

December 2020

IFRS[®] Standard
Request for Information

Post-implementation Review

IFRS 10 *Consolidated Financial Statements*

IFRS 11 *Joint Arrangements*

IFRS 12 *Disclosure of Interests in Other Entities*

Comments to be received by 10 May 2021

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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*

Comments to be received by 10 May 2021

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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*

December 2020

Overview of the Post-implementation Review

Purpose of the Post-implementation Review

- 1 The International Accounting Standards Board (Board) is undertaking a Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. Post-implementation reviews are part of the Board's due process and help the Board assess the effects of requirements on users of financial statements, preparers and auditors.¹ In particular, the Board aims to assess whether:
- (a) an entity applying the requirements in 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.

Phases of the Post-implementation Review

- 2 This Post-implementation Review is being conducted in two phases. In the first phase the Board identified and assessed the matters to be examined further in a request for information. Paragraphs 15–17 set out the process the Board followed to identify these matters.
- 3 The main findings from the first phase, which took place from September 2019 to April 2020, are discussed in paragraphs 18–21.
- 4 In the second phase, the Board will consider responses to this Request for Information, feedback from discussions with stakeholders and a review of relevant research, including academic literature, on the effect on financial reporting of applying the Standards.
- 5 The Board will summarise its findings and state what steps, if any, it plans to take as a result of the review. The Board could decide to add a standard-setting project to its agenda, consider one or more matters further as part of its research programme, or both. The Board could also decide to take no action.

¹ The *Due Process Handbook* is available on the IFRS Foundation's website, www.ifrs.org.

- 6 In deciding whether to add a standard-setting project, the Board will assess:
- (a) whether the reporting of specified transactions or activities is deficient;
 - (b) the importance of the matters under review to users of financial statements;
 - (c) the type of entities likely to be affected; and
 - (d) whether the matters raised by respondents are pervasive or acute.
- 7 The Board's objectives when IFRS 10, IFRS 11 and IFRS 12 were issued were to:
- (a) develop a single basis for consolidation and robust guidance for applying that basis to situations in which it proved difficult for an entity to assess control.
 - (b) address two features of IAS 31 *Interests in Joint Ventures* the Board regarded as impediments to high-quality reporting on joint arrangements. Applying IAS 31:
 - (i) the structure of the joint arrangement was the sole determinant of the accounting for that arrangement; and
 - (ii) an entity could choose the accounting treatment for interests in jointly controlled entities.
 - (c) enable users of financial statements to evaluate the nature of and risks associated with an investor's² interests in other entities, including joint arrangements, associates and structured entities.
- 8 In some situations, assessing control is complex. Investors use various structures and can customise how control and economic returns are shared. Legal requirements and regulations vary across jurisdictions. The use of quantitative thresholds that appear simple to apply can undermine faithful representation and reduce the usefulness of financial statements. Financial reporting standards are most effective when they set out clear objectives and requirements and establish a framework for applying judgement effectively across a wide range of structures and regulatory regimes.

Invitation to comment

- 9 This Request for Information sets out 10 questions:
- (a) Question 1 relates to the respondent's background;
 - (b) Questions 2–9 relate to the matters the Board has decided to examine further; and
 - (c) Question 10 provides the respondent with an opportunity to comment on other topics not addressed in the Request for Information.

² In this Request for Information, the term 'investor' refers to a party that assesses whether it controls (jointly controls or exercises significant influence on) an investee regardless of the form of its involvement with the investee.

REQUEST FOR INFORMATION—DECEMBER 2020

- 10 The Board welcomes specific feedback on applying IFRS 10, IFRS 11 and IFRS 12. Respondents should provide specific details, including identifying any challenges and suggesting any additional support the Board could consider providing to stakeholders applying the Standards.
- 11 Respondents need not answer all the questions. When answering the questions, respondents are asked to consider the effect of the requirements:
- (a) on the relevance and faithful representation of financial statements;
 - (b) on comparability, both from period to period for a single reporting entity and between entities; and
 - (c) on the costs to users and preparers of financial information.
- 12 Comments are most helpful if they:
- (a) answer the questions as stated;
 - (b) indicate the paragraph or paragraphs of IFRS 10, IFRS 11 or IFRS 12 to which they relate;
 - (c) describe the effects of the requirements on relevance, faithful representation, comparability and costs;
 - (d) assess the matter's pervasiveness; and
 - (e) are supported by examples.

Deadline

- 13 The Board will consider all comments received by 10 May 2021.

How to comment

- 14 Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

Work undertaken in the first phase

Identifying matters to be included in the Request for Information

- 15 In the first phase of the Post-implementation Review, the Board identified matters that required further examination after:
- (a) reviewing the Board publications, including the project summaries and feedback statements published when IFRS 10, IFRS 11 and IFRS 12 were issued, submissions to the IFRS Interpretations Committee (Committee) and amendments to IFRS 10, IFRS 11 and IFRS 12.
 - (b) undertaking more than 20 meetings with users and preparers of financial statements, auditors, regulators and national standard-setters, including the Board's consultative bodies. Stakeholders were asked to share their experience of applying IFRS 10, IFRS 11 and IFRS 12 and to identify areas for the Board to examine further.³
 - (c) reviewing academic research and other literature.⁴
- 16 The Board used the findings from the activities listed in paragraph 15 to identify matters that warranted further examination, based on the following criteria:
- (a) the importance of the matter to those who raised it, including whether financial statements faithfully portray the reporting entity's financial position and performance, and whether the requirements result in reporting entities providing financial information that is useful in making informed economic decisions;
 - (b) how application challenges affect the consistent application of IFRS 10, IFRS 11 and IFRS 12; and
 - (c) the importance of the matter relative to the objectives of or main changes introduced by IFRS 10, IFRS 11 and IFRS 12.
- 17 For example, in this Request for Information the Board is seeking feedback on the definition of an 'investment entity' because the definition was introduced by an amendment to IFRS 10. The findings from the first phase have indicated a risk of inconsistent application of the definition. Similarly, the Board is seeking feedback on the classification of joint arrangements because the classification determines how an investor accounts for its interest in such an arrangement. Previously, when applying IAS 31, an investor had a choice to recognise interests in an arrangement classified as a joint venture using either proportionate consolidation or the equity method.

