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International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**02 October 2008, London**
Project:	**Consolidation**
Subject:	**IASB Staff draft of Consolidation ED (Agenda paper 2)**

IASB STAFF DRAFT (Version 4.1, 30 September 2008 - CLEAN)
This draft ED has not been approved by the Board of the IASB.
COMMENTS WELCOME

[*Draft*] International Financial Reporting Standard X
Consolidated Financial Statements

Contents

[*Draft*] International Financial Reporting Standard X *Consolidated Financial Statements*

Core principles

1 **This [*draft*] IFRS requires a reporting entity to present its assets and liabilities independent of the legal structure through which those assets and liabilities are controlled. This ensures that a reporting entity presents its assets and liabilities the same way, whether it controls:**

(a) **the assets and is obligated for the liabilities directly; or**

(b) **the entity that controls the assets or is obligated for the liabilities.**

2 **A reporting entity must present financial statements that consolidate its assets, liabilities, equity, revenues and expenses with those of the entities it controls, presenting them as a single economic entity.**

3 **Control derives from one or more beneficial interests that one entity holds in another. An entity that has beneficial interests in another entity controls that entity if it has the power to direct the activities of that entity for its benefit.**

4 **[Disclosure principle will be provided later – these are being discussed separately by the Board]**

Scope

5 This [*draft*] IFRS applies to all entities, with the following exceptions:

(a) A parent need not present consolidated financial statements if and only if:

(i) the parent is itself a wholly owned subsidiary or is a partially owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(ii) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

(b) a subsidiary is excluded from consolidation if the subsidiary meets at the acquisition date the criteria to be classified as held-for-sale in accordance with IFRS 5 *Non-current Assets held for Sale and Discontinued Operations*. In such circumstances the entity applies IFRS 5.

6 This [*draft*] IFRS does not deal with methods of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination (see IFRS 3 *Business Combinations*).

Beneficial interests

7 As used in this IFRS, a beneficial interest in an entity is an interest that gives the holder the right to receive a return. Beneficial interests include equity and debt instruments as well as other arrangements that give the holder the right to a dividend or other distribution from the entity.

8 The benefits a party generates from controlling an entity include dividends and changes in the value of the entity. However, the term benefit has a wide meaning in this [draft] IFRS and the potential benefits to a party from controlling an entity are not limited to returns from the performance of the entity itself.

Direct and indirect benefits

9 The benefits can be direct or indirect. Direct benefits include up-front fees, access to cash or fees for servicing an entity's assets or liabilities.

10 Indirect benefits come from the ability of an entity to generate returns that are not available to others. For example, a reporting entity might use its own assets in combination with the assets of another entity, such as combining functions to achieve economies of scale, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets to enhance the value of its other assets.

The benefits must vary

11 The benefits a party receives from its control of an entity must vary with the performance of that entity.

12 Benefits can vary with the performance of an entity, regardless of their form. For example, a creditor might have agreed to a fixed interest rate on funds lent to an entity. In this case, the returns of the creditor depend on the ability of the entity to meet its contractual obligations. If the entity has only nominal equity and the creditor is the only lender to the entity, the creditor's returns depend on the entity's performance and the creditor has a variable interest from its loan to the entity.

Benefits must be capable of being positive

13 To control an entity a reporting entity must have beneficial interests in the entity that are capable of providing the reporting entity with a positive return.

All related benefits must be considered

14 A reporting entity must consider the different types of benefits it expects to receive from its involvement with an entity. For example, if a reporting entity generates fees from sponsoring an entity and remains exposed to the entity by providing

credit and liquidity support then the returns from the sponsorship fees and the returns from the credit and liquidity support must be considered together.

Control of an entity

15 **A reporting entity controls another entity when it has the power to direct the activities of that entity for its benefit.**

16 A reporting entity that controls another entity is a parent and the entity it controls is its subsidiary.

17 A parent can direct the use of a subsidiaries assets and liabilities and exclude others from directing those assets and liabilities. A parent benefits from its control of a subsidiary and can affect those benefits through its power over the subsidiary.

18 Power and benefits are related and must be considered together when determining whether a party controls an entity. Generally, the more a reporting entity has to gain or lose from an entity's activities the more likely that the reporting entity will have the power to direct those activities. Therefore, if a reporting entity benefits most from another is usually the party that has the power sufficient to control that entity.

Control is not shared

19 Although a parent does not share its control of an entity, its power does not need to be absolute. Other parties might have protective rights, through contractual arrangements or through operation of law, which, for example, often exist for non-controlling interests. Protective rights may restrict the power of the parent, but they do not preclude it from controlling the subsidiary.

