Practical guide to IFRS

Consolidated financial statements: redefining control

July 2011

At a glance

- The IASB released IFRS 10, 'Consolidated financial statements', on 12 May 2011, introducing new guidance on control and consolidation.
- The new approach combines the concepts of power and exposure to variable returns to determine whether control exists. Control exists under IFRS 10 when the investor has power, exposure to variable returns and the ability to use that power to affect its returns from the investee.
- IFRS 10 contains guidance on the following issues when determining who has control:
  - ✔ Assessment of the purpose and design of an investee;
  - ✔ Nature of rights – substantive or protective in nature;
  - ✔ Assessment of existing and potential voting rights;
  - ✔ Whether an investor is a principal or agent when exercising its controlling power;
  - ✔ Relationships between investors and how they affect control; and
  - ✔ Existence of power over specified assets only.
- The new standard is available for early adoption, with mandatory application required from 1 January 2013.
- Management will need to evaluate the impact of the new standard in their assessment of the entities that they are required to consolidate.
- Changes to the composition of the group could arise and impact key investor metrics (including debt covenants) such as gearing, liquidity and profitability ratios.

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Introduction

1. IFRS 10 is the major output of the consolidation project, resulting in a single definition of control for all entities. The IASB continues work on a project that will propose changes to how investment entities account for entities they control. An exposure draft on investment entities is expected in the third quarter of 2011. A separate standard, IFRS 12 'Disclosure of interests in other entities', sets out disclosures for investor/investee relationships.

PwC observation: The consolidation project has been on the IASB's agenda since June 2003. The objective was to develop a standard to replace IAS 27 and SIC 12. IFRS 10 revises the definition of control and provides detailed application guidance so that a single control model can be applied to all entities. The project was developed partly to address perceived inconsistencies between IAS 27 and SIC 12, and also to enhance convergence with US GAAP. The project was accelerated in 2008 as a result of the global financial crisis.

2. The key principle in the new standard is that control exists, and consolidation is required, only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns.

PwC observation: The new standard will affect some entities more than others. The consolidation conclusion is not expected to change for most straightforward entities. However, changes can result in complex cases. Entities that are most likely to be affected potentially include investors in the following entities:

- entities with a dominant investor that does not possess a majority voting interest, where the remaining votes are held by widely-dispersed shareholders (de facto control);
- structured entities;
- entities that issue or hold significant potential voting rights; and
- asset management entities.

In difficult cases, the precise facts and circumstances will affect the analysis under IFRS 10. IFRS 10 does not provide 'bright lines' and requires consideration of many factors.

3. The new standard also sets out consolidation principles and guidance for measuring non-controlling interests, potential voting rights and accounting for loss of control.

Scope

4. IFRS 10 applies to all parent entities that need to present consolidated financial statements, except for post-employment benefit plans or other long-term employee benefit plans to which IAS 19 applies (IFRS 10.4b).

5. Parent entities are exempted from having to consolidate if:
   (a) the parent is a wholly or partially-owned subsidiary in which all owners do not object to non-consolidation;
   (b) the parent's debt or equity securities are not publicly traded;
   (c) the parent did not file, and is not filing, its financial statements to issue publicly-traded instruments; and
   (d) the ultimate or any intermediate parent of the parent entity produces IFRS consolidated financial statements that are available for public use.
   (IFRS 10.3)

PwC observation: The exemptions from consolidation and the 'how-to' of consolidation have not changed from IAS 27.

Control

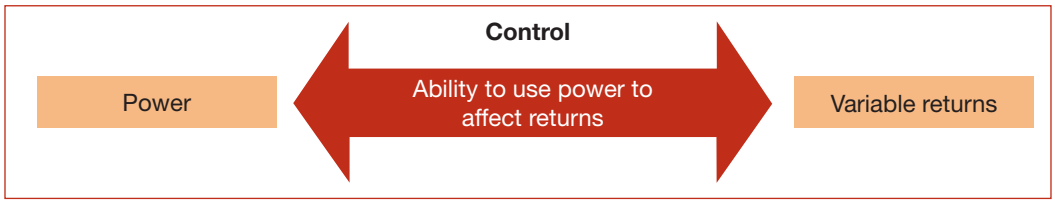


Illustration 1: The elements of control

6. Control exists when an investor has all three of the following elements:
   (a) power over the investee;
   (b) exposure or rights to variable returns from its involvement with the investee; and
   (c) the ability to use its power over the investee to affect the amount of the investor's returns.

   (IFRS 10.7)

PwC observation: Previously, control through voting rights was addressed by IAS 27, while exposure to variable returns was an important consideration within the SIC 12 framework. However, the relationship between these two approaches to control was not always clear. IFRS 10 links power and returns by introducing an additional requirement that the investor is capable of wielding that power to influence its returns.

Framework for assessment of control

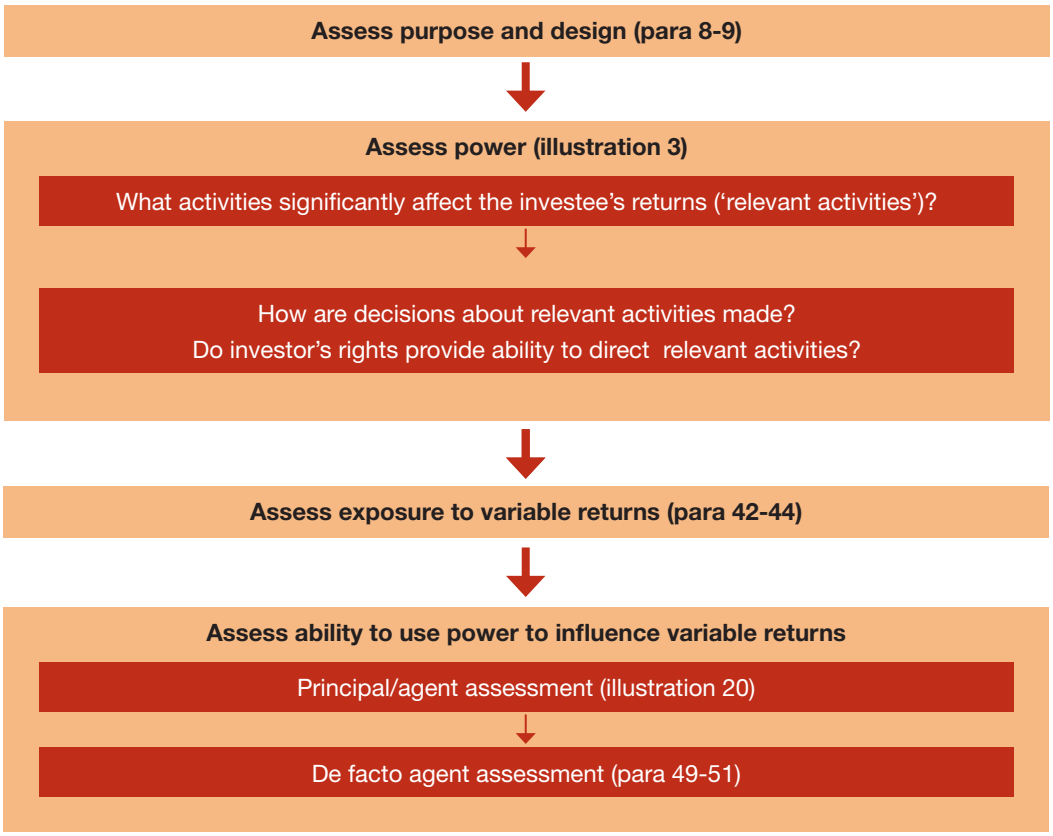


Illustration 2: Framework for assessment of control

7. Reassessment of control is required if facts and circumstances indicate that any of the elements have changed (IFRS 10.8).

Purpose and design of the investee

8. The purpose and design of an investee could impact the assessment of what the relevant activities are, how those activities are decided, who can direct those activities, and who can receive returns from those activities (IFRS 10.B5). The consideration of purpose and design may make it clear that the entity is controlled by voting or potential voting rights (IFRS 10.B6).

9. Voting rights in some cases may not significantly impact an investee's return. The investee may be on 'auto-pilot' through contractual arrangements. In those cases, the following should be considered in assessing the purpose and design of an entity (IFRS 10.B8):
   (a) downside risks and upside potential that the investee was designed to create;
   (b) downside risks and upside potential that investee was designed to pass on to other parties in the transaction; and
   (c) whether the investor is exposed to those risks and upside potential.

Power

10. An investor has power over an investee when the investor has existing substantive rights that give it the current ability to direct the relevant activities (IFRS 10.10, IFRS 10.B9). Relevant activities are the activities that significantly affect the investee's returns.

    The diagram below summarises the considerations involved in the assessment of power.

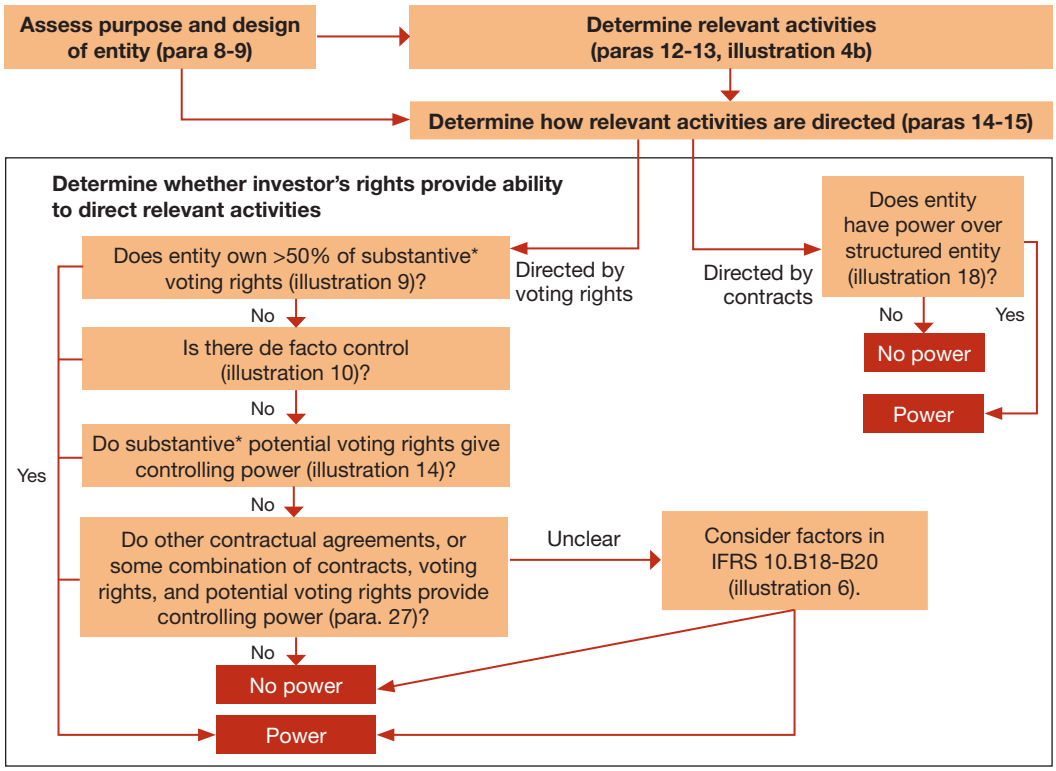


Illustration 3: Conceptual flowchart for assessment of power

* Whether rights are substantive or protective is dealt with in illustration 7.