3 Agenda Paper 7A presented to the International Accounting Standards Board (Board) at its April 2020 meeting sets out the findings from the first phase.

4 Agenda Paper 7C presented to the Board at its April 2020 meeting discusses the academic literature review.

Main findings from the first phase

- 18 Feedback from the first phase demonstrated that stakeholders agree with the use of control as the single basis for consolidation. Some stakeholders reported that in some situations, applying the requirements of IFRS 10 involves significant judgement and reaching a conclusion can prove challenging. For example, challenges can arise when the information available to the entity could lead to several conclusions or when an entity or other party is uncertain whether a right or obligation exists.
- 19 Given the broad range of structures and arrangements, the Board avoided requirements based on quantitative thresholds and developed a single basis for consolidation that requires a holistic and qualitative assessment of all legal, contractual and other facts and circumstances before such a determination is made. The Board concluded that the use of judgement in determining if an investor controls an investee is necessary and appropriate.
- 20 IFRS 11 establishes a principle that the accounting for joint arrangements should reflect the rights and obligations the parties have as a result of their interests in the arrangements. This approach aims to address the two features of IAS 31, described in paragraph 7(b), that the Board regarded as impediments to high-quality reporting on joint arrangements. Stakeholders do not oppose the principle in IFRS 11 but some have concerns about requirements in IFRS 11 that were the subject of submissions to the Committee. These requirements relate to:
- (a) the classification of joint arrangements in specific situations; and
 - (b) the accounting requirements for joint operations.
- 21 Stakeholders made few comments on IFRS 12 in the first phase. Some stakeholders suggested increasing the specificity of information entities are required to provide when applying the Standard, while others found some of the disclosure requirements excessive.

Questions for respondents

Information about the respondent

Question 1—Your background

To understand whether groups of stakeholders share similar views, the Board would like to know:

- (a) your principal role in relation to financial reporting. Are you a user or a preparer of financial statements, an auditor, a regulator, a standard-setter or an academic? Do you represent a professional accounting body? If you are a user of financial statements, what kind of user are you, for example, are you a buy-side analyst, sell-side analyst, credit rating analyst, creditor or lender, or asset or portfolio manager?
- (b) your principal jurisdiction and industry. For example, if you are a user of financial statements, which regions do you follow or invest in? Please state whether your responses to questions 2–10 are unrelated to your principal jurisdiction or industry.

IFRS 10 *Consolidated Financial Statements*

Control—Power over an investee

- 22 IFRS 10 requires an investor to present consolidated financial statements when it controls one or more other entities (subsidiaries). An investor has control when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
- 23 An investor has power over the investee if the investor has the current ability to direct the relevant activities of the investee. Having a majority of the voting rights provides power over an investee in some situations. In other situations, other rights and factors shall be considered to assess whether the investor has the current ability to direct the relevant activities of the investee.

Power over an investee—Relevant activities	
Feedback	Analysis
<p>Some stakeholders found it challenging, on occasion, to identify the relevant activities. This challenge can arise when two or more investors each have rights that give them the unilateral ability to direct different activities.</p> <p>Some stakeholders said identifying relevant activities requires significant judgement when the relevant activities occur at different times or are conditional on future events. In such situations, the contribution of each activity to the investee's performance may change over time. This introduces additional complexity into the lifetime assessment.</p>	<p>In developing IFRS 10, the Board decided to provide requirements explaining the activities of an investee to which the definition of control referred (relevant activities). The Board specified that to have control of an investee an investor must have the current ability to direct activities of the investee that significantly affect the investee's returns. The Board considered the requirements would be particularly helpful to assess control of an investee that is not directed through voting or similar rights.^(a)</p> <p>When two or more investors have decision-making rights over different activities of an investee, IFRS 10 requires an investor to determine the relevant activities that most significantly affect the investee's returns.</p> <p>To have power, an investor does not have to be able to direct all the activities that significantly affect the returns of an investee.</p>
Requirements in IFRS Standards	
<p>Paragraph 10 of IFRS 10:</p> <p style="padding-left: 40px;">An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect the investee's returns.</p> <p>Paragraph 13 of IFRS 10:</p> <p style="padding-left: 40px;">If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee.</p>	
<p>(a) See paragraph BC57 of the Basis for Conclusions on IFRS 10 <i>Consolidated Financial Statements</i>.</p>	
Question 2(a)	
<p>In your experience:</p> <p>(i) to what extent does applying paragraphs 10–14 and B11–B13 of IFRS 10 enable an investor to identify the relevant activities of an investee?</p> <p>(ii) are there situations in which identifying the relevant activities of an investee poses a challenge, and how frequently do these situations arise? In these situations, what other factors are relevant to identifying the relevant activities?</p>	