Paragraphs B1 to B5 provide additional guidance on protective rights.

Control must be current

20 Control must be current. A parent has the present ability to direct the activities of a subsidiary.

21 The ability to obtain control is not the same as having control. For example, a currently exercisable option is not in itself sufficient to give its holder control of an entity. However, the existence of the option could indicate that its holder has other rights that combine to give the option holder control of the entity.

22 Options to acquire voting interests that are exercisable for little or no cash or other consideration are deemed to be voting interests. Similarly, if an option is deeply 'in the money', relative to the cash or other consideration, the holder must assess whether that option should be deemed to be voting interests.

23 In some cases the holder of an option also has rights in relation to the entity that protect or maximise the holder's returns from the option. The holder must assess whether those other factors give it control of the entity.

Assessment is continuous

24 The power a parent has to direct the activities of an subsidiary can change as a consequence of actions by the parent or through changes in facts or

circumstances. Assessing whether a reporting entity has power sufficient to control an entity is, therefore, a continuous process.

25 A parent loses control of an entity when it can no longer direct that entity's activities. A change in control is a consequence of a change in power. In contrast, a change in benefits to a parent without a corresponding change in the power available to it would not normally cause the parent to lose control of the entity.

Power for its benefit

26 A reporting entity that has the power to direct the activities of an entity must assess whether it is acting primarily in its own interests or primarily as an agent for other parties. If the reporting entity is acting primarily as an agent for other parties it does not have the power to direct the activities of the entity for its benefit and is therefore not likely to be controlling that entity.

27 In a similar manner, a reporting entity must assess whether another party is acting as its agent and that party is directing the activities of an entity primarily for the benefit of the reporting entity. In such cases the reporting entity has, through its agent, the power to direct the activities of that entity.

Paragraphs B6 to B15 provide additional guidance on the relationship between a principal and its agent.

Purpose of the entity

28 In assessing whether a reporting entity controls another entity, the reporting entity must consider the purpose for which that entity has been created, what the activities of that entity are designed to achieve and for whose benefit. A reporting entity is likely to control an entity if that entity's activities are conducted on behalf of the reporting entity according to its specific business needs so that the reporting entity benefits from that entity's operations.

Linked transactions

29 A reporting entity might obtain or lose control of an subsidiary as a consequence of completing two or more related arrangements (transactions). In determining whether to treat the arrangements as a single arrangement, a reporting entity must consider all of the terms and conditions of the arrangements and their economic effects.

30 One or more of the following indicate that a reporting entity should treat the multiple arrangements as a single arrangement:

(a) They are entered into at the same time or in contemplation of each other.

(b) They form a single arrangement designed to achieve an overall commercial effect.

(c) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when one disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market.

Assessing control

31 Control derives from one or more beneficial interests that one entity holds in another. Assessing whether a reporting entity controls another entity requires an assessment of its beneficial interests in that entity and whether it has the power to direct the activities of that entity for its benefit.

Control of the strategic operating and financing policies of an entity

32 **A reporting entity is presumed to control another entity if it:**

(a) **controls more than half of the voting rights of that entity;**

(b) **can exercise more than half of that entity's voting rights by virtue of an agreement with other investors;**

(c) **can determine that entity's strategic operating and financing policies, because of a statute or agreement; or**

(d) **can appoint or remove the majority of the members of that entity's board of directors or equivalent governing body and control of that entity is by that board or body.**

33 By controlling the strategic operating and financing policies of an entity a reporting entity can direct the activities that affect the performance of the entity—whether that is achieved by directing those activities directly or by delegating the direction to management or others.

34 Many entities have a governing body that has responsibility for directing the activities of the entity. In such cases, a party that controls the governing body of the entity and, therefore, its strategic operating and financing policies controls the entity.

A majority of the voting rights but no control

35 It is possible for the reporting entity to have a majority of the voting rights of an entity but not control that entity. For example, legal requirements, the founding documents or other contractual arrangements of the entity might restrict the power of the reporting entity to the extent that it cannot direct the activities of the entity. For example, this could occur if the entity is placed under statutory supervision.

Control with less than a majority of the voting rights

36 **A reporting entity can have control an entity's strategic operating and financing policies even if it holds less than half the voting rights of that entity.**

37 A reporting entity can control an entity by having the most dominant voting interest in an entity. The size of that holding, relative to other holdings, could allow the reporting entity to control the governing body if there are economic and practical impediments to the other voting interests achieving common control over the entity.

38 A dominant voting interest along with other arrangements that allow a reporting to participate in the activities of an entity can also combine to give the reporting entity control of that entity.

