

May 10, 2021

SENT ELECTRONICALLY

International Accounting Standards Board
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sirs/Mesdames:

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

Thank you for the opportunity to comment on the above request for information.

In Canada, a wide range of entities prepare their financial statements in accordance with *International Financial Reporting Standards* ("IFRS"), including not-for-profit organizations, public and private entities, government business enterprises, government business partnerships and other government organizations.

MNP LLP ("MNP") supports the initiative to perform a 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"). While these standards accomplish their stated objectives, there are areas where additional application guidance would be beneficial for the users.

We have reviewed the request for information and our responses to the questions set out by the International Accounting Standards Board ("IASB") are provided below.

Question 1—Our background

(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?

MNP's principal role in relation to financial reporting is as an auditor.

(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.

MNP is one of Canada’s largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, and not-for-profit organizations. In addition, our client base includes a sizable contingent of publicly traded companies. Many of our responses to questions 2-10 apply specifically to emerging industries such as cannabis.

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?

Applying paragraphs 10-14 and B11-B13 of IFRS 10 generally enables an investor to identify the relevant activities of an investee; however, there are instances where identifying the relevant activities poses a challenge as noted below.

(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?

In some situations, identifying the relevant activities poses a challenge. We note that these challenges apply in particular to investees in the early stages of emerging markets or new industries (e.g., cannabis). When an entity is in the pre-development and development stages it can be difficult to identify which activities significantly affect the investee’s returns because there may not be returns expected at these stages. We think it would be beneficial to have additional guidance on what comprises relevant activities for pre-operational investees, particularly in emerging industries, where there may be no business activities. For example, an early stage cannabis company may only have a license for cannabis, or it may be in the license application stage, with little to no operations.

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?

Applying paragraphs B26-B33 of IFRS enables an investor to determine if rights are protective; however, significant judgment is sometimes necessary to determine what constitutes fundamental changes to activities or exceptional circumstances under B26. Furthermore, rights that are protective at one life cycle stage of an investee may be substantive in another stage. In particular, at pre-operational stages when activities are limited, protective rights may seem more substantive than intended. We think it would be beneficial to have additional guidance on factors to consider in determining protective rights at different life cycle stages.

(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?

Applying paragraphs B22-B24 of IFRS 10 appropriately enables an investor to determine if rights are, or have ceased to be, substantive.

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 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?

Applying paragraphs B41-B46 of IFRS 10 to situations in which the other shareholdings are widely dispersed enables 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. However, start-up companies may not yet have proper protocols in place for voting or decision making due to their early stage of development. This may impact on the assessment of whether or not an investor or management controls the entity.

(ii) how frequently does the situation in which an investor needs to make the assessment described in question 2(c)(i) arise?

In our experience, situations in which an investor needs to make the assessment described in question 2(c)(i) arise relatively frequently – in particular, when a shareholder holds less than, but close to, the voting rights that would make a majority, or when other arrangements beside voting rights direct the relevant activities of the investee. In addition, we note that these considerations can affect the assessment of significant influence based on the 20% ownership threshold. For example, an ownership of less than 20% with a management services arrangement (MSA) may provide the investor with significant decision making powers to direct the relevant activities.

(iii) is the cost of obtaining the information required to make the assessment significant?

We are not aware of significant cost associated with obtaining the information required to make the assessment.

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?

Applying the factors listed in paragraph B60 of IFRS 10 (and the application guidance in paragraphs B62–B72 of IFRS 10) appropriately enables 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.

We note that in some situations it can be challenging to identify an agency relationship; however, the factors in B60 and B62-B72 typically provide appropriate guidance to determine an agency relationship after careful consideration.

(iii) how frequently do these situations arise?

These situations arise frequently in practice.

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 (i.e. in the absence of a contractual arrangement between the parties)?

Applying paragraphs B73-B75 of IFRS 10 generally enables an investor to assess whether control exists because another party is acting as a de facto agent. However, it can be difficult to properly assess whether another party is a de facto agent where past voting results may not be particularly relevant, especially in private companies where there may not have been any contentious issues in the past.

(ii) how frequently does the situation in which an investor needs to make the assessment described in question 3(b)(i) arise?

Situations in which an investor needs to make the assessment described in question 3(b)(i) arise commonly in practice.

(iii) please describe the situations that give rise to such a need.

Situations that give rise to the need to make an assessment of de facto agent arise typically where legal ownership is prohibited by law in certain jurisdictions. De facto agents in these situations are used by investors to control investees where local laws prohibit the investors from legally owning an interest in the investee directly and/or indirectly.

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.