11. IFRS 10 provides the following additional guidance in relation to the determination of control:
    (a) Where equity instruments clearly determine voting rights and powers to control, the majority shareholder has control in the absence of other factors (IFRS 10.B35); and
    (b) When two or more investors must act together to direct activities that affect returns, neither investor has control (IFRS 10.9).

PwC observation: Control is determined by voting rights in the majority of cases. No further assessment is required to determine control.

Relevant activities

12. IFRS 10 defines 'relevant activities' as those activities of the investee that significantly affect the investee's returns (IFRS 10 Appendix A). IFRS 10 offers a wide range of possible 'relevant' activities including but not limited to:
    (a) sales and purchases of goods and services;
    (b) management of financial assets before and after default;
    (c) selection, acquisition and disposal of assets;
    (d) research and development; and
    (e) funding activities (IFRS 10.B11).

13. Decisions over relevant activities may include operating, capital and budgetary decisions; or the appointment, remuneration and termination of service providers or key management (IFRS 10.B12).

The following examples are summarised from IFRS 10 examples 1 and 2:

Example 13.1

- Two investors form an investee to develop and market a medical product.
- One investor has the responsibility and the unilateral ability to make all decisions relating to product development and to obtaining regulatory approval.
- Once the regulator has approved the product, the other investor has the responsibility and the unilateral ability to make all manufacturing and marketing decisions.

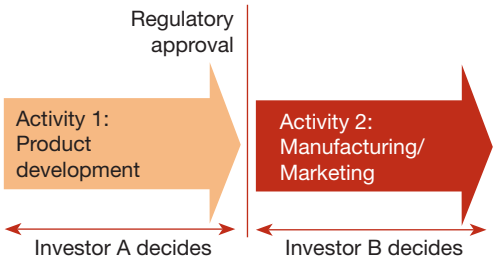
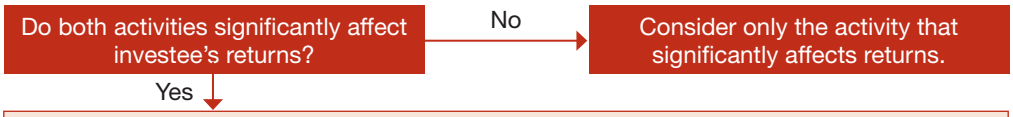


Illustration 4(a): Relevant activities directed by different parties – example 13.1

Which investor has power over the investee?

Solution

The considerations are summarised in the flowchart below:



Which activity most significantly affect returns?

General considerations:

a) the purpose and design of the investee;
b) the factors that determine the profit margin, revenue and value of the investee as well as the value of the medical product;
c) the effect on the investee's returns resulting from each investor's decision-making authority with respect to the factors in (b); and
d) the investors' exposure to variability of returns.

Considerations specific to this example:

e) the uncertainty of, and effort required in, obtaining regulatory approval (considering the investor's record of successfully developing and obtaining regulatory approval of medical products); and
f) which investor controls the medical product once the development phase is successful.

Illustration 4(b): Relevant activities directed by different parties – example 13.1

PwC observation: This type of decision will be highly judgemental in practice. For example, when one investor is responsible for manufacturing and another investor is responsible for marketing, it can be difficult to identify which activity has more effect on returns. The answer could be affected by the investee's strategy. For example, consider a low-cost manufacturer of a commoditised product and a manufacturer of a high-end branded product. Low-cost manufacturing could be the critical process for the first manufacturer, while effective marketing could be the critical process in the second manufacturer.

Example 13.2

An investment vehicle (the investee) is created with debt and equity instruments.

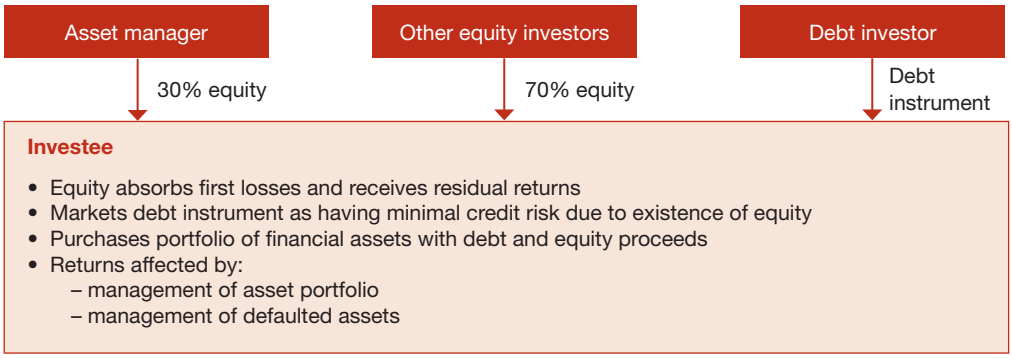


Illustration 5(a): Relevant activities directed by different parties – example 13.2

- The asset manager manages all activities until defaults reach a specified threshold (i.e. when the equity tranche of the investee has been consumed).
- Thereafter, a third-party trustee manages the assets according to the instructions of the debt investor.

The sequence of decision powers are illustrated diagrammatically as follows:

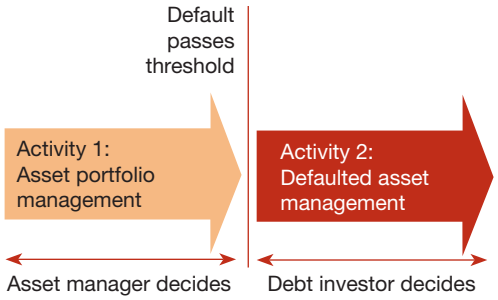


Illustration 5(b): Relevant activities directed by different parties – example 13.2

Who controls the investment vehicle?

Solution

The asset manager and the debt investor each need to determine whether they are able to direct the activities that *most* significantly affect the investee's returns, including considering the purpose and design of the investee as well as each party's exposure to variability of returns.

Power over relevant activities

14. An investor must have rights that provide the current ability to direct relevant activities to have power (IFRS 10.B14). This ability can stem from a wide variety of rights, including voting or potential voting rights, rights to appoint or remove decision-makers including key management veto rights and contractual rights (IFRS 10.B15).

15. Generally, when the investee has a range of relevant activities that require continuous substantive decisions, voting or similar rights will provide power (IFRS 10.B16). In other cases, voting rights do not have a significant effect on returns, and these are dealt with in paragraphs 34 to 41 below.

Factors to consider in difficult situations

16. When it is difficult to determine whether an investor's rights are sufficient to provide power over an investee, the factors to be considered are shown in the following diagram:

Indicators relating to the practical ability to direct the investee (IFRS 10.B18)

- Non-contractual ability to appoint investee's key management personnel (KMP)
- Non-contractual ability to direct investee to enter into significant transactions or veto such transactions
- Ability to dominate the nomination of members to the investee's governing body or obtain proxies from other vote-holders
- Investee's KMP, or majority of governing body, are related parties of the investor (for example, investee and investor share the same CEO)

These indicators are given greater weight than the indicators below.

Other indicators

Special relationship indicators (IFRS 10.B19)

Investee's KMP are current or ex-employees of the investor

Economic dependence on investor

- Funding
- Guarantees
- Critical services
- Technology
- Supplies or raw materials
- Licences or trademarks
- Key management personnel
- Specialised knowledge
- Other critical assets

Economic dependence alone does not lead to power (IFRS 10.B40).

Investees' activities either involve or are conducted on behalf of investor

Disproportionate exposure
Exposure, or rights, to returns from involvement with investee is disproportionately greater than voting or similar rights. For example, >50% exposure but <50% votes.

Exposure to variability (IFRS 10.B20)

- Greater exposure, or rights, to variability of returns provides greater incentive to obtain power.
- Extent of exposure, in itself, is not determinative.

Illustration 6: Factors to consider when assessment of control remains uncertain

PwC observation: Economic dependence is not uncommon. For example, mid-stream processing companies for rare minerals or resources could be dependent on its resource suppliers. However, the 'priority indicators' in the above illustration take precedence over economic dependence indicators.

Therefore, if the resource supplier has little or no influence over the mid-stream processor's key management personnel, governing bodies, proxy process and decision-making processes, the processor's dependence on the resource supplier for raw materials will be insufficient to constitute power.

Substantive or protective rights

17. IFRS 10 requires only substantive rights to be considered in the assessment of power (IFRS 10.B22). Protective rights are not considered.

18. Substantive rights exercisable by other parties can prevent an investor from obtaining control, even if those right-holders are not able to initiate decisions (IFRS 10.B25).

Substantive rights

19. The following flowchart summarises the criteria for differentiating substantive and protective rights. It applies to all types of rights, including current voting rights and potential voting rights.