Paragraphs B16 to B19 provide application guidance for the circumstances in which a reporting entity could control another entity even though it holds less than half the voting interests in that entity.

Structured Entities

39 A reporting entity can control the strategic operating and financing policies of an entity even if that entity does not have a governing body or voting interests. Some entities have activities that are directed by allocating responsibilities to parties by way of contractual arrangements, including predetermining how a party must respond to anticipated circumstances arising in the entity.

40 The founding documents of an entity, and the legal framework in which it operates, often define how the activities of an entity are to be directed. Those documents sometimes also define the range and type of activities the entity is permitted to undertake. For example, the founding documents might preclude an entity from investing in a new type of business without all of its owners agreeing to such an investment. An agreement between the entity and the parties that contract with it also can restrict its activities. For example, covenants in a debt agreement might limit the entity's ability to invest in a new business. Often the conditions for changing or relaxing those restrictions are limited.

41 The type of entity that has such limited powers is sometimes called a special purpose entity, special purpose vehicle, qualifying special purpose entity, variable interest entity or conduit. Sometimes, those entities are referred to by reference to the type of transaction in which they are involved, such as securitisation vehicles, structured investment vehicles and lease vehicles. The list is not exhaustive.

42 For the purposes of this IFRS such entities are referred to as structured entities.

Control of a structured entity

43 Determining whether a reporting entity controls such an entity involves an assessment of its beneficial interests in that entity and whether it has the power to direct the activities of that entity for its benefit.

44 An entity that has a limited range of activities, such as an entity that manages an asset securitisation, might need only a correspondingly limited range of direction of its activities to affect the variability of its returns. For example, if the only assets of an entity can be receivables then how those receivables are managed is the only activity that affects the variability of the returns of the entity. The party with the power to direct how those receivables are managed for its benefit controls that entity.

45 The more limited activities could also increase the likelihood that:

(a) the reporting entity is using agents to act on its behalf;

(b) some aspects of the entity's activities are directed by means of predetermined policies or responses to anticipated outcomes; or

(c) the activities are directed by means of multiple arrangement, related, arrangements.

Paragraphs B20 to B24 provide additional guidance on assessing whether a reporting entity controls a structured entity.

Accounting requirements

Control

46 **A parent, other than one described in paragraph 5(a), must present financial statements that consolidate its assets, liabilities, equity, revenues and expenses with those of all its subsidiaries and present them as those of a single entity.**

47 Consolidation begins from the date that a parent achieves control and ceases when it loses control.

Non-controlling interests

48 Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

49 Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are equity transactions (ie transactions with owners in their capacity as owners).

Loss of control

50 If a parent loses control of a subsidiary, the parent:

(a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position;

(b) recognises the gain or loss associated with the loss of control attributable to the controlling equity interest; and

(c) accounts for any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary in accordance with other IFRSs from the date when control is lost.

Disclosure

51 **[Disclosure objectives will be provided later – these are being discussed separately by the Board]**

52 Effective date

53 A reporting entity shall apply this [*draft*] IFRS in its annual financial statements for periods beginning on or after [*Date to be inserted after exposure*]. Earlier application is permitted. If a reporting entity applies this [*draft*] IFRS in its financial statements for a period before [*Date to be inserted after exposure*], it shall disclose that fact.

Withdrawal of IAS 27 and SIC-12

54 This [*draft*] IFRS supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities.*

Appendix A - Defined terms

A beneficial interest in an entity is a financial interest in an entity that gives the holder the right to receive a return related to that interest.

Consolidated financial statements are the financial statements of a group presented as a single economic entity.

Control of an entity is the power of a party to direct the activities of an entity for the benefit of that party.

A **group** is a parent and all its subsidiaries.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

A **parent** is an entity that has one or more subsidiaries.

For purposes of this IFRS, **party** is used broadly to include legal and other entities as well as a single individual or a group of individuals.

A **subsidiary** is an entity, including an unincorporated entity such as a partnership or trust, that is controlled by another entity (known as the parent).

Appendix B - Application Guidance

Protective rights

B1 Sometimes the ability of a reporting entity to direct the activities of another entity is restricted by approval or veto rights granted to other parties. Those rights may have little or no impact on the reporting entity's ability to control the entity. Alternatively, the rights of the other parties may be so restrictive that they prevent the reporting entity from controlling the entity.

B2 A reporting entity assesses whether it controls an entity even though other parties have approval or veto rights. That assessment is on the basis of whether, and to what extent, those parties are able to participate in the decisions about the activities of the entity that affect the returns generated by the entity.

B3 This [*draft*] IFRS refers to rights that do not give a party the ability to participate in decisions about the day-to-day activities of an entity as protective rights. A reporting entity can control an entity even though other parties have protective rights in that entity.