Power over an investee—Rights that give an investor power (1 of 2)	
Feedback	Analysis
<p>Some stakeholders said they found it challenging to assess whether rights are protective. For example, it can be challenging to make this assessment for rights held by a franchisor under a franchise agreement that restrict the ability of a party other than the franchisor to direct relevant activities.</p>	<p>Laws or contractual agreements can grant decision-making rights. In IFRS 10 the Board addressed the rights that give an investor power and those that do not.^(a)</p> <p>The Board's view was that including application guidance in IFRS 10 on the rights that give an investor power would help in determining whether an investor controls an investee, or whether the rights held by other parties are sufficient to prevent an investor from controlling an investee.</p> <p>An investor assesses the nature of its rights and rights held by others to determine if these rights are protective. Only substantive rights that are not protective can give an investor power.</p>
Requirements in IFRS Standards	
<p>Paragraphs B26–B27 of IFRS 10:</p> <p>In evaluating whether rights give an investor power over an investee, the investor shall assess whether its rights, and rights held by others, are protective rights. Protective rights relate to fundamental changes to the activities of an investee or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective ...</p> <p>Because protective rights are designed to protect the interests of their holder without giving that party power over the investee to which those rights relate, an investor that holds only protective rights cannot have power or prevent another party from having power over an investee ...</p> <p>Paragraphs B30–B31 of IFRS 10:</p> <p>Generally, franchisors' rights do not restrict the ability of parties other than the franchisor to make decisions that have a significant effect on the franchisee's returns. Nor do the rights of the franchisor in franchise agreements necessarily give the franchisor the current ability to direct the activities that significantly affect the franchisee's returns.</p> <p>It is necessary to distinguish between having the current ability to make decisions that significantly affect the franchisee's returns and having the ability to make decisions that protect the franchise brand. The franchisor does not have power over the franchisee if other parties have existing rights that give them the current ability to direct the relevant activities of the franchisee.</p>	
<p>(a) See paragraph BC95 of the Basis for Conclusions on IFRS 10.</p>	

Power over an investee—Rights that give an investor power (2 of 2)	
Feedback	Analysis
<p>Some stakeholders asked for additional guidance on how an investor reassesses its own rights and the rights of other parties (including potential voting rights) when facts and circumstances change.</p> <p>For example, some stakeholders asked the Board to clarify how changes in market conditions affect the assessment of whether potential voting rights are substantive.</p>	<p>The Board decided to require an entity to reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.</p> <p>An investor may hold financial instruments, such as options, which give the holder the right to gain power over an investee. However, in assessing control, potential voting rights are considered only if they are substantive.</p> <p>An investor considers all facts and circumstances, including the relevant factors listed in paragraph B23 of IFRS 10, to determine whether a right is substantive. The comparison between the strike or conversion price and the current market value of the underlying share is one factor an investor should consider. The Board noted that a change in market conditions alone would not typically result in a change in the consolidation conclusion.^(a)</p>

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Requirements in IFRS Standards
<p>Paragraph 8 of IFRS 10:</p> <p>An investor shall consider all facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7 ...</p> <p>Paragraph B23 of IFRS 10:</p> <p>Determining whether rights are substantive requires judgement, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:</p> <p>...</p> <p>(c) Whether the party or parties that hold the rights would benefit from the exercise of those rights.</p> <p>...</p> <p>Paragraph B85 of IFRS 10:</p> <p>An investor's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (eg a change in the investee's returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in paragraph 7 or changes the overall relationship between a principal and an agent.</p>
<p>(a) See paragraph BC124 of the Basis for Conclusions on IFRS 10.</p>

Question 2(b)
<p>In your experience:</p> <p>(i) to what extent does applying paragraphs B26–B33 of IFRS 10 enable an investor to determine if rights are protective rights?</p> <p>(ii) to what extent does applying paragraphs B22–B24 of IFRS 10 enable an investor to determine if rights (including potential voting rights) are, or have ceased to be, substantive?</p>

Power over an investee—Control without a majority of the voting rights	
Feedback	Analysis
<p>Some stakeholders said that in some situations, assessing whether an investor with less than a majority of the voting rights has control of an investee is challenging and can lead to inconsistent outcomes.</p> <p>Some stakeholders specifically referred to the situation described in paragraph B42(a) of IFRS 10 in which an investor with less than a majority of the voting rights has the practical ability to direct an investee’s relevant activities because of the size of the investor’s voting rights relative to the size and dispersion of the other shareholdings.</p> <p>Some stakeholders described divergent views on whether a minimum level of voting rights is needed for control and, if so, what this minimum level should be.</p> <p>Some stakeholders said the reassessment requirements are challenging to apply when the other shareholdings are widely dispersed. These stakeholders said the requirements oblige an investor to monitor transactions or events between other shareholders and that such monitoring can be burdensome.</p>	<p>The Board has identified situations in which an investor can control an investee even though it does not own more than half the voting rights of an investee and does not have other contractual rights in relation to the activities of the investee. The Board concluded that it would be inappropriate to specify that power only applies in situations in which an investor has the unassailable right to direct the activities of the investee in every possible scenario and the power to block the actions of others.</p> <p>As noted in paragraph 19 of this Request for Information, in developing IFRS 10 the Board avoided requirements based on quantitative thresholds and developed a single basis for consolidation that requires a holistic and qualitative assessment of all legal, contractual and other facts and circumstances before such a determination is made.</p> <p>The Board concluded the assessment of control requires an entity to consider all facts and circumstances and it would be impossible to develop reconsideration criteria that would apply to every situation in which an investor obtains or loses control of an investee. Therefore, the reassessment of control only when particular reconsideration criteria are met would lead to inappropriate consolidation decisions in some cases.^(a)</p>

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Requirements in IFRS Standards
<p>Paragraph B38 of IFRS 10:</p> <p>An investor can have power even if it holds less than a majority of the voting rights of an investee.</p> <p>...</p>
<p>Paragraph B41 of IFRS 10:</p> <p>An investor with less than a majority of the voting rights has rights that are sufficient to give it power when the investor has the practical ability to direct the relevant activities unilaterally.</p>
<p>Paragraph B42 of IFRS 10 provides examples of facts and circumstances to be considered in determining whether an investor with less than a majority of the voting rights has power.</p>
<p>(a) See paragraph BC149 of the Basis for Conclusions on IFRS 10.</p>

Question 2(c)
<p>In your experience:</p> <ul style="list-style-type: none">(i) to what extent does applying paragraphs B41–B46 of IFRS 10 to situations in which the other shareholdings are widely dispersed enable an investor that does not hold a majority of the voting rights to make an appropriate assessment of whether it has acquired (or lost) the practical ability to direct an investee’s relevant activities?(ii) how frequently does the situation in which an investor needs to make the assessment described in question 2(c)(i) arise?(iii) is the cost of obtaining the information required to make the assessment significant?