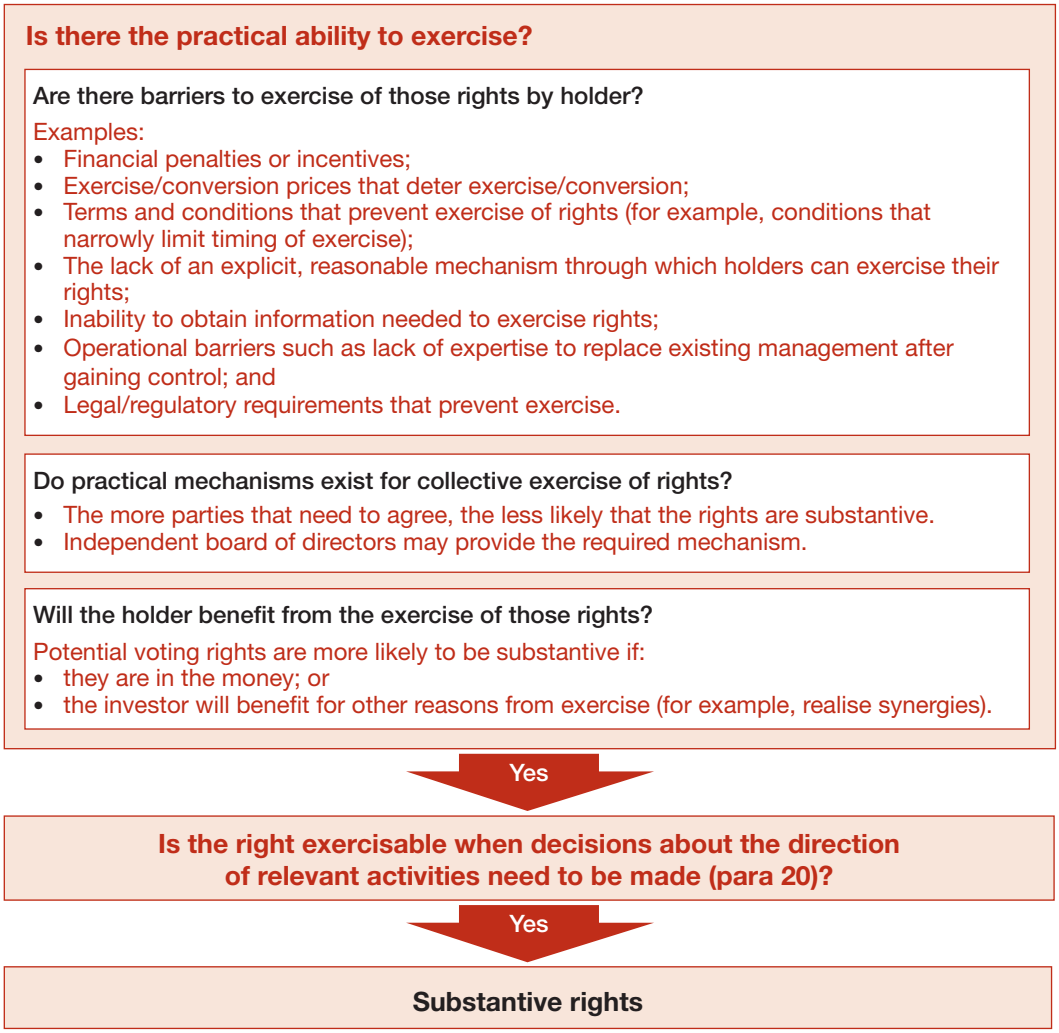


Illustration 7: Flowchart for determining whether rights are substantive

PwC observation: An important change introduced by IFRS 10 is its articulation of the financial position of potential voting rights (that is, whether in or out of the money) as a factor to consider in assessing control. IAS 27 provided very little guidance on this factor until now. Potential voting rights that are deeply out of the money can result in those rights being regarded as non-substantive, as examples 9 and 10 in IFRS 10.B50 illustrate. These are summarised below.

(IFRS 10.B23)

Fact pattern	Financial position of potential voting rights	Other facts	Conclusion
30% investor with call option exercisable for next 2 years over a further 50%.	Deeply out of the money and expected to remain so over option life.	The other investor (holding 70%) has been exercising its votes and actively directing the investee's activities.	Option is not substantive.
Three investors each hold 1/3 of votes in an investee. One investor (A) holds convertible debt with a fixed strike price. If converted, A will own 60% of votes.	Out of the money but not deeply out of the money.	• Investee's business activity is closely related to A. • A benefits from synergies if the conversion option is exercised.	Option is substantive.

20. Substantive rights that provide the holder with the current ability to direct relevant activities are usually currently exercisable, but not always so. IFRS 10.B24 provides the examples below of non-currently exercisable rights that are nevertheless substantive.

Example 20.1

- The investee makes decisions about relevant activities at special meetings and annual general meetings (AGM).
- Next AGM is in eight months.
- Shareholders that individually or collectively hold at least 5% of the voting rights can call a special meeting within 30 days.

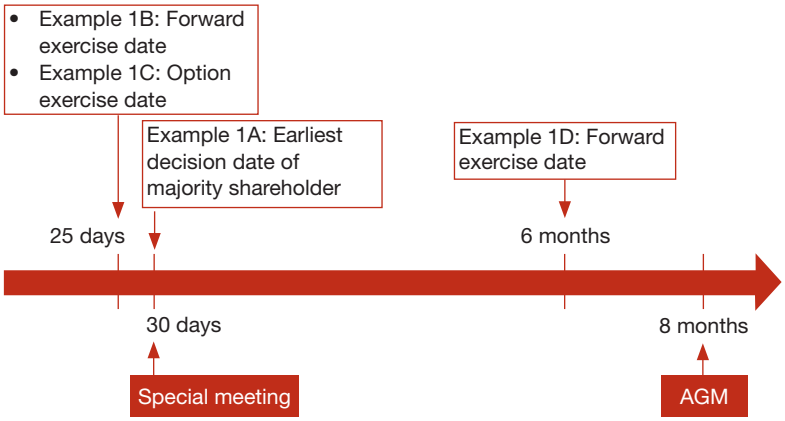


Illustration 8: Whether rights are exercisable when decisions need to be made – example 20.1

This scenario applies to examples 20.1A–D described below. Each example is considered in isolation.

Rights held by investor	Are rights substantive?
Example 20.1A Majority of voting rights.	Voting rights are substantive. • Investor can make decisions on relevant activities when they need to be made. • 30-day delay before exercise does not preclude existence of power from moment that shares are acquired.
Example 20.1B 25-day forward to acquire majority voting rights.	The forward contract is substantive. • Existing shareholders are unable to change existing policies within the next 30 days. The forward contract will have settled by that time. The investor's rights are essentially equivalent to the majority shareholder in example 20.1A. • The forward contract gives the investor power even though settlement has not yet occurred.
Example 20.1C Deeply in-the-money 25-day option to acquire majority voting rights.	The same conclusion would be reached as in example 20.1B.
Example 20.1D Six-month forward to acquire majority voting rights; no other related rights.	The forward contract is not substantive. • Existing shareholders can change existing policies over the relevant activities before the forward contract is settled. • Therefore, investor does not have the current ability to direct relevant activities.

Protective rights

21. Protective rights are those that apply only in exceptional circumstances or relate to fundamental changes in the investee (IFRS 10.B26).

22. Rights are not protective simply because they are contingent on events or circumstances or because they apply in exceptional circumstances (IFRS 10.B26).

23. Protective rights include:
    (a) lender's rights to restrict borrower's activities that adversely affect its credit risk to the lender's detriment;
    (b) rights of a non-controlling shareholder to approve exceptional capital expenditure or debt/equity issues; and
    (c) rights of a lender to seize assets upon default.

(IFRS 10.B28)

Franchises

24. Judgement is required to determine whether a franchisor's rights over a franchisee are substantive or protective in nature. IFRS 10 distinguishes decision rights held by the franchisor that protect the franchise brand from decision rights that significantly affect the franchisee's returns (for example, legal form and funding structure – IFRS 10.B33). The franchisor does not have power over the franchisee if other parties have the current ability to direct the franchisee's relevant activities (IFRS 10.B31).

25. The less financial support provided by the franchisor and the lower the franchisor's exposure to variability of returns from the franchisee, the more likely it is that the franchisor only holds protective rights (IFRS 10.B33).

PwC observation: The introduction of explicit guidance on franchises is new in IFRS 10. It is expected to provide more clarity on decisions by franchisors on consolidation of franchisees.

Voting and potential voting rights

Power with a majority of the voting rights

26. An investor with more than half of the voting rights has power, when the conditions illustrated in the following flowchart are fulfilled.

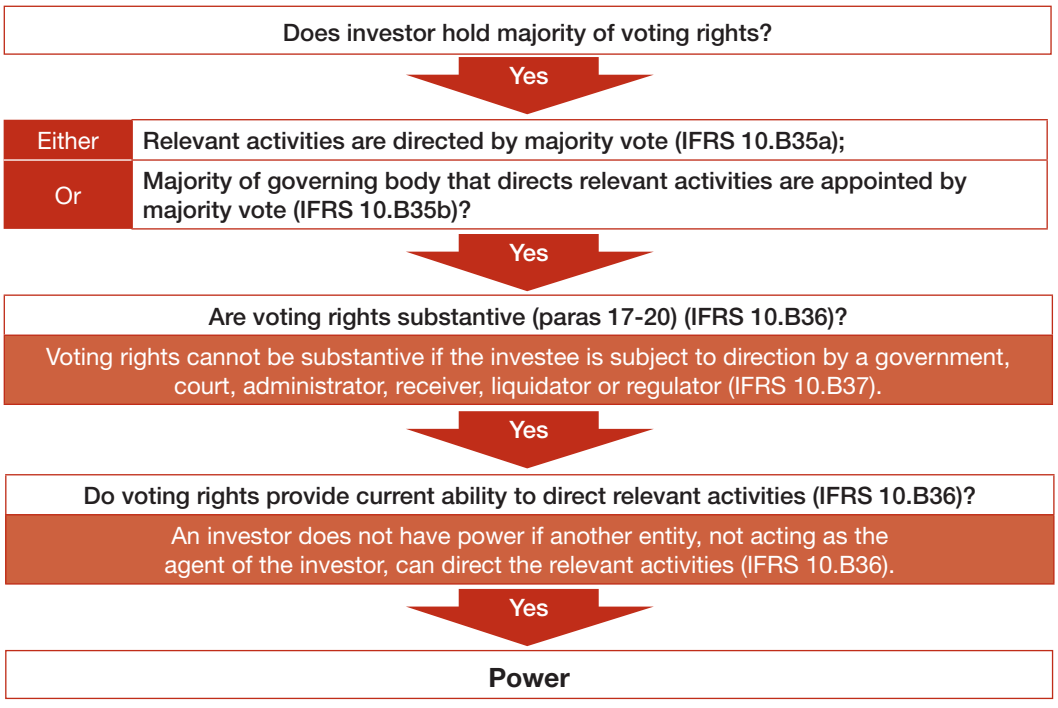


Illustration 9: Flowchart for assessing whether voting rights provide power

Power without a majority of voting rights

27. An investor with less than a majority of voting rights can also gain power through:

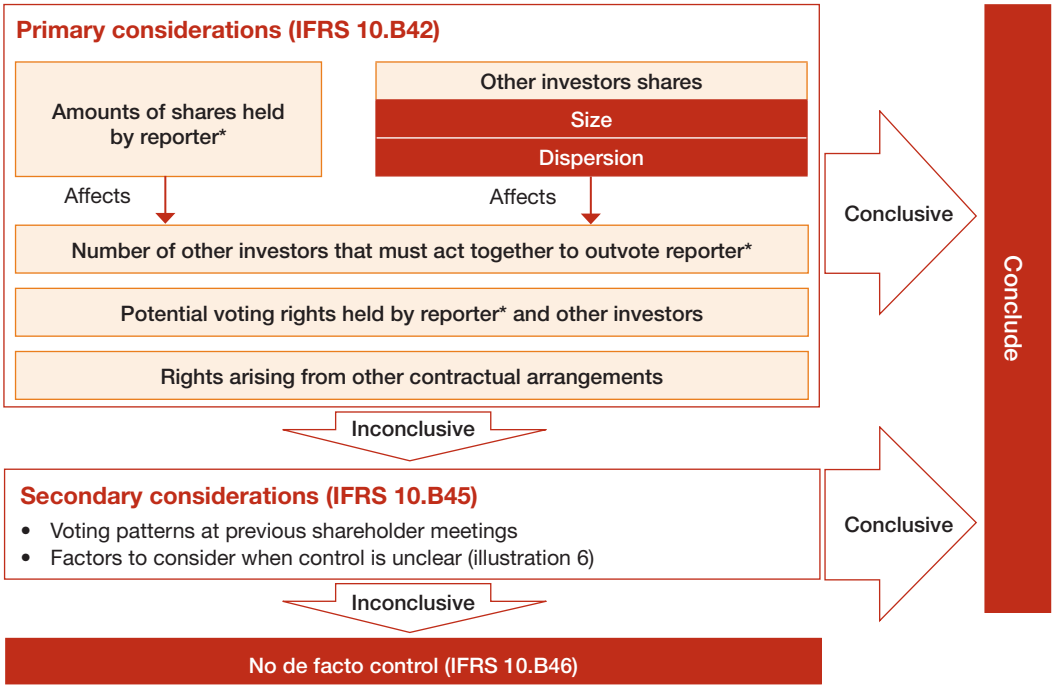
Contractual arrangements with other vote holders.	For example, such a contract may enable the investor to control sufficient votes held by other investors to provide itself with power over the investee (IFRS 10.B39).
Rights arising from other contractual arrangements.	For example, such a contractual arrangement may allow the investor to directly control certain investee's activities (for example, manufacturing). If these are relevant activities, this may result in control by the investor (IFRS 10.B40).
Ownership of the largest block of voting rights in a situation where the remaining rights are widely dispersed ('de facto control').	This is discussed in detail in the section 'De facto control'.
Potential voting rights.	This is discussed in detail in the section 'Potential voting rights'.
A combination of the above.	For example, a combination of 40% voting rights and 20% potential voting rights may provide power.

