International Organization of Securities Commissions
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Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

May 7, 2021

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Our Ref: 2021/O/C1/IASB/MS/30

RE: 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*

Dear International Accounting Standards Board (IASB or the "Board") Members,

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the Request for Information – Post-implementation Review of IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), IFRS 11 *Joint Arrangements* ("IFRS 11") and IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12").

IOSCO is committed to promoting the integrity of the international markets through promotion of high-quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. Unless otherwise noted, the comments provided herein reflect the consensus among members of Committee 1 and are not intended to include all the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

Since their issuance, we believe IFRS 10, IFRS 11 and IFRS 12 have provided entities with an appropriate, principles-based framework through which to determine whether an investor controls another entity or has entered into a joint arrangement, how to account for those arrangements, and what relevant information about interests held in other entities to disclose. We acknowledge that in some fact patterns applying the principles of these standards requires preparers to apply significant judgment which can be challenging or difficult. While the application of judgment is part of high quality financial reporting, we

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have observed instances in which a lack of specific guidance has resulted in diversity in application that we believe can be considered by the Board as part of their post-implementation review efforts. These items are highlighted below and in the remainder of this letter.

While the standards have operated mostly as expected, we note there are targeted improvements that the Board can make. We believe the Board should consider providing additional guidance on the application of IFRS 10 to the deconsolidation of certain entities, particularly when an entity holds assets that do not meet the definition of a business (e.g., assets held in a corporate wrapper). IFRS 10 does not include any exception from the deconsolidation requirements in accounting for a transaction involving loss of control of these types of entities. This often results in challenges in determining the appropriate accounting when the substance of a transaction may, in the minds of some, more appropriately be within the scope of other authoritative accounting guidance absent the legal entity. Therefore we recommend that the Board consider addressing these transactions holistically. Refer to our response to question 10 for further details.

We have also observed that in some instances, it may be challenging to apply the exception to consolidation for investment entities due to ambiguity regarding the definition of an investment entity. Specifically, we have seen instances in which entities that we do not believe the IASB intended to meet the scope of the consolidation exception apply that guidance due to their characterization of normal parent and subsidiary services as “investment management services” and “investment-related services” that we believe is inappropriate. Further, we have observed some instances of traditional corporate entities determining that their public share ownership structures are “investment management services” since investors in the entity’s shares are focused on investment return through share appreciation. We believe the Board should consider clarifying the scope of this guidance to ensure that it captures only those entities that the Board intended at the time of initial issuance of IFRS 10. Refer to our response to question 4(a) for further details.

As noted in our response to question 5(a), another area of diversity we have identified is in regards to accounting for transactions in which the nature of an investment changes in situations other than gaining or losing control of a subsidiary. Specifically, there is limited guidance regarding how an investor accounts for changes in its investment from having an interest in a joint venture or significant influence to a joint operation to a financial asset and vice versa. Although some of the transactions described above may be outside the scope of IFRS 10 or IFRS 11, we recommend guidance be developed to address these changes.

Finally, although the standards call for the application of judgment, we observe that since the issuance of the standards, a number of requests have been submitted to the IFRS Interpretations Committee (“the IFRS IC”) regarding application of the standards (refer to our response to question 2(b) for one such example). In particular, in the years immediately following issuance, the IFRS IC issued multiple agenda

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decisions to clarify application questions which ultimately led to more consistent application of the standards moving forward. We believe that these agenda decisions were helpful in driving consistency, and given these agenda decisions were issued prior to the recent amendments to the *Due Process Handbook* which note that "an entity is required to apply the applicable IFRS Standard(s), reflecting the explanatory material in an agenda decision" we believe that incorporating relevant agenda decisions into the standard could serve to further reduce diversity in practice.

Our detailed feedback on each section of the Discussion Paper is provided below.

Responses to the Board's Questions

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.

Response:

IOSCO is the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector. IOSCO develops, implements and promotes adherence to internationally recognized standards for securities regulation.

Question 2(a)

In your experience:

(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?

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(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?