Control—The link between power and returns

24 One element of control is the link between power and returns. An investor needs to be able to use its power over the relevant activities of an investee to affect its returns from its involvement with the investee. An investor cannot use its power to affect its returns when it acts as an agent on behalf of another party.

The link between power and returns—Principals and agents	
Feedback	Analysis
<p>Some stakeholders said it can be challenging to determine whether a decision maker is acting as a principal or an agent.</p> <p>Some stakeholders noted that the remuneration (for example, a performance fee) and other interests held by the decision maker can be subject to complex arrangements and depend on future events or performance. In such cases, stakeholders find it challenging to assess whether the decision maker’s exposure to variable returns is consistent with being an agent.</p> <p>Stakeholders’ views differed on whether a minimum level of economic interest is relevant in determining an agency relationship, and if so, what this minimum level should be.</p>	<p>The Board decided that the IFRS 10 requirements which address control should also apply to agency relationships. However, the Board noted that identifying the link between power and returns is important in distinguishing principals from agents, so the requirements include a particular focus on the exposure to returns.</p> <p>The Board rejected developing a model that would specify a particular level of returns that would result in the determination of an agency relationship.</p> <p>As previously stated, in developing IFRS 10 the Board avoided requirements based on quantitative thresholds.</p> <p>The Board concluded that the more exposure a decision maker has to variable returns from its involvement with an investee, the more likely it is that the decision maker is a principal.</p>
Requirements in IFRS Standards	
<p>Paragraph B60 of IFRS 10:</p> <p>A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:</p> <ul style="list-style-type: none"> (a) the scope of its decision-making authority over the investee ...; (b) the rights held by other parties ...; (c) the remuneration to which it is entitled in accordance with the remuneration agreement(s) ...; and (d) the decision maker’s exposure to variability of returns from other interests that it holds in the investee ... <p>Different weightings shall be applied to each of the factors on the basis of particular facts and circumstances.</p>	

Question 3(a)

In your experience:

- (i) to what extent does applying the factors listed in paragraph B60 of IFRS 10 (and the application guidance in paragraphs B62–B72 of IFRS 10) enable an investor to determine whether a decision maker is a principal or an agent?
- (ii) are there situations in which it is challenging to identify an agency relationship? If yes, please describe the challenges that arise in these situations.
- (iii) how frequently do these situations arise?

The link between power and returns—Non-contractual agency relationships	
Feedback	Analysis
<p>Some stakeholders said it can be challenging to prove or disprove that an investor and other parties have an agency relationship in the absence of a contractual arrangement (a de facto agency relationship).</p> <p>For example, when two investors under common control each hold an interest in an investee, some stakeholders are unsure of what factors to consider in determining whether one investor acts on the other investor's behalf.</p>	<p>The Board concluded that when assessing control, an investor considers its de facto agent's decision-making rights and the agent's exposure or rights to variable returns together with its own as if the agent's rights were held by the investor directly. In reaching this decision, the Board judged it inappropriate to assume that all other parties listed in paragraph B75 of IFRS 10 would always or never act as de facto agents for the investor. The Board acknowledged that judgement is required when assessing whether a party is a de facto agent of the investor. This assessment includes considering the nature of the relationship and how the parties interact.</p>
Requirements in IFRS Standards	
<p>Paragraphs B73–B74 of IFRS 10:</p> <p style="padding-left: 40px;">When assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf (ie they are 'de facto agents'). The determination of whether other parties are acting as de facto agents requires judgement, considering not only the nature of the relationship but also how those parties interact with each other and the investor.</p> <p style="padding-left: 40px;">Such a relationship need not involve a contractual arrangement. A party is a de facto agent when the investor has, or those that direct the activities of the investor have, the ability to direct that party to act on the investor's behalf. In these circumstances, the investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee.</p> <p>Paragraph B75 of IFRS 10 provides examples of other parties that might act as de facto agents for the investor.</p>	
Question 3(b)	
<p>In your experience:</p> <p>(i) to what extent does applying paragraphs B73–B75 of IFRS 10 enable an investor to assess whether control exists because another party is acting as a de facto agent (ie in the absence of a contractual arrangement between the parties)?</p> <p>(ii) how frequently does the situation in which an investor needs to make the assessment described in question 3(b)(i) arise?</p> <p>(iii) please describe the situations that give rise to such a need.</p>	

Investment entities

25 IFRS 10 requires investment entities to measure their investments in subsidiaries at fair value and to recognise any changes in fair value in profit or loss. An investment entity consolidates a subsidiary if the subsidiary is not an investment entity itself and its main purpose and activities are to provide services that relate to the investment entity’s investment activities.

