li> <li>• feedback summary from outreach.</li> </ul> <p>All comment letters and summaries of the feedback were posted on the project page on the IFRS Foundation’s website.</p>	<p>The DPOC were informed, at its October 2021 meeting, that the IASB had discussed the feedback summary at its July 2021 meeting.</p>
<p><b>Follow up action after concluding the Post-implementation Review</b></p>	<p>Required</p>	<p>In October 2021, November 2021 and February 2022, the IASB discussed what action, if any, it should take after concluding the Post-implementation Review.</p> <p>The IASB’s decision is summarised in paragraphs 18–22 of this paper.</p>	<p>The DPOC were informed in March 2022 about the IASB’s decision not to add projects to the work plan of active or research projects.</p>

Step	Required/ optional Due Process step	IASB	DPOC
<b>IASB meetings are held in public and papers are publicly available. All decisions are made in a public session.</b>	Required	<p>The Post-implementation Review was discussed at public IASB meetings held between September 2019 to February 2021. Meeting papers were posted within deadlines.</p> <p>The project page on the IFRS Foundation's website has been maintained throughout the project.</p>	The DPOC was informed about progress on the Post-implementation Review at its meetings in October 2019, June 2020, March 2021, October 2021 and March 2022.
<b>The IASB presents its findings in a public report.</b>	Required	The draft report has been circulated to the DPOC.	The DPOC is asked to confirm that the IASB may finalise the Report at this meeting.
<b>Recommendations to DPOC about changes to the IASB's procedures (such as how the effects of a Standard should be assessed or additional steps that should be taken in developing a Standard).</b>	Optional	None identified.	Not applicable

## Appendix B—Respondents by stakeholder type and by geographical region

### Table B1—Respondents by stakeholder type

Type of respondent	Number of respondents	Percentage of respondents
Academics	2	3
Accounting firms	7	8
Preparers and industry organisations	28	33
Professional accountancy bodies	16	19
Regulators and government agencies	5	6
Standard-setters	22	26
Users of financial statements	4	5
<b>Total</b>	<b>84</b>	<b>100</b>

### Table B2—Respondents by geographical region

Geographical region	Number of respondents	Percentage of respondents
Global	9	11
Africa	6	7
Asia	18	21
Europe	36	43
Latin America and the Caribbean	7	8
North America	3	4
Oceania	5	6
<b>Total</b>	<b>84</b>	<b>100</b>