Response:

We have not generally observed that entities experience significant challenges in identifying the relevant activities of an investee and therefore generally agree that the guidance in paragraphs 10 through 14 and B11 through B13 of IFRS 10 enables investors to identify those relevant activities. We observe that although there are situations in which judgment is required to identify the relevant activities of an investee, we believe that in most cases practice has aligned to reach comparable conclusions. In reaching conclusions where application of judgment is necessary, we also observe that the guidance on considering the purpose and design of an investee included in paragraph B5 of IFRS 10 is helpful in the analysis of the relevant activities of an investee. However, we do believe that consistent application could be enhanced if the purpose and design of an investee was made more prominent in the body of the standard, with a clarification that the purpose and design is based on overall substance and not dependent on the accounting in the investor's or investee's separate financial statements.

In addition, we recommend that the wording in respect of variable returns is clarified such that entities must look broadly to the returns associated with their involvement with the investee. While this is generally the view applied in practice and consistent with many paragraphs in the standard, we note a number of references in IFRS 10 to the "investee's returns" or "returns of the investee" which are unhelpful and potentially inconsistent because they imply a narrower focus.

Question 2(b)

In your experience:

(i) to what extent does applying paragraphs B26–B33 of IFRS 10 enable an investor to determine if rights are protective rights?

(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?

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Response:

Members acknowledge that in some circumstances, determining if rights are protective or if rights are substantive requires judgment and therefore can result in circumstances where entities reach different judgments. Circumstances observed that require significant judgment include arrangements in which an investor has veto rights on particular decisions of an investee, or when certain deadlock clauses with call and put options exist. Other circumstances include rights stemming from very close business relationships, such as an entity's right to decide if another entity can conduct certain business activities with other parties. We believe the Board should consider whether additional guidance to assist entities in analyzing these types of features and arrangements could be helpful in reducing diversity in practice.

We also observe that in September 2013 the IFRS IC issued an agenda decision in response to a submission which asked whether rights that were determined to be protective at the inception of an arrangement could change and require a reassessment of control at a later date. The submission described a fact pattern in which an investor held all the outstanding shares of an operating entity that entered into a loan arrangement with a bank that contained several covenants. If a covenant were breached, the bank would have the right to veto major business decisions (considered to be the relevant activities of the operating entity) and to call the loan. The bank's rights were considered at the outset of the arrangement to be protective, and therefore the investor continued to consolidate the operating entity after the loan was initiated. At a later date, the entity breached a covenant of the loan, and the bank's rights became exercisable. The submission asked whether the change in facts and circumstances should result in control being reassessed.

In response to the submission, the IFRS IC issued an agenda decision which noted that "the IASB's intention was that rights initially determined to be protective should be included in a reassessment of control whenever facts and circumstances indicate that there are changes to one or more of the three elements of control." The agenda decision therefore concluded that in the fact pattern submitted, the "conclusion about which party controlled the investee would need to be reassessed after the breach occurred." We believe that the concepts described in the agenda decision could be more explicitly described in the guidance to ensure greater consistency of application regarding these types of situations.

Question 2(c)

In your experience:

(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

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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?

Response:

We noted that situations in which an entity is required to apply the guidance in paragraphs B41 through B46 is not uncommon, and making this assessment can require significant judgment. One area that is particularly judgmental is the guidance in paragraph B42(d) which calls for an analysis of voting patterns at previous shareholders' meetings. We note that the standard is unclear on (i) how far back an entity is required to review voting patterns at previous shareholders' meetings, (ii) how to consider voting patterns that may have been influenced by conditions that existed at a point in time, and (iii) to what degree the change in the ownership composition as a consequence of the new investor's holdings should be included in the initial analysis of previous voting patterns.

Members also note that the cost of obtaining the information required to make this assessment can be significant. However, the fact that application of this guidance is challenging is not driven by the cost of obtaining the necessary information. Rather, the analysis can be challenging even after the necessary information has been obtained due to the judgments required.

Finally, we believe the concept described in paragraph B46 (which notes that if the conclusion of whether an entity has power over an investee is not clear, after having considered the factors listed in paragraph B42(a)–(d), the investor does not control the investee) could be highlighted more explicitly. This concept, coupled with the requirement to reassess control when facts and circumstances change, could be included in an example to ensure the standard is clear on how to apply that guidance initially and on an ongoing basis.

Question 3(a)

In your experience:

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(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?.

Response:

We acknowledge that it is not uncommon for situations to arise in which an evaluation of whether a decision maker is a principal or an agent must be performed. We acknowledge that these evaluations can require significant judgment, however, we believe that practice has been able to evaluate the factors listed in paragraphs B60 and B62 through B72 of IFRS 10 to generally reach comparable answers.