26 IFRS 10 defines an investment entity and describes its typical characteristics.

Investment entities—Criteria for identifying an investment entity	
Feedback	Analysis
<p>Some stakeholders said the definition of an investment entity may not be sufficiently robust. These stakeholders asked for clarification on some aspects of the definition, including:</p> <p>(a) business purpose—the extent of participation in the active management of the investee that is consistent with an investment entity status;</p> <p>(b) exit strategy—the level of formal documentation required to provide evidence that the investment entity has an exit strategy for its equity and non-financial asset investments; and</p> <p>(c) fair value measurement—the conditions that need to be fulfilled to demonstrate that fair value information is used for internal reporting and decision-making purposes.</p>	<p>In defining ‘investment entity’, the Board proposed six criteria an entity needs to meet to qualify as an investment entity. After considering feedback from stakeholders, the Board concluded that the criteria were too restrictive and that the focus should be on the business model rather than the structure of the entity.</p> <p>To qualify as an investment entity, an entity must meet the definition. The typical characteristics were included to help an entity determine whether it qualifies as an investment entity. Such an approach achieves a balance between clearly defining those entities that qualify as investment entities and being too prescriptive.</p>

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Requirements in IFRS Standards

Paragraphs 27–28 of IFRS 10:

A parent shall determine whether it is an investment entity. An investment entity is an entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

Paragraphs B85A–B85M provide related application guidance.

In assessing whether it meets the definition described in paragraph 27, an entity shall consider whether it has the following typical characteristics of an investment entity:

- (a) it has more than one investment ...;
- (b) it has more than one investor ...;
- (c) it has investors that are not related parties of the entity ...; and
- (d) it has ownership interests in the form of equity or similar interests ...

The absence of any of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity.

...

Question 4(a)

In your experience:

- (i) to what extent does applying the definition (paragraph 27 of IFRS 10) and the description of the typical characteristics of an investment entity (paragraph 28 of IFRS 10) lead to consistent outcomes? If you have found that inconsistent outcomes arise, please describe these outcomes and explain the situations in which they arise.
- (ii) to what extent does the definition and the description of typical characteristics result in classification outcomes that, in your view, fail to represent the nature of the entity in a relevant or faithful manner? For example, do the definition and the description of typical characteristics include entities in (or exclude entities from) the category of investment entities that in your view should be excluded (or included)? Please provide the reasons for your answer.

POST-IMPLEMENTATION REVIEW OF IFRS 10, IFRS 11 AND IFRS 12

Investment entities—Subsidiaries that are investment entities	
Feedback	Analysis
<p>Some stakeholders said requiring an investment entity to measure at fair value an investment in a subsidiary that is an investment entity itself (instead of requiring the entity to consolidate the assets and liabilities of the subsidiary) results in the loss of information about:</p> <ul style="list-style-type: none"> (a) investments held by the intermediate subsidiary—for example, information on fair value and on changes in the fair value of these investments; (b) investment-related services provided by the intermediate subsidiary—for example, revenue and the cost of the service; and (c) other assets and liabilities held by the intermediate subsidiary, such as cash balances and liabilities. <p>These stakeholders noted that some investment entities disclose some of this information voluntarily.</p>	<p>In the feedback to the Board’s consultation on investment entities in 2011, some stakeholders suggested that at least some intermediate investment entities, such as subsidiaries established solely for legal, tax or regulatory purposes, should be consolidated rather than measured at fair value.</p> <p>The Board decided that fair value is the most relevant information about an investment in a subsidiary held by an investment entity, except for subsidiaries that provide only investment-related services.</p> <p>Moreover, the Board did not identify a conceptual basis or a practical way to distinguish between different types of subsidiaries that are investment entities.</p>
Requirements in IFRS Standards	
<p>Paragraphs 31–32 of IFRS 10:</p> <p>Except as described in paragraph 32, an investment entity shall not consolidate its subsidiaries or apply IFRS 3 [<i>Business Combinations</i>] when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9 [<i>Financial Instruments</i>].</p> <p>Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity’s investment activities ..., it shall consolidate that subsidiary in accordance with paragraphs 19–26 of this IFRS and apply the requirements of IFRS 3 to the acquisition of any such subsidiary.</p>	

Question 4(b)

In your experience:

- (i) are there situations in which requiring an investment entity to measure at fair value its investment in a subsidiary that is an investment entity itself results in a loss of information? If so, please provide details of the useful information that is missing and explain why you think that information is useful.
- (ii) are there criteria, other than those in paragraph 32 of IFRS 10, that may be relevant to the scope of application of the consolidation exception for investment entities?

Accounting requirements

Accounting requirements—Change in the relationship between an investor and an investee	
Feedback	Analysis
<p>Some stakeholders said IFRS Standards should provide greater detail on how to account for a transaction, event or circumstances that alter the relationship between an investor and an investee. One example is a transaction in which a parent loses control of a subsidiary but retains an interest in a joint operation.</p> <p>Some stakeholders disagreed with the requirement to remeasure a retained interest (for example, an investment in an associate) at fair value after a loss of control. These stakeholders take the view that remeasuring the retained interest is inappropriate because, considered in isolation, the retained interest has not changed.</p>	<p>The Board has already considered this topic. For example, in 2014 the Board amended IFRS 11 to add requirements on the acquisition of interests in joint operations. However, IFRS Standards do not provide requirements that relate to all transactions, events or circumstances that alter the relationship between an investor and an investee.</p> <p>In 2008 the Board revised IAS 27 <i>Consolidated and Separate Financial Statements</i> and introduced requirements to account for the loss of control of a subsidiary (these requirements were later transferred to IFRS 10). The Board decided that any investment the parent retains in the former subsidiary would be measured at fair value at the date when control is lost, because the loss of control is a significant economic event. Measuring the retained investment at fair value is consistent with the view that the new investor–investee relationship differs from the former parent–subsidiary relationship.^(a)</p>