De facto control

PwC observation: One of the significant changes introduced by IFRS 10 includes guidance on de facto control for the first time.

28. An investor with less than a majority of the voting rights may hold the largest block of voting rights with the remaining voting rights widely-dispersed. The investor may have the power to unilaterally direct the investee unless a sufficient number of the remaining dispersed investors act in concert to oppose the influential investor. However, such concerted action may be hard to organise if it requires the collective action of a large number of unrelated investors.

29. The following diagram summarises the considerations for assessment of de facto control.



* 'Reporter' is used to refer to the reporting entity that is performing the assessment for de facto control over the investee.

Illustration 10: Assessment of de facto control

PwC observation: De facto control judgements are difficult in practice because of the many qualitative factors that must be considered. Examples 4-8 provided in IFRS 10.B43 and B45 may have significant influence on the determination of when holdings do and do not result in de facto control. These examples are summarised as follows:

IFRS 10 ref.	Largest investor's holdings	Holdings of next largest investors	Holdings of remaining investors	Other facts and circumstances stated in example	Control by largest investor?
IFRS 10 example 4	48%	–	Thousands of shareholders with less than 1% each.	None of the shareholders have arrangements to consult each other or make collective decisions.	Yes.
IFRS 10 example 5	40%	–	12 investors holding 5% each.	A shareholder agreement grants the largest investor the right to appoint, remove and set the compensation of management responsible for directing the relevant activities. A two-thirds majority shareholder vote is required to change this agreement.	Yes, because of the agreement. Not conclusive if considering only voting rights.
IFRS 10 example 6	45%	Next 2 investors hold 26% each.	3 other investors hold 1%.	–	No.
IFRS 10 example 7	45%	–	11 shareholders holding 5% each.	None of the shareholders have arrangements to consult each other or make collective decisions.	Not conclusive if considering only voting rights.
IFRS 10 example 8	35%	Next 3 investors hold 5% each.	Numerous shareholders with less than 1% each.	None of the shareholders have arrangements to consult each other or make collective decisions. Decisions made based on majority vote. 75% of votes have been cast at recent shareholders' meetings.	No.

30. The additional examples below illustrate the application of the above principles.

Example 30.1

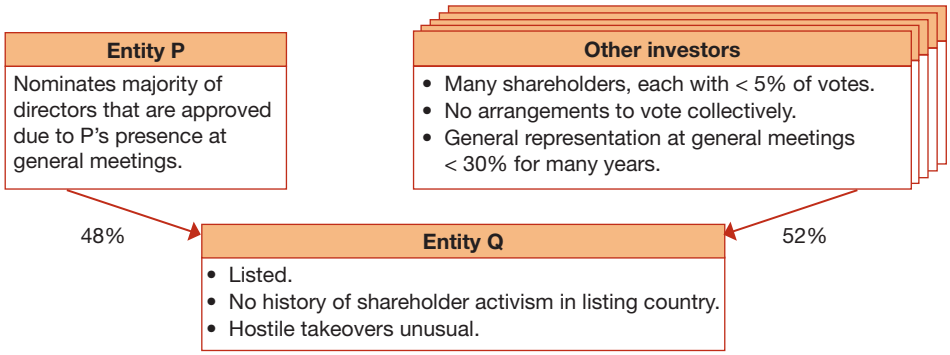


Illustration 11: De facto control – example 30.1

Does P control Q?

Solution

Applying the de facto control guidance,

(a) Relative size – P holds 48% as compared to other shareholders individually owning less than 5% each.
(b) Dispersion of other shareholdings – The other shareholders each own less than 5% so there would be at least 11 shareholders.

The examples in IFRS 10 concluded that:
(a) An investor with 48% voting rights and remaining shareholders holding less than 1% was sufficient to constitute power (IFRS 10.B43 example 4).
(b) An investor with 45% voting rights as compared to 11 other investors each holding (exactly) 5% was insufficient to constitute power (IFRS 10.B45 example 7).

P's case lies in between the two examples and further analysis is required.

Looking at the additional factors (see illustration 10 above),
(a) The remaining shareholders have not formed any group to vote collectively, they have not been well-represented in past general meetings, and there is no history of shareholder activism (IFRS 10.B45).
(b) Entity P dominates the nominations process for electing Q's governing body (IFRS 10.B18c).

The additional factors may suggest that P controls Q.

Example 30.2

- Parent L has a 51% interest in listed entity M. L consolidates M.
- M is highly-leveraged and started making losses. L decided to sell 2% to an investment bank.

The post-sale structure, and additional information, is as follows:

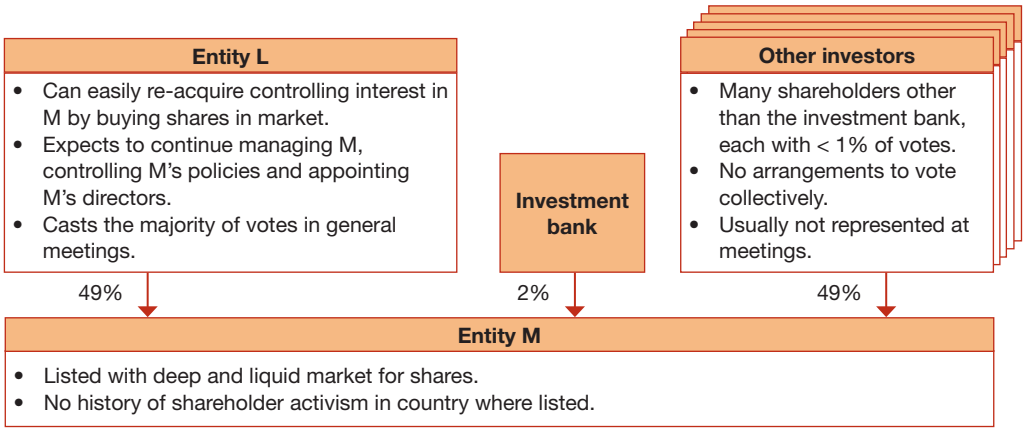


Illustration 12: De facto control – example 30.2

Solution

L owns 49% as compared to other shareholders with holdings that are dispersed. It expects to go on appointing management and directing activities. L has the practical ability to direct the relevant activities of M (IFRS 10.B18).

The de facto control guidance in IFRS 10.B42 together with the factors in IFRS 10.B18, indicate that L controls M.

Example 30.3

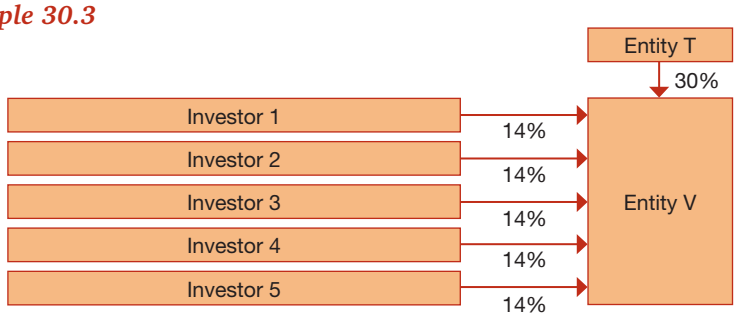


Illustration 13: De facto control – example 30.3

Investors 1 to 5:

- are venture capital companies or institutional investors;
- do not participate at general meetings; and
- are known to meet with representatives of entity V and with each other.

Solution

Applying IFRS 10.B42 principles:

(a) Relative size – T holds 30%, which is not that much higher than the other shareholders.

(b) Dispersion of other shareholdings – Remaining shareholdings are concentrated in five shareholders who do meet with each other. It may not be difficult for the remaining five shareholders to act together.

Example 6 in IFRS 10.B43 concluded that an investor does not have control as only two other investors would need to co-operate to prevent an investor from directing the investee's activities.

Only three investors need to co-operate to exceed T's voting power in the above example. In this case, T does not control V.

Potential voting rights

31. Potential voting rights are defined as 'rights to obtain voting rights of an investee, such as those within an option or convertible instrument.' (IFRS 10.B47)

32. IFRS 10 specifies 3 issues to consider:

    (a) Substantive or protective? *Only substantive voting rights are considered in assessing power (IFRS 10.B47). Therefore voting rights should be assessed against the criteria for substantive rights specified by IFRS 10 (see illustration 7).*

    (b) Purpose and design of instrument and other involvement (IFRS 10.B48). *The purpose and design of the potential voting right instrument and the purpose and design of any other involvement the investor has with the investee should be assessed. This involves both an assessment of terms and conditions and the investor's apparent expectations, motives and reasons for agreeing to those terms and conditions.*

    (c) Other voting or decision rights held by the investor (IFRS 10.B49). *For example, ownership of a 20% option that is accompanied by a 40% shareholding may result in control (IFRS 10.B50).*

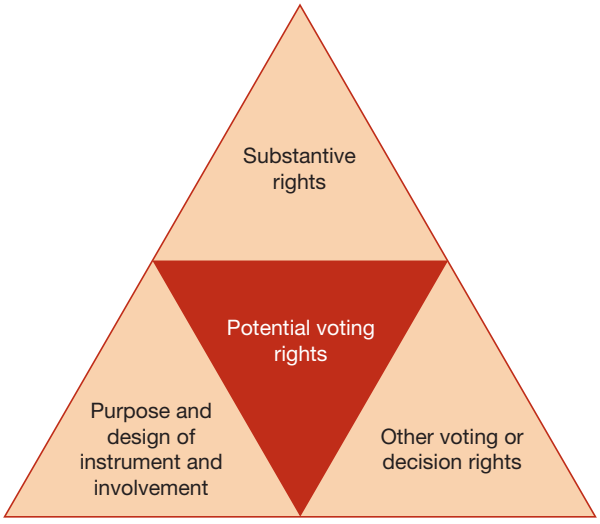


Illustration 14: Potential voting rights

33. The following examples illustrate the application of the above principles. The analysis based on the existing IAS 27/SIC 12 guidance has been included for comparison purposes.

Example 33.1

- A and B own 80% and 20% respectively of the voting shares of C.
- A sells a 50% interest to D and buys call options from D that are exercisable at any time at a premium to the market price on issue.