Question 3(b)

In your experience:

(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)?
(ii)	how frequently does the situation in which an investor needs to make the assessment described in question 3(b)(i) arise?
(iii)	please describe the situations that give rise to such a need.

Response:

We note that it is not uncommon for an investor to have to consider whether another party is acting as a de facto agent of the investor. IFRS 10 acknowledges that the determination of whether another party is a de facto agent is judgmental, but we do not believe that paragraphs B73 through B75 provide explicit guidance on how the evaluation should be made. Rather, the guidance states that the evaluation should consider the nature of the relationship and how the parties interact with each other. We believe this concept is difficult to apply, and the conclusions have a significant impact on the entity's conclusions.

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We specifically note that the examples given in paragraph B75 are often insufficient on their own to demonstrate that a potential agent will act on another investor's behalf. The principle in IFRS 10 for consolidation is control which in turn relies on power. In many arrangements one might suspect that one party is likely to vote in the same way as another investor, but the other investor may not have the power, economically or contractually, to compel them to do so. While it is relatively common for related parties to both invest in the same entity, one investor may not have sufficient economic power over the other to conclude that it is able to control its votes, even when the two investors in practice vote together. There may even be an unwritten intention between two parties to vote together at the time of investment, but without an economic requirement it is unclear how such an informal understanding would grant one investor power over another investor's votes. Further, we note that entities often overlook potential de facto agency relationships in arrangements other than common control, some of which are listed in paragraph B75.

We believe that it would be beneficial if more implementation examples were added to IFRS 10 to illustrate these concepts and more clearly reconcile the core principles of control in the standard with the concept of de facto agency to allow for more consistent application. We also believe that making it more explicit in the standard that de facto agency relationships can exist outside of common control arrangements would assist entities in identifying all situations in which de facto agency exists.

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.

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Response:

We observe that in some jurisdictions the transition to IFRS 10 contributed to an increase in entities determining that they met the definition of an investment entity, including those who previously consolidated subsidiaries within the resource, insurance and real-estate industries. We have concerns that the investment entity definition may be too broad such that there are entities the Board did not intend to meet the definition which are nonetheless applying the investment entity guidance.

For example, we have seen instances in which an entity concludes that 100%-owned investees that have traditional parent and subsidiary interactions fall within the "investment management services" and "investment-related services" categories resulting in the investment being accounted for at fair value rather than by consolidation.

Further, we have seen examples of traditional corporate entities determining that their public share ownership structure could be interpreted to be "investment management services" since investors in the entity's shares were focused on investment return through share appreciation. Under this interpretation, the criterion could have very few limitations in a corporate structure scenario, which makes this element of the definition potentially too broad without additional requirements on what this term is intended to capture. The "exit strategy" expectation did not prevent this conclusion since it is relatively simple to identify a possible plan of exit for any investee.

We have also observed that a high degree of judgment is required to make a determination of whether an entity meets the definition of an investment entity given the ambiguity of certain terms in IFRS 10. For example, the standard refers to "investment management services", "investment advisory services", and "investment-related services", but provides very little insight on how to differentiate those terms, which has resulted in diversity in the categorization of similar services by different entities. Entities also struggle with assessing whether a company meets the "use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments" criterion. Further, we have observed instances in which entities face difficulties distinguishing between the definition of an investment entity as defined in IFRS 10 and the definition of an investment company per prudential regulation.

We often raise questions asking how entities interpret the terms noted above as they are a key consideration in determining whether a company meets the investment entity definition. However, due to the ambiguity in applying the various terms in the standard, we have experienced difficulty challenging an entity's interpretations despite the terms being viewed differently by various entities. This ambiguity poses challenges to enforcement of the standard in a consistent manner.

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We have also observed that entities may experience challenges in determining at what level to apply the investment entity consolidation exception. Particularly, entities may assume that a parent entity that controls a subsidiary that meets the definition of an investment entity may be in scope of the exception when consolidating the subsidiary. We believe additional examples illustrating scenarios in which the scope exception would and would not be applied would help to reduce diversity and drive consistency in application.

Finally, although IFRS 12 includes a requirement to disclose the significant judgments and assumptions an entity has made in determining that it is an investment entity, we have observed in many instances that it is not clear from entity disclosures how they meet the definition.