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Requirements in IFRS Standards
<p>When an entity holds an interest in an investee, the entity applies the relevant IFRS Standards to that retained interest, namely, IFRS 9, IFRS 10, IFRS 11 and IAS 28 <i>Investments in Associates and Joint Ventures</i>.</p> <p>Paragraph B98 of IFRS 10:</p> <p style="padding-left: 40px;">If a parent loses control of a subsidiary, it shall:</p> <p style="padding-left: 80px;">...</p> <p style="padding-left: 40px;">(b) recognise:</p> <p style="padding-left: 80px;">(i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;</p> <p style="padding-left: 80px;">(ii) if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and</p> <p style="padding-left: 80px;">(iii) any investment retained in the former subsidiary at its fair value at the date when control is lost.</p> <p style="padding-left: 80px;">...</p>
<p>(a) See paragraph BCZ182 of the Basis for Conclusions on IFRS 10.</p>

Question 5(a)
<p>In your experience:</p> <p>(i) how frequently do transactions, events or circumstances arise that:</p> <p style="padding-left: 40px;">(a) alter the relationship between an investor and an investee (for example, a change from being a parent to being a joint operator); and</p> <p style="padding-left: 40px;">(b) are not addressed in IFRS Standards?</p> <p>(ii) how do entities account for these transactions, events or circumstances that alter the relationship between an investor and an investee?</p> <p>(iii) in transactions, events or circumstances that result in a loss of control, does remeasuring the retained interest at fair value provide relevant information? If not, please explain why not, and describe the relevant transactions, events or circumstances.</p>

Accounting requirements—Partial acquisition of a subsidiary that does not constitute a business	
Feedback	Analysis
<p>Some stakeholders are unsure how an investor should account for a transaction in which an investor acquires control of a subsidiary that does not constitute a business, as defined by IFRS 3. In particular, stakeholders want to understand whether the investor should recognise a non-controlling interest for equity not attributable to the parent. The feedback indicates that two accounting practices have developed:</p> <p>(a) the method described in paragraph 2 of IFRS 3—allocating the consideration paid to the identifiable assets and liabilities acquired based on their relative fair values; and</p> <p>(b) the acquisition method in IFRS 3—including recognition of non-controlling interests.</p>	<p>IFRS 3, which requires recognition of a non-controlling interest, applies to acquirees. ‘Acquiree’ is defined as the business or businesses over which the acquirer obtains control in a business combination. IFRS 3 applies only to the acquisition of a business or businesses.</p> <p>IFRS 10 requires a parent to consolidate all its subsidiaries and defines non-controlling interests as equity in a subsidiary not attributable, directly or indirectly, to a parent. A subsidiary need not constitute a business.</p>
Requirements in IFRS Standards	
<p>Paragraph 19 of IFRS 3:</p> <p style="padding-left: 40px;">For each business combination, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation at either:</p> <p style="padding-left: 80px;">(a) fair value; or</p> <p style="padding-left: 80px;">(b) the present ownership instruments’ proportionate share in the recognised amounts of the acquiree’s identifiable net assets.</p> <p style="padding-left: 40px;">All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs.</p> <p>Paragraph 2 of IFRS 3 states that IFRS 3 does not apply to the acquisition of an asset or a group of assets that does not constitute a business.</p>	

Question 5(b)

In your experience:

- (i) how do entities account for transactions in which an investor acquires control of a subsidiary that does not constitute a business, as defined in IFRS 3? Does the investor recognise a non-controlling interest for equity not attributable to the parent?
- (ii) how frequently do these transactions occur?

IFRS 11 *Joint Arrangements*

- 27 IFRS 11 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. An investor that is party to a joint arrangement determines whether the arrangement is a joint venture or a joint operation by assessing the rights and obligations of the parties to the arrangement.

Collaborative arrangements outside the scope of IFRS 11

Collaborative arrangements outside the scope of IFRS 11	
Feedback	Analysis
<p>Some stakeholders said that IFRS Standards do not provide sufficient accounting requirements for all types of collaborative arrangements, such as arrangements in which two or more parties manage activities together but which do not qualify as joint arrangements as defined in IFRS 11 because of a lack of joint control.</p> <p>For example, parties to a collaborative arrangement may exercise significant influence over the arrangement. In such a situation, an entity would apply the equity method in accordance with IAS 28. However, some stakeholders said accounting outcomes similar to those for joint operations would more faithfully represent the arrangements.</p>	<p>IFRS 11 carried forward the two characteristics required by IAS 31 for an arrangement to be deemed a 'joint venture':</p> <ul style="list-style-type: none"> (a) a contractual arrangement that binds the parties to the arrangement; and (b) a contractual arrangement that establishes that two or more of those parties have joint control of the arrangement. <p>Collaborative arrangements such as those described are outside the scope of IFRS 11 due to a lack of joint control.</p>
Requirements in IFRS Standards	
<p>Paragraphs 3–5 of IFRS 11:</p> <p style="padding-left: 40px;">This IFRS shall be applied by all entities that are a party to a joint arrangement.</p> <p style="padding-left: 40px;">A joint arrangement is an arrangement of which two or more parties have joint control.</p> <p style="padding-left: 40px;">A joint arrangement has the following characteristics:</p> <ul style="list-style-type: none"> (a) The parties are bound by a contractual arrangement ... (b) The contractual arrangement gives two or more of those parties joint control of the arrangement ... 	

Question 6

In your experience:

- (a) how widespread are collaborative arrangements that do not meet the IFRS 11 definition of ‘joint arrangement’ because the parties to the arrangement do not have joint control? Please provide a description of the features of these collaborative arrangements, including whether they are structured through a separate legal vehicle.
- (b) how do entities that apply IFRS Standards account for such collaborative arrangements? Is the accounting a faithful representation of the arrangement and why?