B4 Protective rights often relate to fundamental changes in the activities of an entity or might apply only in exceptional circumstances. For example, those rights might include the right to:

(a) approve capital expenditure, in excess of a particular threshold, that is not undertaken in the ordinary course of business;

(b) approve the issue of equity or debt capital, beyond normal operating requirements; or

(c) remove a fund manager or servicer in exceptional circumstances only (eg on bankruptcy of the manager or on breach of contract).

B5 In assessing whether rights of other parties affect the power of the reporting entity over an entity, the reporting entity considers all rights of other parties, both individually and in aggregate.

Agency relationships

Agents acting on behalf of the reporting entity

B6 When a reporting entity engages a party to act on its behalf the reporting entity will have delegated some decision-making authority to that party. This establishes a principal-agent relationship, with the reporting entity being the principal and the other party being the agent. The agent will be required, either by agreement or law, to act in the best interests of the principal. This means that the agent must use the decision-making ability delegated to it primarily to generate returns for the principal.

B7 An agent is unlikely to be able to establish or change any strategic policies of an entity. What powers it has will be within the limits in which the entity operates, whether established by the principal or by the governing documents of the entity (such as the founding documents). For example, the agent might make decisions about the timing and nature of assets to be purchased or sold by an entity. However, the power an agent has will not be sufficient to use proceeds from sale of the entity's assets within its business or use the assets as security for its own borrowings.

B8 A fiduciary relationship, such as one involving trustees and beneficiaries of trusts, is an example of when a trustee might appear to be the controlling party but the trustee is acting as an agent of the beneficiaries. Although a trustee might have the ability to make decisions concerning the financing and operating activities of the trust, this ability is governed by the trustee's fiduciary responsibility at law to act in the best interests of the beneficiaries of the trust.

B9 An agent is rewarded for the services it performs. This might be a fixed or performance-related fee. If the agent receives a performance-related fee, the agency relationship might be difficult to distinguish from control over the entity. This is because the agent benefits from its ability to direct the activities of the entity. However, this ability is limited by its fiduciary responsibility to act in the best interests of its principal. The performance-related fee that the agent receives is compensation for the services it performs for the principal.

B10 When assessing control, a reporting entity must also consider the rights of its agents. A reporting entity might control an entity because:

(a) its agent is exercising power over that entity on its behalf;

(b) its rights combined with the rights that its agents are exercising on its behalf give it power over that entity; or

(c) it can take the power away from the other party such as by removing the agent from its role with that entity.

B11 The following parties might act as agents of a reporting entity:

(a) its related parties as defined in IAS 24 *Related Parties*;

(b) a party that received its interest in the reporting entity as a contribution or loan from the reporting entity;

(c) a party that has an agreement that it cannot sell, transfer or encumber its interests in the reporting entity without the prior approval of the reporting entity;

(d) a party that cannot finance its operations without financial support from the reporting entity;

(e) its senior management;

(f) a party that has a close business relationship with the reporting entity; and

(g) an entity with the same board of directors as the reporting entity.

A reporting entity acting as an agent

B12 A reporting entity might act as an agent of another party.

B13 A reporting entity does not control another entity if it must use its decision-making powers in that entity for the benefit of another party or it can have the power taken from it by the party for which it is acting.

Dual role

B14 Sometimes a party might act simultaneously in the role of the principal and agent. For example, a group of investors might choose one investor to manage the activities of an entity on behalf of all investors. When assessing whether that investor controls the entity, it considers its powers and benefits in both roles.

B15 This *[draft]* IFRS presumes that a reporting entity that acts both as a principal and agent will use the powers available to it in its role as agent for its own benefit and not that of other parties, unless it can demonstrate that it has policies and procedures in place that ensure the independence of the decision making in its role as an agent from that in its role as a principal.

Control without a majority of the voting rights

Control of the strategic financing and operating policies

B16 Often there will be factors that combine to indicate that a reporting entity with the most dominant voting interest has control over an entity even though it holds less than the majority of the voting interests in that entity.

B17 The existence of any of the following factors might indicate that a reporting entity with less than a majority voting interest in an entity controls that entity, although each factor taken on its own would not be sufficient to conclude that control exists:

(a) The reporting entity can dominate the governing body, and therefore the strategic operating and financing policies decision process. Examples of indicators of this nature are:

(i) dominating the process of nominating members of the entity's governing body and/or solicit proxies from other holders of voting interests; or

(ii) appointing members to fill vacancies of the entity's governing body until the next election.