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?

Response:

We have generally not observed instances in which requiring an investment entity to measure at fair value its investment in a subsidiary that is an investment entity itself resulting in a loss of information, nor are we aware of other criteria that may be relevant to the scope of application of the consolidation exception for investment entities, other than the points made above in response to Question 4(a).

Question 5(a)

In your experience:

(i) how frequently do transactions, events or circumstances arise that:

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(a) alter the relationship between an investor and an investee (for example, a change from being a parent to being a joint operator); and

(b) are not addressed in IFRS Standards?

(ii) how do entities account for these transactions, events or circumstances that alter the relationship between an investor and an investee?

(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.

Response:

We have observed that it is common for transactions, events or circumstances to arise that alter the relationship between an investor and an investee. We note that one instance in which diversity exists is upon the loss of control of a subsidiary by an investor that transfers the subsidiary to another entity that is under common control with the investor. While the Board has recently issued its discussion paper, *Business Combinations under Common Control*, that paper focuses on the accounting by the receiving entity and does not address the accounting for the transferring entity, and thus we observe that the diversity that exists will not be addressed as part of that project.

We have also observed diversity in accounting for transactions in which the nature of an investment changes in situations other than gaining or losing control of a subsidiary. Specifically, there is limited guidance regarding how an investor accounts for changes in its investment from having an interest in a joint venture or significant influence to a joint operation to a financial asset and vice versa. Therefore, we believe that additional guidance to address these transactions would help drive consistency.

Finally, we agree that remeasuring retained interests after a loss of control to fair value provides relevant information for a number of reasons:

- Consistency in determination of profit on disposal: Any retained interest within the scope of IFRS 9 would have to initially be measured at fair value as required by that standard. To require measurement based on a portion of previous consolidated net assets for retained associate and joint arrangement interests would report a different profit on disposal of a subsidiary based purely on future decision-making powers. If the investor retained no significant influence or joint control, profit on disposal would be higher than if the investor retained the same economic share

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but had influence or joint control over the business. We believe that profit on disposal of a subsidiary should be the same irrespective of the amount or nature of the retained interest.

- Consistency with business combination accounting: In a business combination, pre-existing interests are remeasured to fair value because a subsidiary is viewed as a substantively different investment to any previous equity accounted interest. Consistent with this position, any equity accounted retained interests on deconsolidation should also be re-measured at fair value as new investments.

- Equity accounting research project: As identified as part of the equity accounting research project, a number of application issues exist with IAS 28. We would not be supportive of making changes to equity accounting while this project is ongoing.

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?

Response:

We note that there is no guidance addressing how to account for recognition of non-controlling interest in the acquisition of a subsidiary that does not constitute a business, and therefore there is diversity in the accounting for such arrangements. We also note that the change to the definition of a business as part of the amendments to IFRS 3 has resulted in more situations in which a group of assets do not meet the definition of a business, making these transactions more prevalent. We encourage the Board to address the lack of guidance as part of this post-implementation review.

Question 6

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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?

Response:

We note that collaborative arrangements that do not meet the IFRS 11 definition of 'joint arrangements' are common, particularly in the life sciences industry (e.g., collaborative arrangements between biotechnology and pharmaceutical companies) and in certain resource industries (e.g., an investor who obtains a direct interest in a mining property with multiple owners, none of whom have joint control). Most commonly, these types of collaborative arrangements are not structured through a separate legal vehicle. We note that the accounting for these arrangements is based on facts and circumstances, with many life science entities accounting for the arrangements within the scope of IFRS 15 if they believe the other party is a customer or through other accounting policies depending on the contractual terms and the rights and obligations conferred upon the parties in the arrangement.

We have observed situations in which entities believe that the accounting prescribed by IFRS 11 would provide a faithful depiction of the rights and obligations of the parties to the transactions described above. Therefore, we believe the Board should consider whether the scope of IFRS 11 should be expanded to include these types of arrangements and, if so, include illustrative examples of how the IFRS 11 model would be applied. If the scope of IFRS 11 is not expanded to include these types of arrangements, we believe the Board should consider whether a project to address the accounting for these types of arrangements should be added to the work plan as part of the Third Agenda Consultation.

Question 7

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(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?