The resulting structure is as follows:

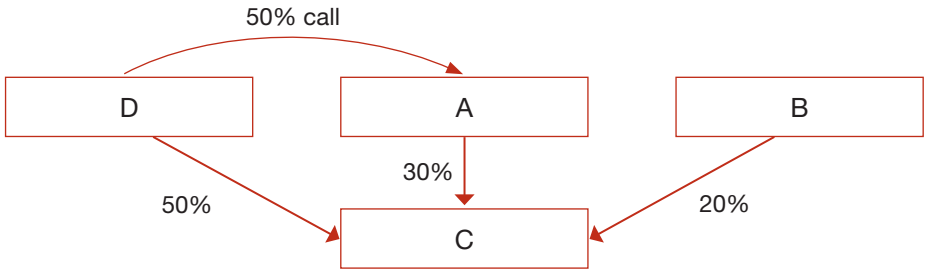


Illustration 15: Potential voting rights example 33.1

Additional information about the call option:

- If exercised, A would recover its original 80% interest and voting rights.
- The exercise price has economic substance and is not set deliberately high.
- The option is slightly out of the money at the reporting date.

Is the call option substantive?

IFRS 10 analysis	IAS 27/SIC 12 analysis
The options held by A are at a premium to the market price upon issue and are slightly out of the money at the reporting date. However, it is necessary to consider whether A benefits for other reasons from the exercise of the options (for example, protection of interests, acquisition of assets). If that is the case, the options may be substantive, and A should consolidate C.	The options are out of the money when issued, but they are exercisable immediately. Hence, A has the power to govern the financial and operating policies of C and, as a consequence, C is determined to be a subsidiary of A.

Example 33.2

- A, B and C own 40%, 30% and 30% respectively of D's voting shares.
- A also owns call options that:
  - are exercisable at any time at the fair value of the underlying shares; and
  - if exercised, would give A an additional 20% of D's voting rights and reduce B's and C's interests to 20% each.

The following diagram illustrates this arrangement:

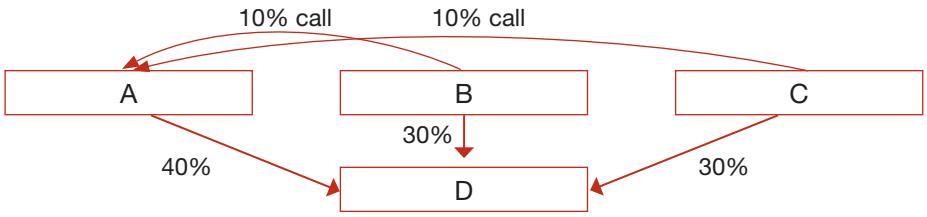


Illustration 16: Potential voting rights example 33.2

Is the call option substantive?

IFRS 10 analysis	IAS 27/SIC 12 analysis
The call options are exercisable at fair value. As such, they are neither in nor out of the money. A would have to consider the other factors in illustration 7 in order to determine whether the options are substantive. If the options are substantive, A would have to consider the factors in illustration 14 (for example, purpose and design of the option instrument) to assess whether the options provide A with power over D.	The existence of the potential voting rights that can be exercised at any time gives A the power to govern the financial and operating policies of D. Hence, D is the subsidiary of A.

Example 33.3

- A, B and C each own 33% of D's voting shares.
- A, B and C each have the right to appoint two directors to the board of D.
- A owns call options that are exercisable at a fixed price at any time and if exercised would give it all of the voting rights in D.
- A's management does not intend to exercise the call options even if B and C do not vote in the same manner as A.
- The options are in the money at both issue date and reporting date.

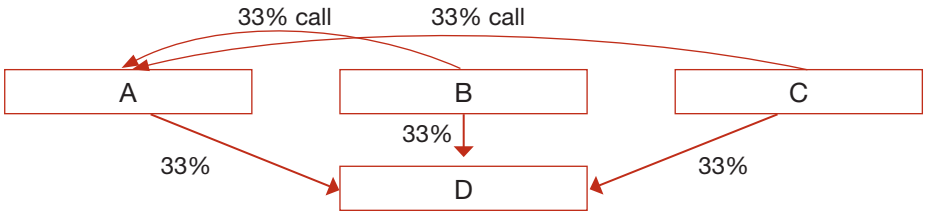


Illustration 17: Potential voting rights example 33.3

Are the call options substantive?

IFRS 10 analysis	IAS 27/SIC 12 analysis
The call options appear to be substantive as they are in the money and there are no other countervailing factors. Management's intent does not affect the assessment of whether the options are substantive unless this intention is caused by barriers or other practical difficulties (see illustration 7). If the options are substantive. A would have to consider the factors in illustration 14 (for example, purpose and design of the option instrument) to assess whether the options provide A with power over D.	The intention of A's management should not be taken into account in assessing whether A has control of D. The existence of the potential voting shares and entity A's ability to exercise the options and thereby gain control of D indicate that D is a subsidiary of A.

Structured entities

34. Voting rights may not have a significant effect on an investee's returns. For example, voting rights might relate to administrative tasks only and contractual arrangements dictate how the investee should carry out its activities (IFRS 10.B17). These entities are described as 'structured entities' (IFRS 12.B21).

PwC observation: Previously, SIC 12 used the term 'special purpose entities' (SPEs) to mean those entities that are created to accomplish a narrow and well-defined objective, and stipulated separate consolidation criteria for these entities. This term is no longer used under IFRS 10. However, IFRS 12.B22(b) indicates that a narrow and well-defined objective may be an identification characteristic for structured entities. This suggests that a subset of former SPEs may qualify to be classified as 'structured entities'. 'Auto-pilot' entities under SIC 12 are a key candidate for classification as 'structured entities'.

35. All substantive powers in such entities may appear to have been surrendered to contracts that impose rigid control over the entities' activities. None of the parties may appear to have power. However, entities may be indirectly controlled by one of the parties involved. Further analysis is required to determine if there is a party with control.

36. An investor should consider the following factors when determining whether it has power:

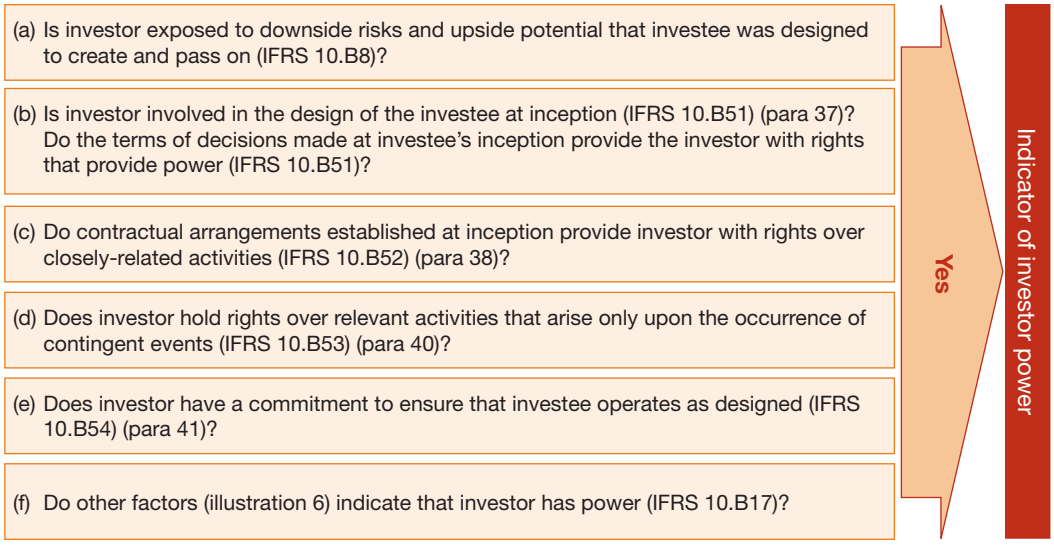


Illustration 18: Structured entity considerations

Items (b)-(e) are discussed in further detail below.

Involvement and decisions made at the investee's inception as part of its design

37. IFRS 10.B51 requires a consideration of the involvement of various participants in the design of the investee at inception. Such involvement, by itself, is not sufficient to demonstrate control. However, participants who were involved in the design may have the opportunity to obtain powerful rights. Decisions made at the investee's inception should be evaluated to determine whether the transaction terms provide any participant with rights that are sufficient to constitute power.

Contractual arrangements established at investee's inception

38. The structured entity is often governed not only by its constitution documents but by contracts that bind the structured entity to its original purpose. These include call rights, put rights, liquidation rights and other contractual arrangements that may provide investors with power. For example, the put right in example 41.1 ensures that the structured entity only needs to collect and pass on principal and interest, and provides X with the power to manage defaulted receivables.
39. When these contractual arrangements involve activities that are closely related to the investee, these are considered relevant activities. This is true even if the activities do not occur within the structured entity itself but in another entity. Example 41.1 illustrates this.

Rights to direct relevant activities that arise upon the occurrence of certain events

40. IFRS 10.B53 requires consideration of decision rights that take effect only when particular circumstances arise or events occur. An investor with these rights can have power even if those circumstances have not yet arisen.

Commitment to ensure that investee operates as designed

41. Such an explicit or implicit commitment by an investor may increase exposure to variability of returns and heighten the likelihood of control. However, on its own, this factor is insufficient to demonstrate power or prevent other parties from having power (IFRS 10.B54).

The following example from IFRS 10 illustrates the above principles.

Example 41.1

- An investee's only business activity is to purchase receivables and service them on a day-to-day basis.
- Servicing involves collection and passing on of principal and interest payments.
- Upon default, the investee automatically puts the receivable to investor X as agreed separately in a put agreement with investor X.

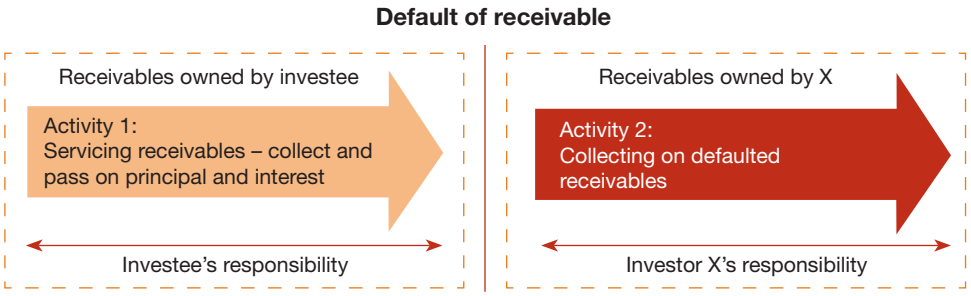


Illustration 19: Structured entities – example 41.1

Does investor X have power over the investee?

Solution

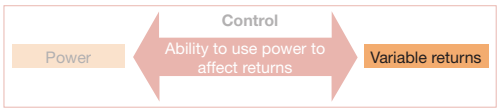
Yes.

- The only activity that significantly affects the investee's returns is managing the receivables upon default.
- Servicing receivables before default is not a relevant activity. The actions are pre-determined and do not require substantive decisions that affect returns.
- Investor X controls the only relevant activity and therefore it has power over the investee.

