Straight away

IFRS bulletin from PwC

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IASB publishes IFRS 12 as key standard on disclosure of interests in other entities

What is the issue?

The IASB has issued IFRS 12, 'Disclosure of interests in other entities', as part of the group of five new standards that address the scope of the reporting entity (see our 'Straight aways' on the joint arrangements and consolidation standards). IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10, 'Consolidated financial statements', and IFRS 11,'Joint arrangements'; it replaces the disclosure requirements currently found in IAS 28, 'Investments in associates'. IAS 27 is renamed 'Separate financial statements' and is now a standard dealing solely with separate financial statements. The existing guidance and disclosure requirements for separate financial statements are unchanged.

The new standard, IFRS 12, requires entities 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.

To meet this objective, disclosures are required in the following areas:

Significant judgements and assumptions

Significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interests in other entities include:

- an assessment of principal-agent relationships in consolidation;
- determination of the type of joint arrangement; and
- any override of presumptions of significant influence and control when voting rights range from 20% to 50%, and exceed 50%, respectively.

Interests in subsidiaries

This includes information about:

- group composition;
- interests of non-controlling interests (NCI) in group activities and cash flows, and information about each subsidiary that has material NCI, such as name, principal place of business and summarised financial information;
- significant restrictions on access to assets and obligations to settle liabilities;
- risks associated with consolidated structured entities, such as arrangements that could require the group to provide financial support;

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- accounting for changes in the ownership interest in a subsidiary without a loss of control – a schedule of the impact on parent equity is required;
- accounting for the loss of control – detail of any gain/loss recognised and the line item in the statement of comprehensive income in which it is recognised; and
- subsidiaries that are consolidated using different year ends.

Interests in joint arrangements and associates

Detailed disclosures include:
- the name, country of incorporation and principal place of business;
- proportion of ownership interest and measurement method;
- summarised financial information;
- fair value (if published quotations are available);
- significant restrictions on the ability to transfer funds or repay loans;
- year-ends of joint arrangements or associates if different from the parent's; and
- unrecognised share of losses, commitments and contingent liabilities.

Interests in unconsolidated structured entities

Detailed disclosures include:
- the nature, purpose, size, activities and financing of the structured entity;
- the policy for determining structured entities that are sponsored;
- a summary of income from structured entities;
- the carrying amount of assets transferred to structured entities;
- the recognised assets and liabilities relating to structured entities and line items in which they are recognised;
- the maximum loss arising from such involvement; and
- information on financial or other support provided to such entities, or current intentions to provide such support.

Am I affected?

All entities that have interests in subsidiaries, associates, joint ventures or unconsolidated structured entities are likely to face increased disclosure requirements.

The standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. An entity can provide any or all of the above disclosures without having to apply IFRS 12 in its entirety, or IFRS 10 or 11, or the amended IAS 27 or 28.

What do I need to do?

Management should consider whether it needs to implement additional processes to be able to compile the required information.

If you have questions about this issue, please contact your PwC engagement partner.