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 when the definition is applied correctly by an entity. In practice, we have noted that inconsistencies arise when an entity believes that it meets the definition of an investment entity but the entity presents information to investors or potential investors that it will be managing investments to generate operating returns, thus violating paragraph 27(b). We typically see this where public companies provide information that is inconsistent with investment entity requirements – for example, in their Management Discussion & Analysis.

(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.

The definition and the description of typical characteristics usually result in outcomes that faithfully represent the nature of the entity.

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.

We are not aware of situations where an investment entity measuring an investment in a subsidiary, that is an investment entity itself, at fair value, has resulted in a loss of information.

(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?

We did not note any additional criteria that may be relevant to the scope of application of the consolidation exception for investment entities.

Question 5(a)

In your experience:

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

- 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?**

In our experience, changes in ownership percentage and non-controlling interests are common; however, these are addressed appropriately in the IFRS. Changes from being a parent to being a joint operator is not that commonly seen as, in our experience, joint operations are usually formed with the intent of joint control from inception.

We are aware of situations where an entity is controlled with no equity ownership interest via an MSA, and then subsequently, the equity interests will be acquired for significant consideration. In these situations, the MSA essentially provides full operational control over the relevant activities without owning any equity. In our experience, this situation arises due to legal requirements where, for example, a foreign entity cannot legally own a company applying for a cannabis license in certain jurisdictions. Once the license is granted, the entity can acquire the equity interest, subject to regulatory approval.

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

We haven't yet seen this in practice, however, we expect that entities will account for the unique situation described above as consideration paid for a change in non-controlling interest or, if it was previously determined that there would be no non-controlling interest, potentially an equity transaction. This may create significant differences from a situation where the investee was acquired post license approval, as significant value would be assigned to the license in a business combination purchase price allocation. When the consideration is paid on license approval, the "intangibles" are not recognized as there is no change in control, because an MSA is already in place.

(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.

Remeasuring the retained interest at fair value provides relevant information.

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?

Entities account for transactions in which an investor acquires control of a subsidiary that does not constitute a business, as defined in IFRS 3, as an asset acquisition in accordance with IFRS 3.2(b). IFRS 2 is also applied if equity was issued as consideration paid.

The investor recognising a non-controlling interest for equity not attributable to the parent usually chooses an accounting policy to either recognise the non-controlling interest at the proportionate percentage of the assets acquired or the fair value of the non-controlling interest.

(ii) how frequently do these transactions occur?

In our experience, these transactions commonly occur, particularly in emerging industries.

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.

In our experience, some collaborative arrangements that initially were intended to be joint arrangements to not meet the definition of a joint arrangement because one party has been determined to actually control the arrangement. This would occur when voting rights for most decisions may be split equally but one party has power over some decisions that most significantly affect the relevant activities.

(b) how do entities that apply IFRS Standards account for such collaborative arrangements? Is the accounting a faithful representation of the arrangement and why?

Entities account for such collaborative arrangements under IFRS 10, if a controlled entity, or IAS 28, if a non-controlled entity. This accounting is a faithful representation of the arrangement because the parties do not have joint control.

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?

Usually the legal form and the contractual arrangement are primarily considered to determine the classification of a joint arrangement; however, other facts and circumstances – for example, if the purpose of the joint arrangement is to provide an output to the parties of the joint arrangement – are somewhat commonly considered to determine classification.

(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?

Applying paragraphs B29-B32 of IFRS 11 appropriately enables an investor to determine the classification of a joint arrangement based on “other facts and circumstances”. We are not aware of other factors that may be relevant to the classification.

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?

Applying the requirements in IFRS 11 appropriately enables 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.

We did not note any such situations, other than situations where the other party may prevent access to the information needed to be able to report as required.

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)?

In general, the IFRS 12 disclosure requirements assist an entity to meet the objective of IFRS 12.

(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?

Additional guidance on what is considered material non-controlling interest would be beneficial, particularly for entities with a significant number of subsidiaries with changing non-controlling interest percentages throughout the period. Some non-controlling interests may be material during the period but not at period end.

(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.

We did not note any such information.

(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.

We did not note any such information.

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.

We believe additional guidance on how to account for situations where changes in facts and circumstances indicate that the type of joint arrangement has changed (e.g. joint operation to joint venture) as noted in IFRS 11.19 would be beneficial to ensure consistent treatment in practice.

We would be pleased to offer our assistance to the IASB in further exploring issues raised in our response and in helping to find alternative solutions which meet the needs of the financial statement users.

Yours truly,

MNP LLP

A handwritten signature in blue ink that reads "MacKenzie".

Jody MacKenzie, CPA, CA

Director, Assurance Professional Standards