This example demonstrates three additional points. For structured entities, the consolidation analysis is not affected by the following:

- X can only exercise its power upon a contingent event (that is, default).
  This is because a default is the only time when decisions are required. X can decide when decisions are needed, and therefore it has power, even though it may not be able to make decisions immediately (IFRS 10.B53).
- X's power arises only from a side contract (the put agreement) rather than the incorporation documents of the investee.
  The put agreement is integral to the overall transaction and the establishment of the investee and as such should be considered (IFRS 10.B52).
- Management of defaulted receivables takes place within X and not the investee – that is, X owns the defaulted receivables that it manages, not the investee.

Variable returns

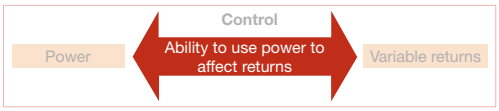


42. Variable returns are defined as returns that are not fixed and have the potential to vary as a result of the performance of an investee. They can be positive, negative or both (IFRS 10.B56).

43. A wide variety of possible returns are identified in IFRS 10, ranging from traditional dividends and interest to servicing fees, changes in the fair value of an investment, exposures arising from credit or liquidity support, tax benefits, access to future liquidity, economies of scale, cost savings and gaining proprietary knowledge (IFRS 10.B57).

44. Variability is assessed based on the substance of the arrangement regardless of legal form. For example, contractually-fixed interest payments could be highly variable if credit risk is high. Asset management fees that are contractually fixed could nevertheless be subject to variability if the investee has a high risk of non-performance (IFRS 10.B56).

Link between power and returns – principal vs. agent



45. An agent is a party engaged to act on behalf of another party (the principal). A principal may delegate some of its decision authority over the investee to the agent, but the agent does not control the investee when it exercises such powers on behalf of the principal (IFRS 10.B58). The decision-making rights of the agent should be treated as being held by the principal directly in assessing control. Power resides with the principal rather than the agent (IFRS 10.B59).

46. The overall relationship between the decision-maker and other parties involved with the investee must be assessed to determine whether the decision-maker acts as an agent. The standard sets out a number of specific factors to consider; several are determinative, but the majority are judgemental and need to be considered together in assessing the overall relationship.

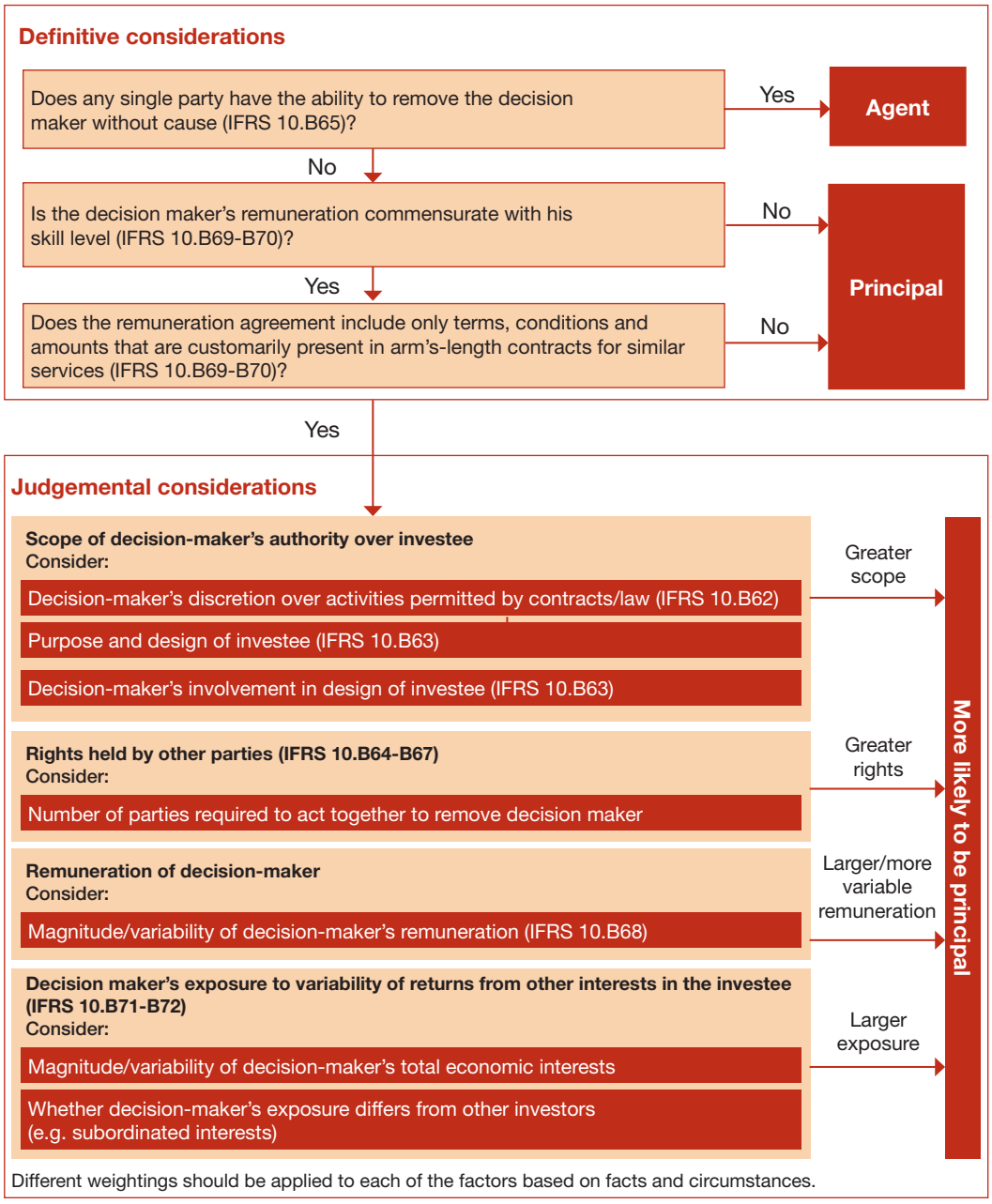


Illustration 20: Assessment of whether decision maker is principal or agent

47. IFRS 10.B72 illustrates the above principles with the following examples:

Example 47.1

A fund manager establishes, markets and manages a publicly-traded, regulated fund. The fund was marketed to investors as an investment in a diversified portfolio of equity securities of publicly-traded entities.

IFRS 10 criteria	Additional facts relevant to assessment of IFRS 10 criteria
Scope of decision-maker's authority	• Fund manager is subject to narrowly defined parameters set out in the investment mandate. • Within the defined parameters, the fund manager has discretion about the assets in which to invest.
Rights held by other parties	• Investors do not hold any substantive rights that would affect the decision-making authority of the fund manager, but can redeem their interests within particular limits set by the fund. • The fund is not required to establish, and has not established, an independent board of directors.
Remuneration of decision-maker	• A market-based fee equal to 1 per cent of the fund's net asset value. • The fees are commensurate with the services provided.
Decision-maker's exposure to variability from other interests	• Fund manager has a 10 per cent pro rata investment in the fund. • Fund manager does not have any obligation to fund losses beyond its 10 per cent investment. • It has been assessed that the fund manager's remuneration and investment does not create exposure that is of such significance that it indicates that the fund manager is a principal.

Is the fund manager a principal?

Solution

Consideration of the fund manager's exposure to variability of returns together with its restricted decision-making authority indicates that the fund manager is an agent.

Example 47.2

A fund manager establishes, markets and manages a fund that provides investment opportunities to a number of investors. Is the fund manager principal or agent in examples A-C? These examples are considered in isolation.

IFRS 10 criteria	Additional facts relevant to assessment of IFRS 10 criteria
Scope of decision-maker's authority	Examples A-C • The fund manager must make decisions in the best interests of all investors and in accordance with the fund's governing agreements. • Despite this, the fund manager has extensive decision-making authority to direct the relevant activities of the fund.
Rights held by other parties	Example A The investors can remove the fund manager by a simple majority vote, but only for breach of contract. Example B Same as example A. Example C • The fund has a board of directors comprised entirely of directors that are independent of the fund manager. • The board appoints the fund manager annually. • The services performed by the fund manager could be performed by other fund managers.
Remuneration of decision-maker	Examples A-C • A market-based fee of – 1% of assets under management; and – 20% of profits if a specified profit level is achieved. • Fees are commensurate with services provided. • The remuneration is intended to align the interests of the fund manager with those of the other investors. • It is assessed that the remuneration, on its own, does not create sufficient exposure to variability of returns for the fund manager to be a principal.
Decision-maker's exposure to variability from other interests	Example A • The fund manager also has a 2% investment in the fund that aligns its interests with those of the other investors. • The fund manager does not have any obligation to fund losses beyond its 2% investment. Example B • The fund manager has a more substantial pro rata investment in the fund. • The fund manager does not have any obligation to fund losses beyond that investment. Example C • The fund manager has a 20 per cent pro rata investment in the fund. • The fund manager does not have any obligation to fund losses beyond its 20% investment.

Solution

Example A	The fund manager is an agent. • The market-based fee of 1% of assets and 20% of profits, as well as the 2% investment does not create sufficient exposure for the fund manager to be a principal. • The other investors' rights to remove the fund manager are protective as they are exercisable only for breach of contract.
Example B	It depends on the amount of the fund manager's investment in the fund. • For example, a 20% investment may be sufficient to conclude that the fund manager is principal. • The amount of exposure that will result in principal classification will change in different circumstances (for example, if the remuneration is different). • The other investors' rights to remove the fund manager are protective, as in example A.
Example C	The fund manager is an agent. The investors have substantive rights to remove the fund manager, and the board of directors provides a mechanism to exercise these rights.

Example 47.3

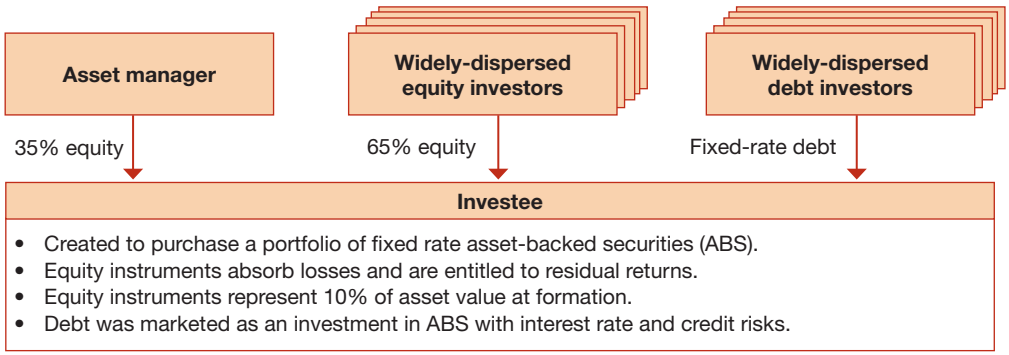


Illustration 21: Principal-agent analysis – example 47.3

IFRS 10 criteria	Additional facts relevant to assessment of IFRS 10 criteria
Scope of decision-maker's authority	The asset manager manages the active asset portfolio by making investment decisions within the parameters set out in the investee's prospectus.
Rights held by other parties	• The asset manager can be removed, without cause, by a simple majority decision of the other investors. • The other equity and debt investors comprise of a large number of widely-dispersed, unrelated third party investors.
Remuneration of decision-maker	• The asset manager receives fees of: – 1% of assets under management; and – 10% of profits if profits exceed a specified level. • The fees are market-based and are commensurate with services provided. • The remuneration aligns the interests of the fund manager with those of other investors.
Decision-maker's exposure to variability from other interests	The asset manager holds 35% of equity in the investee.