Response:

We acknowledge that fact patterns which require parties to a joint arrangement to consider other facts and circumstances to determine the classification of the joint arrangement occur reasonably frequently. We note that application of the guidance in paragraphs B29 through B32 can be challenging and requires judgment, particularly when there are unique features in an arrangement (e.g., deadlock provisions or put/call options), but the requirement to apply judgment is not a flaw of the standard and, in our experience, typically results in an appropriate accounting outcome.

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.

Response:

We observe that one area of challenge in accounting for a joint arrangement occurs in certain extractive industries (such as mining or oil and gas) where the offtake percentage of the parties is different from their ownership or economic interest in the joint arrangement. For example, a party to an arrangement may be entitled to a greater share of offtake relative to their ownership interest and in exchange, that party may be required to either make payments to the other parties in exchange for the excess, or promise to reduce their offtake to an amount below their interest in the future. Questions often arise in these

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arrangements about how to account for the offtake imbalances between the parties to the arrangement, including when to recognize assets and liabilities and how to present the assets, liabilities, income and expense in the financial statements.

Question 9

In your experience:

(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)?

(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?

(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.

(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.

Response:

We generally believe that the requirements of IFRS 12 are useful in helping entities to meet the disclosure objectives of IFRS 12, and that generally deficiencies in entity disclosures are a result of noncompliance with the standard versus a deficiency in the standard itself. That said, some areas that we often see deficiencies in disclosure are in regards to consolidation conclusions that are based on de facto agency relationships, management and other contractual arrangements without any ownership interest, and on judgments regarding whether rights are protective or substantive. These assessments are often very judgmental, and although they should be considered as part of the standard's requirements to disclose significant judgments in determining control, it may be helpful to include specific references to the

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relevant guidance or use these concepts as examples of significant judgments that an entity may need to disclose.

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.

Response:

We observe that a number of questions have arisen around the deconsolidation of assets in a legal entity, or corporate wrapper, when the assets in the entity do not constitute a business. For example, questions arose regarding the interaction of IFRS 10 and IAS 28 regarding the contribution of interests in a legal entity to an associate. Further, in June 2019 the IFRS IC received a request about a transaction involving the sale of a parent's equity interest in a subsidiary that held only a real estate asset that was transferred to a customer in the ordinary course of business, and whether that transaction should be accounted for in accordance with IFRS 10 or IFRS 15. Finally, in 2020 the IFRS IC received a request about the sale and leaseback of a single asset in a legal entity, and whether the guidance in IFRS 10 or IFRS 16 (or both) should be applied.

With regards to the interaction of IFRS 10 and IAS 28, the Board decided to amend IFRS 10 to clarify that the guidance in IAS 28 should be applied rather than the general deconsolidation guidance in IFRS 10 (although that guidance was deferred). Regarding the interaction of IFRS 10 and IFRS 15, although an agenda decision was not issued, the IFRS IC believed that the legal form of the transaction should be followed and the accounting should follow IFRS 10. Finally, the IFRS IC tentatively concluded that IFRS 16 should be applied to the sale and leaseback transaction, although the issue is being referred to the Board for potential standard setting.

We believe that rather than address the specific interactions noted above individually, the Board should consider addressing the issues related to deconsolidation of entities with assets that do not constitute a business holistically. The current guidance in IFRS 10 can lead to structuring opportunities, as it could be seen by some as providing a choice of whether to follow the deconsolidation guidance in IFRS 10, or the relevant derecognition guidance of another standard, based purely upon whether they choose to transact with the asset (or liability) itself, or transact with the asset (or liability) through transfer of the legal entity. Thus, in order to provide more useful information and to achieve greater consistency, we recommend

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investigating whether the IFRS 10 deconsolidation guidance should only apply to assets and liabilities in a legal entity that do not meet the definition of businesses when the derecognition guidance in another relevant standard is not applicable.

Another issue that we have identified is the attribution of consolidated comprehensive income to the non-controlling interests. We have observed diversity in practice – most notably in extreme cases wherein control arises through management and other contractual arrangements (e.g. in industries that require licenses to operate such as cannabis or medical services) in which a reporting entity consolidates the investee without an ownership interest. But, we have also observed diversity in other circumstances as well. We therefore believe that additional guidance as to how consolidated comprehensive income should be attributed to the parent and the non-controlling interest would result in greater comparability among entities.

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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,

Makoto Sonoda

Chair
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