Classifying joint arrangements

Classifying joint arrangements	
Feedback	Analysis
<p>Some stakeholders said classifying joint arrangements as either joint operations or joint ventures can require significant judgement, which they believed can be burdensome. In the view of these stakeholders, the requirements in IFRS 11 regarding the classification of joint arrangements should be simpler to apply.</p>	<p>IFRS 11 requires a joint arrangement that is not structured through a separate vehicle to be classified as a joint operation. In developing IFRS 11 the Board's view was that the accounting for joint arrangements should reflect the rights and obligations the parties have as a result of their interests in the arrangements, regardless of the structures or legal forms of those arrangements.</p> <p>Applying IFRS 11, a joint arrangement structured through a separate vehicle is classified as a joint operation in specified circumstances based on other facts and circumstances, such as the activities of the joint arrangement having the primary function of providing output to the parties of the joint arrangement.</p>

Requirements in IFRS Standards

Paragraph 14 of IFRS 11:

An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

Paragraphs B31 of IFRS 11:

When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.

Question 7

In your experience:

- (a) how frequently does a party to a joint arrangement need to consider other facts and circumstances to determine the classification of the joint arrangement after having considered the legal form and the contractual arrangement?
- (b) to what extent does applying paragraphs B29–B32 of IFRS 11 enable an investor to determine the classification of a joint arrangement based on 'other facts and circumstances'? Are there other factors that may be relevant to the classification that are not included in paragraphs B29–B32 of IFRS 11?

Accounting requirements for joint operations

Accounting requirements for joint operations	
Feedback	Analysis
<p>Some stakeholders asked about cases in which joint operators are committed to buying a share of output that differs from their share of ownership in the joint operation. The stakeholders asked:</p> <p>(a) for the basis on which a joint operator determines its share of jointly held assets and jointly incurred liabilities; and</p> <p>(b) how an entity accounts for a difference between the amount of assets and liabilities initially recognised and the equity that was contributed initially.</p>	<p>The Committee has published a number of agenda decisions on the accounting for interests in joint operations.</p> <p>In March 2015 the Committee noted the importance of understanding why a joint operator's share of output purchased differs from the ownership interest in the joint operation in determining the appropriate accounting as required by paragraph 20 of IFRS 11.</p>
<p>Some stakeholders discussed situations in which a joint operator enters into an agreement on behalf of the joint operation, and expressed the view that the liabilities recognised by the joint operator should reflect its primary responsibility and take into consideration both the contractual agreement with the third party supplier and the agreement with the joint operation or the other operators to reflect the expected economic exposure of the joint operator.</p>	<p>In March 2019 the Committee said the liabilities a joint operator recognises include those for which it has primary responsibility. The Committee said identifying the liabilities a joint operator incurred and those incurred jointly requires an assessment of the terms and conditions in all contractual agreements that relate to the joint operation, including consideration of the laws pertaining to those agreements.</p> <p>When a joint operator has primary responsibility for a liability, the joint operator recognises that liability in its financial statements, applying paragraph 20 of IFRS 11, and determines whether and how it should recognise a corresponding right to recover amounts from the other joint operators. This accounting makes clear that although the joint operator may have a right to recover from other joint operators, it would be obliged to meet its primary responsibility even if it failed to recover from those operators.</p>

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Requirements in IFRS Standards

Paragraph 20 of IFRS 11:

A joint operator shall recognise in relation to its interest in a joint operation:

- (a) its assets, including its share of any assets held jointly;
- (b) its liabilities, including its share of any liabilities incurred jointly;
- (c) its revenue from the sale of its share of the output arising from the joint operation;
- (d) its share of the revenue from the sale of the output by the joint operation; and
- (e) its expenses, including its share of expenses incurred jointly.

Question 8

In your experience:

- (a) to what extent does applying the requirements in IFRS 11 enable a joint operator to report its assets, liabilities, revenue and expenses in a relevant and faithful manner?
- (b) are there situations in which a joint operator cannot so report? If so, please describe these situations and explain why the report fails to constitute a relevant and faithful representation of the joint operator's assets, liabilities, revenue and expenses.

IFRS 12 *Disclosure of Interests in Other Entities*

28 IFRS 12 sets out disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities, and the risks associated with these interests.

Disclosure of interests in other entities

Disclosure of interests in other entities	
Feedback	Analysis
<p>Some stakeholders asked for additional information including:</p> <p>(a) disclosure of the composition of non-controlling interests (such as to which subsidiaries the interest relates);</p> <p>(b) disclosure of the proportionate share of operating cash flows attributable to material non-controlling interests;</p> <p>(c) information on restrictions on paying dividends, dividend traps, the tax consequences of distributions and the subordination of debt in subsidiaries; and</p> <p>(d) greater disaggregation of assets and liabilities held by subsidiaries with material non-controlling interests, associates and joint ventures.</p> <p>In contrast, other stakeholders found some of the requirements in IFRS 12 excessive. For example, some questioned the need to provide information about subsidiaries with significant non-controlling interests, because the group controls the assets and is responsible for the liabilities.</p>	<p>The Board's objective in developing IFRS 12 was to respond to requests from users of financial statements to improve the disclosure requirements on a reporting entity's interests in other entities.</p> <p>The objective of IFRS 12 is to:</p> <p>require an entity to disclose information that enables users of its financial statements to evaluate:</p> <p>(a) the nature of, and the risks associated with, its interests in other entities; and</p> <p>(b) the effects of those interests on its financial position, financial performance and cash flows.^(a)</p> <p>Summarised financial information about subsidiaries with material non-controlling interests is intended to help users of financial statements predict future cash flows attributable to those with claims against the entity including those holding the non-controlling interests.</p> <p>The Board also sought to develop requirements on the risks to which an entity is exposed through its involvement with structured entities, including those it has sponsored. The requirements were developed to respond to concerns that financial statements lacked information about the risks arising from structured entities, including structured entities that provide investment and securitisation services.</p>

