

## IFRS in Focus

# IASB issues new standard on disclosure of interests in other entities

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### The Bottom Line

- IFRS 12 applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities.
- IFRS 12 establishes disclosure objectives and specifies minimum disclosures that an entity must provide to meet those objectives.
- An entity should disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements.
- The disclosure requirements are extensive and significant effort may be required to accumulate the necessary information.
- The effective date of IFRS 12 is 1 January 2013 but entities are permitted to incorporate any of the new disclosures into their financial statements before that date.

### The new standard

On 12 May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* which requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. Concurrent with the issuance of IFRS 12, the IASB also issued:

- IFRS 10 *Consolidated Financial Statements* (see our separate IFRS in Focus for further discussion);
- IFRS 11 *Joint Arrangements* (see our separate IFRS in Focus for further discussion);
- IAS 27 *Separate Financial Statements* (revised 2011), has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and
- IAS 28 *Investments in Associates and Joint Ventures* (revised 2011), has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of the standards in the 'package of five' has an effective date for annual periods beginning on or after 1 January 2013, with earlier application permitted so long as each of the other standards in the 'package of five' is also early applied. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12 (and thereby the other standards in the 'package of five').

For more information please see the following websites:

[www.iasplus.com](http://www.iasplus.com)

[www.deloitte.com](http://www.deloitte.com)

IFRS 12 is intended to integrate the disclosure requirements on interests in other entities, currently included in several standards, and also adds additional requirements in a number of areas.

### **Significant judgements and assumptions**

An entity should disclose information about significant judgements and assumptions it has made in determining whether it has control, joint control or significant influence over another entity and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect the entity's conclusion during the reporting period.

#### **Observation**

The Standard provides examples of the judgements and assumptions requiring disclosure. These examples (which include the basis for concluding that holding more than half of the voting rights of an entity does not result in control or, conversely, that control is achieved with less than half the voting rights) make it clear that particular care should be taken in explaining departures from the assumed correlation between voting rights and level of influence over an entity.

### **Interests in subsidiaries**

An entity that is a parent should disclose information regarding:

- the composition of the group;
- non-controlling interests (including summarised financial information about each subsidiary with material NCI);
- significant restrictions on the parent's ability to access or use the assets and settle the liabilities of its subsidiaries;
- the nature of, and changes in, the risks associated with interests in consolidated structured entities; and
- the effects of changes in its ownership interest that did or did not result in a loss of control during the reporting period.

Disclosure is also required when the financial statements of a subsidiary are as of a date or for a period that is different from that of the consolidated financial statements.

### **Interests in joint arrangements and associates**

An entity should disclose information about the nature, extent and financial effects of its interests in joint arrangements and associates, including information about contractual relationships with the other parties to the joint arrangements or other investors that have interests in associates. An entity should also disclose the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

### **Interests in unconsolidated structured entities**

IFRS 12 defines a structured entity as "an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity." Examples of structured entities include securitisation vehicles, asset-backed financings and certain investment funds.

The Standard requires extensive disclosures to help users understand the nature and extent of an entity's interests in unconsolidated structured entities and the risks associated with those interests, including:

- the nature, purpose, size and activities of the structured entity;
- how the structured entity is financed;
- the carrying amounts of assets and liabilities relating to interests in unconsolidated structured entities and how they compare to the maximum exposure to loss from those interests; and
- any support provided to an unconsolidated structured entity when there is no contractual obligation to do so (including the reasons for providing such support).

**Observation**

As part of its project on consolidation, the IASB considered the instances which occurred during the financial crisis of financial institutions providing funding or other support to securitisation or investment vehicles because they established or promoted those vehicles. Rather than allowing them to fail and facing a loss of reputation, the financial institutions stepped in, and in some cases took control of the vehicles.

In finalising the requirements of IFRS 10, the Board decided that this type of 'reputational risk' is not in itself an appropriate basis for consolidating an entity. However, the disclosure requirements in respect of unconsolidated structured entities included in IFRS 12 were designed, in part, to help assess an entity's exposure to reputational risk.

**Aggregation of information**

IFRS 12 requires granular information in a number of areas (for example, in respect of each material joint arrangement and each subsidiary with NCI material to the group) and specifies that information relating to interests in subsidiaries, joint ventures, joint operations, associates and unconsolidated structured entities be presented separately, but does permit some aggregation of information within these classes of entities.

The Standard requires that the level of detail provided through disclosures should satisfy the needs of users of financial statements but should not result in excessive detail that may not be helpful to those users. An entity may aggregate information but only if that does not obscure the information provided.

**Observation**

When thinking about the appropriate level of aggregation, IFRS 12 indicates that consideration should be given to both quantitative and qualitative information about the risks and returns of each entity as well as consideration of the overall significance of the entity.

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