(b) The reporting entity can participate in the management of the entity, such as:

(i) appointing, hiring, reassigning or dismissing the entity's key management personnel;

(ii) sharing of resources between the party and the entity. For example, the party and the entity might have the same members of their governing bodies, share key management personnel or other staff or use the same suppliers or service providers; or

(iii) causing the entity to enter into significant transactions that benefit the party.

(c) The reporting entity can access the residual assets of the entity, such as:

(i) it can dissolve the entity and redirect the use of its assets; or

(ii) it can, under a statute or an agreement, access the entity's resources.

Previous voting interests

B18 In assessing whether the reporting entity controls an entity, it does not matter how it obtained power over the entity. What matters is that the reporting entity has power and is able to use that power to generate returns to it.

B19 A reporting entity might have less than a majority voting interest in an entity when it controlled the entity previously because it had a majority voting interest. The fact that the reporting entity controlled the entity before reducing its interest to less than half of the voting rights is not of itself an indicator of power. However, having previously controlled the entity, the reporting entity will have had the opportunity and ability to establish policies or contractual relationships that allow it to continue to control the entity without having a majority of the voting interests. In that respect, how the current interests were established might affect the assessment of indicators of control.

Structured entities

B20 In assessing whether a reporting entity controls a structured entity, the form of that entity is less important than benefits and risks to which the reporting entity is exposed and how decisions about the entities activities that affect those beneficial interests are made and implemented.

Purpose

B21 In assessing whether it controls a structured entity, a reporting entity must consider whether the entity has been created for its benefit. Creating a structured entity, directly or indirectly, to undertake activities on its behalf to meet its business needs is an indication that the reporting entity controls the structured entity.

B22 This is likely to be the case when a reporting entity establishes a structured vehicle to provide it with a source of long-term capital or to support its ongoing major or central operations. In a similar manner a reporting entity is likely to control a structured vehicle that it established to provide it with a supply of goods or services that are part of its ongoing major or central operations and which, without the structured entity, would have to be provided by the entity itself. Such would be the case if a reporting entity creates a structured vehicle to hold legal title to an asset that it uses in its own activities.

B23 Economic dependence of an entity on the reporting entity (such as relations of suppliers to a significant customer) does not, by itself, lead to control.

Decision making

B24 A reporting entity could control a structured entity by having a beneficial interest in an entity and a unilateral ability to direct the activities of the entity through fundamental changes in the manner in which the entity operates. For example, the reporting entity could have the power to dissolve the entity, change (or veto any changes to) its charter or bylaws or replace any agent that is directing the activities of the entity on behalf of the beneficial interest holders.

Accounting requirements

Consolidation procedures

B25 In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are taken:

(a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated (see IFRS 3, which describes the treatment of any resultant goodwill);

(b) non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and

(c) non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's interests in them.

Potential voting rights

B26 When potential voting rights exist, the proportions of profit or loss and changes in equity allocated to the parent and non-controlling interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

Intragroup balances and transactions

B27 Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. IAS 12 *Income Taxes* applies to temporary differences that arise from the elimination of profits or losses resulting from intragroup transactions.

Reporting date

B28 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements must have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.

B29 When the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the parent's financial statements the entity makes adjustments for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the end of the reporting period of the subsidiary and that of the parent can be no more than three months and the length of the reporting periods and any difference between the ends of the reporting periods must be the same from period to period.

Income and expenses

B30 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in IFRS 3. Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the parent's consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of comprehensive income after the acquisition date is based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date when the parent ceases to control the subsidiary.

Non-controlling interests

B31 Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

B32 If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the parent computes its share of profit or loss after adjusting for the dividends on such shares, whether or not such dividends have been declared.

Changes in the proportion held by non-controlling interests

B33 When the proportion of the equity needed by the non-controlling interest changes, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Loss of control

Derecognition

B34 If a parent loses control of a subsidiary, it:

(a) derecognises

  (i) the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;

  (ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them);

(b) recognises:

(i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;

(ii) if the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and

(iii) any investment retained in the former subsidiary at its fair value at the date when control is lost;

(c) reclassifies to profit or loss, or transfers directly to retained earnings if required in accordance with other IFRSs, the amounts identified in paragraph B44; and

(d) recognises any resulting difference as a gain or loss in profit or loss attributable to the parent.

Other comprehensive income

B35 If a parent loses control of a subsidiary, the parent shall account for all amounts recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. For example, if a subsidiary has available-for-sale financial assets and the parent loses control of the subsidiary, the parent shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets. Similarly, if a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

B36 Paragraph 25 states that on the loss of control of a subsidiary, any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary shall be accounted for in accordance with other IFRSs from the date when control is lost.

B37 The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Disclosures

[*will be provided later – these are being discussed separately by the Board*]