Is the asset manager a principal?

Solution

The asset manager is a principal and thus has control.

- Holding 35% of the equity, in addition to the exposure provided by the fees, provides sufficient variability for the asset manager to be classified as a principal.
- The right to remove the asset manager without cause receives lower emphasis in this example, as this right is not easily-exercisable, requiring the concerted effort of a large number of widely-dispersed investors.

Example 47.4

A decision-maker (the sponsor) sponsors a multi-seller conduit (MSC):

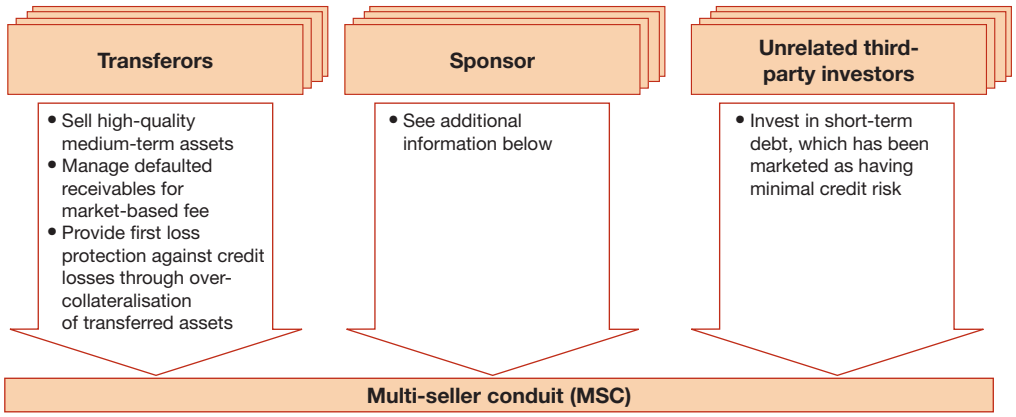


Illustration 22: Principal-agent analysis – example 47.4

IFRS 10 criteria	Additional facts relevant to assessment of IFRS 10 criteria
Scope of decision-maker's authority	• The sponsor establishes the terms of the MSC. • The sponsor: – manages the operations of the MSC; – approves the transferors permitted to sell to the MSC; – approves the assets to be purchased by the MSC; and – makes decisions about the funding of the MSC. • The sponsor must act in the best interests of all investors.
Rights held by other parties	The investors do not hold substantive rights that could affect the decision-making authority of the sponsor.
Remuneration of decision-maker	Sponsor receives a market-based fee that is commensurate with the services provided.
Decision-maker's exposure to variability from other interests	• Sponsor is entitled to residual return of the MSC. • Sponsor provides credit enhancement, which absorbs losses of up to 5% of all of the MSC's assets, after losses are absorbed by the transferors. • Sponsor provides liquidity facilities to the MSC. Liquidity facilities are not advanced against defaulted assets.

Is the sponsor a principal?

Solution

The sponsor appears to be a principal and thus has control.

- Sponsor's exposure to variability of returns is significant, arising from both the sponsor's entitlement to residual returns and the credit enhancement and liquidity facilities it provides. The exposure to liquidity risk is exacerbated by the fact that MSC uses short-term debt to fund medium-term assets.
- Sponsor has extensive authority over those decisions such as transferor selection, asset selection, and funding, which are likely to be the activities that most significantly affect the MSC's returns.

The obligation to act in the best interest of all investors does not prevent the sponsor from being a principal.

Other issues

48. Three further issues are addressed by IFRS 10:
    (a) Determining whether the investor is a 'de facto agent';
    (b) Determining whether an investor who has power over specified assets of an investee must regard those assets as a separate entity. IFRS 10 uses the term 'silo' to denote such an entity that has been ring-fenced for accounting purposes; and
    (c) Frequency of reassessment with regards to whether an investor has control over an investee.

De facto agent

49. An agent need not be bound to the principal by a contract. IFRS 10 uses the term 'de facto agents' to describe agents who may be acting on behalf of principals even when there is no contractual arrangement in place. Identification of such relationships is expected to be highly judgemental. Consideration should be given to the nature of relationships between the investor and various parties and how they interact with each other (IFRS 10.B73).

50. The standard identifies a number of possible de facto agent/principal relationships including:
    (a) IAS 24 related parties of the principal;
    (b) parties that received interests in the investee as a contribution or loan from the principal;
    (c) parties that agreed not to sell, transfer or encumber their interests in the investee without the principal's approval;
    (d) parties that cannot finance operations without subordinated financial support from the principal;
    (e) parties that have largely similar governing body members or key management personnel as the principal; and
    (f) parties that have close business relationships with the principal.

51. An investor with a de facto agent should consider the de facto agent's decision-making rights, as well as its indirect exposure to variable returns through the de facto agent when assessing control of the investee (IFRS 10.B74).

Silos

52. Specified assets of an investee are deemed to be a separate entity for accounting purposes (a 'silo') when, in substance:
    (a) the specified assets and related credit enhancements, if any, are the only source of payment for the investor's interest in the investee; and
    (b) parties other than the investor do not have rights or obligations over the specified assets and the cash flows from those assets.

53. If assets constitute a silo, the investor must then determine whether it can control the silo (IFRS 10.B78) based on the IFRS 10 criteria.

54. The silos that meet the above conditions are excluded from consolidation if another investor controls and consolidates the entity that contains the silos (IFRS 10.B79).

Frequency of reassessment

55. Reassessment of control is required if facts and circumstances indicate changes to the elements of control (IFRS 10.B80).

56. IFRS 10 highlights that control can change when:
    (a) decision-making mechanisms change (for example, change from a substantive voting system to an 'auto-pilot' mechanism) (IFRS 10.B81);
    (b) events occur, even if they do not involve the investor (for example, lapse of decision-making rights by another party) (IFRS 10.B82);
    (c) an investor's exposure or rights to variable returns change (IFRS 10.B83); and
    (d) the relationship between an agent and a principal changes (IFRS 10.B84).

    However, a change in market conditions on its own will not result in a reassessment of control unless it changes one of the three elements of control (IFRS 10.B85).

Accounting requirements

57. The accounting for consolidation has remained largely consistent with the existing IAS 27 guidance.

58. Additional guidance has been provided in respect of potential voting rights. IFRS 10 specifies that allocation of profits and assets to the parent company and non-controlling interests for consolidation purposes is usually based on present ownership interests. However, where potential voting rights or other derivatives, in substance, give access to the economic benefits associated with an ownership interest, the allocation of profits and assets is determined by taking into account the eventual exercise of those potential voting rights and derivatives. Such potential voting rights and derivatives are not accounted for using either IAS 39 or IFRS 9.

Disclosures

59. The disclosure requirements for subsidiaries are not spelt out in IFRS 10 itself; they are in IFRS 12 'Disclosure of interests in other entities'.

General objective of IFRS 12

60. The objective of IFRS 12 is to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities (IFRS 12.1). Reporting entities should disclose any information that is necessary to meet this objective (IFRS 12.3).

Scope of disclosures

61. IFRS 12 applies to interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This practical guide sets out disclosures for subsidiaries and unconsolidated structured entities.

62. IFRS 12 disclosures only apply to involvements that meet the definition of 'interests in' another entity. IFRS 12 provides detailed guidance on what is meant by 'interests in' another entity. This question takes on particular relevance with regards to disclosures for unconsolidated structured entities as it determines the scope of such disclosures. For example, do banks have to make those disclosures for swap customers that are structured entities?

63. IFRS 12 defines 'interest in another entity' as an involvement that:
    - can be contractual or non-contractual;
    - exposes an entity to variability of returns from the performance of the other entity;
    - examples include:
      – equity or debt holdings;
      – provision of funding;
      – liquidity support;
      – credit enhancement;
      – guarantees;
    - includes control, joint control or significant influence; and
    - does not arise solely because of a typical customer-supplier relationship.

64. The purpose and design of a structured entity should be considered in making a judgement as to when a relationship represents an 'interest' (IFRS 12.B7).

65. Only instruments that absorb variability of returns from the investee qualify as 'interests' (IFRS 12.B8). Instruments that transfer risk to the investee create variability for the investee but do not typically expose the reporting entity to variability (IFRS 12.B9). Such instruments do not qualify as 'interests'. The following examples from IFRS 12.B8 and B9 illustrate this.

Example 65.1

- A structured entity holds a loan portfolio.
- The structured entity obtains a credit default swap from the reporting entity to protect itself from the default risk.

Does the reporting entity have an 'interest' in the structured entity?

Solution

The reporting entity has involvement that exposes it to variability of returns from the performance of the structured entity because the credit default swap absorbs variability of returns of the structured entity.

Example 65.2

The following structured entity was set up to provide investment opportunities to investors.

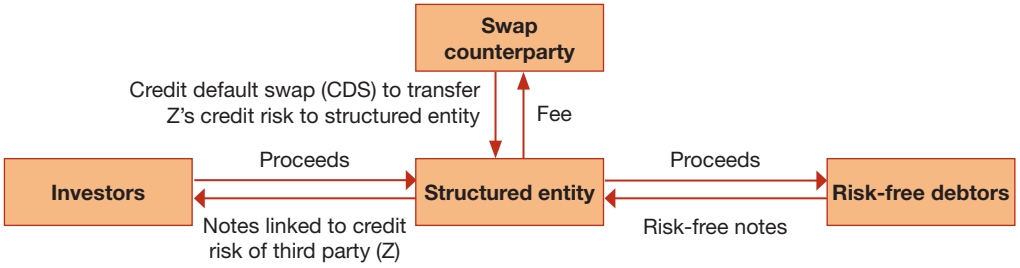


Illustration 23: Identifying 'interest' in an entity - example 65.2

Does the swap counterparty have an 'interest' in the structured entity?

Solution

The swap counterparty does not have an 'interest' in the structured entity because the CDS transfers variability to the structured entity, rather than absorbing variability of returns of the structured entity.

66. IFRS 12 does not apply to the following:
    (a) post-employment benefit plans or other long-term employee benefit plans to which IAS 19 applies;
    (b) separate financial statements to which IAS 27 applies; however, disclosures of unconsolidated structured entities are required if the entity only prepares separate financial statements;
    (c) an interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the joint arrangement or is an interest in a structured entity;
    (d) an interest that is accounted for under IFRS 9, unless that is an interest in an associate, joint venture, or unconsolidated structured entity.