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Disclosure of interests in other entities	
Feedback	Analysis
<p>Some stakeholders have found it challenging to apply requirements in IFRS 12, for example, those relating to:</p> <p>(a) applying the definition of structured entities and identifying unconsolidated structured entities; and</p> <p>(b) obtaining the information required for disclosures.</p>	<p>When applying IFRS 12, an entity shall consider the level of detail necessary to satisfy the objective of IFRS 12. Financial information should be disclosed separately for each joint arrangement and associate that is individually material, and in aggregate for joint arrangements and associates that are not individually material.</p> <p>Guidance on the appropriate level of aggregation and detail is available in IFRS Standards and in IFRS Practice Statement 2 <i>Making Materiality Judgements</i>.</p>
<p>(a) Other entities include subsidiaries, joint arrangements, associates and unconsolidated structured entities.</p>	

Question 9
<p>In your experience:</p> <p>(a) to what extent do the IFRS 12 disclosure requirements assist an entity to meet the objective of IFRS 12, especially the new requirements introduced by IFRS 12 (for example the requirements for summarised information for each material joint venture or associate)?</p> <p>(b) do the IFRS 12 disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics?</p> <p>(c) what additional information that is not required by IFRS 12, if any, would be useful to meet the objective of IFRS 12? If there is such information, why and how would it be used? Please provide suggestions on how such information could be disclosed.</p> <p>(d) does IFRS 12 require information to be provided that is not useful to meet the objective of IFRS 12? If yes, please specify the information that you consider unnecessary, why it is unnecessary and what requirements in IFRS 12 give rise to the provision of this information.</p>

Other topics

- 29 As part of the first phase of this Post-implementation Review, some stakeholders raised questions about how IFRS 10 and IFRS 11 interact with other IFRS Standards, for example, with regard to the accounting for transactions involving the sale of a subsidiary to a customer.⁵

Question 10

Are there topics not addressed in this Request for Information, including those arising from the interaction of IFRS 10 and IFRS 11 and other IFRS Standards, that you consider to be relevant to this Post-implementation Review? If so, please explain the topic and why you think it should be addressed in the Post-implementation Review.

⁵ See Agenda Paper 12A for the June 2020 Board meeting.

Appendix—Background to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 10 *Consolidated Financial Statements*

- A1 IFRS 10 *Consolidated Financial Statements* establishes principles for presenting and preparing consolidated financial statements when an entity controls one or more other entities.
- A2 In 2011, the Board issued IFRS 10 to reduce the diversity in practice arising from entities applying IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*.
- A3 IAS 27 required the consolidation of entities that are controlled by the parent. IAS 27 defined control as the power to govern the financial and operating policies of an entity to obtain benefits from its activities. SIC-12 interpreted the requirements of IAS 27 in the context of special purpose entities, with a focus on risks and rewards. The coexistence of IAS 27 and the SIC-12 interpretation gave rise to a perceived inconsistency, which was aggravated by a lack of clarity on when an entity should apply IAS 27 or SIC-12. As a result, entities sometimes assessed control using quantitative thresholds that permitted structuring opportunities.
- A4 IFRS 10 replaced the requirements in IAS 27 and SIC-12 with a single basis for consolidation – control over an investee. An investor is deemed to have control if it:
- (a) has power over the investee;
 - (b) is exposed, or has rights, to variable returns from its involvement with the investee; and
 - (c) has the ability to use its power over the investee to affect the amount of the investor’s returns.
- A5 IFRS 10 includes requirements that enable the application of control in complex situations, for example:
- (a) when an investor controls an investee that is governed by means of voting rights, but the investor has less than a majority of the voting rights;
 - (b) when an investee is not governed by means of voting rights;
 - (c) agency relationships; and
 - (d) when the investor or other parties have protective rights.
- A6 The Board amended IFRS 10 to provide an exception to the consolidation requirements for the class of entities defined as ‘investment entities’.

IFRS 11 *Joint Arrangements*

- A7 IFRS 11 *Joint Arrangements* establishes principles for financial reporting by entities with an interest in arrangements that are controlled jointly. IFRS 11 replaced IAS 31 *Interests in Joint Ventures*.
- A8 IAS 31 specified the accounting requirements to apply depending on the structure of the arrangement. IAS 31 also permitted an entity with an interest in a joint venture to choose between proportionate consolidation and the equity method.
- A9 IFRS 11 specifies the accounting requirements to apply based on the nature of the rights and obligations of the parties to the arrangement. IFRS 11 also prohibits an entity from applying proportionate consolidation to account for an interest in a joint venture. Paragraph BC41 of the Basis for Conclusions on IFRS 11 stated the equity method is the most appropriate method to account for joint ventures because it is a method that accounts for an entity's interest in the net assets of an investee.

IFRS 12 *Disclosure of Interests in Other Entities*

- A10 IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose information that enables users of its financial statements to evaluate:
- (a) the nature of, and risks associated with, the entity's interest in other entities; and
 - (b) the effects of those interests on the entity's financial position, financial performance and cash flows.
- A11 IFRS 12 establishes principles for disclosing a reporting entity's interests in other entities with which the reporting entity has a special relationship. A special relationship could mean the reporting entity controls another entity, has joint control of or significant influence over another entity or has an interest in an unconsolidated structured entity.
- A12 IFRS 12 introduced additional disclosure requirements on:
- (a) investment entities, in accordance with IFRS 10;
 - (b) joint arrangements and associates, including the nature and effects of the reporting entities' relationships with the other parties or investors in the joint arrangements and associates and the nature of the risks associated with those interests; and
 - (c) consolidated entities and the reporting entities' relationships with unconsolidated structured entities.