(IFRS 12.6)

Aggregation of disclosures

67. IFRS 12 allows reporting entities to judge the level of detail required in the disclosures and the emphasis of the disclosures. Disclosures should be aggregated or disaggregated as appropriate to avoid either obscuring useful information or including voluminous insignificant detail (IFRS 12.4, IFRS 12.B2). IFRS 12 provides that:
    (a) aggregation should be consistent with the disclosure objective in paragraph 60 (IFRS 12.B3);
    (b) interests in subsidiaries, joint ventures, joint operations, associates and unconsolidated structured entities should be presented by class (IFRS 12.B4);
    (c) quantitative and qualitative information about the different risks and return characteristics of various entities and the significance

of each such entity should be considered (IFRS 12.B5); and

(d) possible aggregation criteria include aggregation based on nature of activities, industry classification, and geography (IFRS 12.B6).

Significant judgements and assumptions

68. A reporting entity should disclose significant judgements and assumptions made in determining whether it controls, jointly controls, significantly influences or has interests in other entities (IFRS 12.7) including:
    (a) judgements and assumptions related to reassessment of control due to changes in facts and circumstances (IFRS 12.8);
    (b) any override of presumptions of control (or non-control) when voting rights exceed (or fall below) 50% (IFRS 12.9a, b); and
    (c) an assessment of principal-agent relationships in consolidation (IFRS 12.9c).

69. The group should also disclose how it aggregates interests in similar entities for disclosure purposes (IFRS 12.B3).

70. Appendix A provides a disclosure checklist for interests in subsidiaries and unconsolidated structured entities. This checklist can be used as a tool to assist financial statement preparation.

Transition

71. IFRS 10 is applicable for annual periods commencing on or after 1 January 2013. It generally requires full retrospective application in accordance with IAS 8, except for the impracticability exemptions discussed below. Early application is permitted, but early adopters should disclose this fact and apply IFRS 11, IFRS 12, IAS 27 (revised) and IAS 28 (revised) simultaneously (IFRS 10.C1, C2).

72. The following flowchart illustrates the transition requirements:

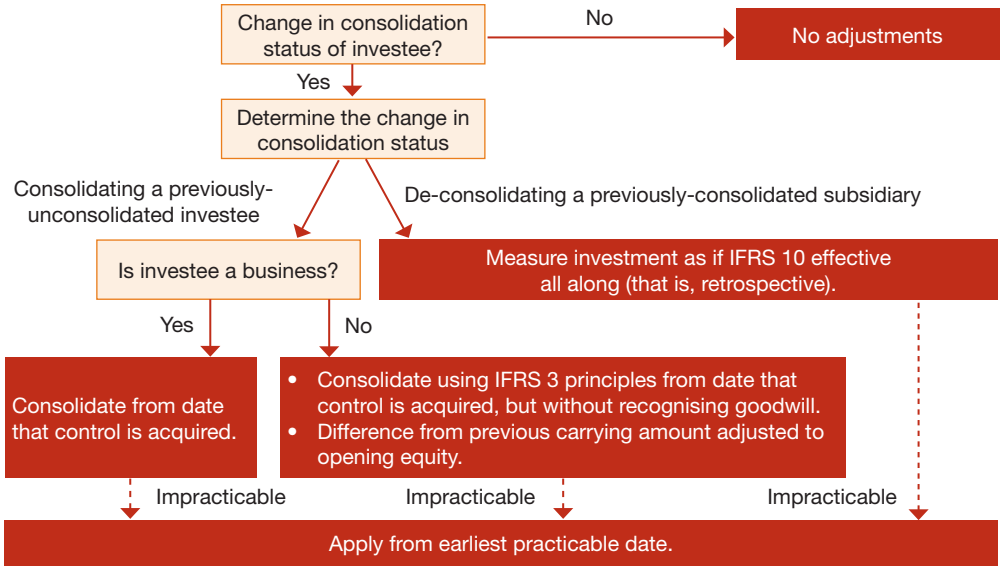


Illustration 24: IFRS 10 transition flowchart

73. IFRS 12 is also effective for annual periods beginning on or after 1 January 2013, with early application encouraged. An entity can choose to provide any of the disclosures in IFRS 12 earlier without being forced to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (revised) or IAS 28 (revised) (IFRS 12.C1, C2) in full.

Potential business impacts

74. Changes to the consolidated entities of a group may result in significant financial changes for the group. This could impact both the recognised amounts in profit and loss (for example, revenues and expenses) as well as the balance sheet presentation.

PwC observation: Leverage, capital ratios, covenants and financing agreements may be affected as a result of changes to the balance sheet. Structuring efforts with special-purpose entities may no longer work under the new requirements. Such impacts should be reviewed in advance to understand how a group's balance sheet may be affected. Impacts on performance measures, such as interest cover, EBIT or EBITDA, should also be considered.

75. IFRS 10 introduces certain judgemental areas such as de facto control and principal-agent relationships. The application of IFRS 10 may result in changes in the scope of consolidation in the future. Entities that anticipate this outcome should consider the availability of resources and plan for the increased capacity that would be required to handle the additional volume of work.

76. In particular, the initial application of IFRS 10 may coincide with a significant volume of purchase price allocations if the application of this standard requires the group to consolidate a significant number of previously-unconsolidated investees.

77. Initial transition requirements and annual reassessment of control may require changes to existing processes and internal controls. Gathering and analysing the information could take considerable time and effort depending on the number of investees that may require consolidation, the inception dates and the records available.

PwC observation: Entities should clearly communicate any significant changes to financial results and financial position to stakeholders as soon as possible. Timely assessment and management of the potential implementation and ongoing business impacts of IFRS 10 will help reduce unexpected business and reporting risks. Beginning this process early will allow entities enough time to consider potential adoption strategies or to renegotiate agreements in order to reduce the impact of adoption and to achieve preferred classification outcomes for future arrangements.

78. IFRS 12 has greatly increased the amount of disclosures required. Reporting entities should plan for, and implement, the processes and controls that will be required to gather the additional information. This may involve a preliminary consideration of IFRS 12 issues such as the level of aggregation required.

Industry insights

79. IFRS 10 and IFRS 12 are expected to affect some industries more than others. Industries that use special purpose entities or structured entities significantly are particularly likely to be affected.

80. We will shortly issue supplements to this practical guide that discuss some of the more significant implications for a number of industries to help readers identify and consider the implications of the standard in a number of sectors.

Where to go for more information

81. The final standards and basis of conclusions, as well as a summary of all decisions reached by the board throughout the project, can be found on the IASB website at www.ifrs.org/Home.htm

Appendix A: Disclosure checklist

Disclosures	Appropriate disclosures made? (Yes/No*/NA)
Interests in subsidiaries	
(a) Information that enables users to: • understand the composition of the group; • understand the interest that non-controlling interests have in the group's activities and cash flows; • evaluate the nature and extent of significant restrictions on the ability to access or use assets, and settle liabilities, of the group; • evaluate the nature of, and changes in, the risks associated with interests in consolidated structured entities; • evaluate the consequences of changes in ownership interest in a subsidiary that do not result in a loss of control; and • evaluate the consequences of losing control of a subsidiary during the reporting period. The rest of the requirements elaborate on these objectives.	
(b) If the financial statements of a subsidiary are as of a date or for a period that is different from the consolidated financial statements: • the date of the end of the reporting period of the financial statements of that subsidiary; and • the reason for using a different date or period.	
(c) For each subsidiary that has non-controlling interests that are material: • the name of the subsidiary; • the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary; • the proportion of ownership interests held by non-controlling interests; • the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held; • the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period; • accumulated non-controlling interests of the subsidiary at the end of the reporting period; • dividends paid to non-controlling interests; • summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group's activities and cash flows. *E.g. current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income.*	
(d) Significant restrictions (e.g. statutory, contractual and regulatory restrictions) on the ability to access or use the assets and settle the liabilities of the group, such as: • those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group; • guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.	
(e) Nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group. *This include situations when:* • *a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities; or* • *approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary.*	
(f) Carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.	

*If the answer is 'no', further justification should be provided.

Disclosures	Appropriate disclosures made? (Yes/No*/NA)
Interests in subsidiaries	
(g) Terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity. *This includes events or circumstances that could expose the reporting entity to a loss (e.g. liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).*	
(h) If, during the reporting period, a parent or its subsidiaries has, without a contractual obligation, provided support to a consolidated structured entity (e.g. purchasing assets of or instruments issued by the structured entity): • type and amount of support provided; and *This includes situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support.* • reasons for providing the support.	
(i) If, during the period, a parent or its subsidiaries has, without a contractual obligation, provided support to a previously-unconsolidated structured entity that resulted in control of the structured entity, an explanation of the factors in reaching that decision.	
(j) Any current intentions to provide support to a consolidated structured entity. *This includes intentions to assist the structured entity in obtaining financial support.*	
(k) A schedule showing the effects, on equity attributable to owners of the parent, of changes in subsidiary ownership levels that did not result in loss of control.	
(l) If control of a subsidiary was lost during the period: • gain/loss on loss of control; • portion of gain/loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost; • line item in profit or loss in which the gain or loss is recognised (if not presented separately).	
Interests in unconsolidated structured entities	
(a) Information that enables users of its financial statements to: • understand the nature and extent of interests in unconsolidated structured entities; and • evaluate the nature of, and changes in, the risks associated with interests in unconsolidated structured entities. *This includes information about an entity's exposure to risk from involvement that it had with unconsolidated structured entities in previous periods (e.g. sponsoring the structured entity), even if the entity no longer has any contractual involvement with the structured entity at the reporting date.* The rest of the requirements elaborate on these objectives.	
(b) Qualitative and quantitative information about interests in unconsolidated structured entities. • This includes, but is not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.	
(c) If an entity has sponsored an unconsolidated structured entity for which it does not have an interest at the reporting date: • how it has determined which structured entities it has sponsored; • income from those structured entities during the reporting period, including a description of the types of income presented; and *IFRS 12 suggests a tabular format for this disclosure, which should be aggregated appropriately.* • the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period. *IFRS 12 suggests a tabular format for this disclosure, which should be aggregated appropriately.*	

*If the answer is 'no', further justification should be provided.

Disclosures	Appropriate disclosures made? (Yes/No*/NA)
Interests in unconsolidated structured entities	
(d) Summary of: • carrying amounts of the assets and liabilities recognised in the financial statements relating to interests in unconsolidated structured entities; • line items in the statement of financial position in which those assets and liabilities are recognised; • amount that best represents the maximum exposure to loss from interests in unconsolidated structured entities; *This includes how the maximum exposure to loss is determined. If the maximum exposure to loss from interests in unconsolidated structured entities cannot be quantified, disclose that fact and the reasons.* • comparison of: – carrying amounts of assets and liabilities that relate to interests in unconsolidated structured entities; and – maximum exposure to loss from those entities.	
(e) If, during the period, an entity has, without a contractual obligation, provided support to an unconsolidated structured entity in which it previously had or currently has an interest: • the type and amount of support provided; and *This includes assistance provided to the structured entity in obtaining financial support.* • the reasons for providing the support.	
(f) Any current intentions to provide support to an unconsolidated structured entity. *This includes intentions to assist the structured entity in obtaining financial support.*	

*If the answer is 'no', further justification should be provided.