Financial Accounting Standards Board

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INFORMATION FOR OBSERVERS

IASB/FASB Meeting:	**20 October 2008, Norwalk**
Project:	**Consolidation**
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[*Draft*] International Financial Reporting Standard X

Consolidated Financial Statements

Contents

Introduction

[*will be provided later*]

Invitation to comment

[*will be provided later*]

[*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 structure through which they are controlled. This ensures that a reporting entity presents its assets and liabilities the same way, whether the reporting entity controls the assets and is obligated for the liabilities:**

(a) **directly; or**

(b) **indirectly, by controlling the entity that controls those assets and is obligated for those liabilities.**

2 **A reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity for the benefit of the reporting entity.**

3 **A reporting entity must disclose information that enables users of its financial statements to evaluate:**

(a) **the judgements made by management in applying this IFRS when reaching decisions about whether it controls other entities;**

(b) **the nature and financial effect of legal boundaries that are a consequence of the use of subsidiaries to structure the activities of the group; and**

(c) **the nature of and risks associated with its involvement with structured entities that it does not control.**

Scope

4 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 parent applies IFRS 5.

(c) Post-employment benefit plans or other long-term employee benefit plans to which IAS 19 applies.

5 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*).

Consolidated financial statements

6 **A reporting entity, other than one described in paragraph 4(a), shall present financial statements that consolidate its assets, liabilities, equity, revenues and expenses with those of the entities that it controls and present them as those of a single entity.**

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

Control of an entity

8 **A reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity for the benefit of the reporting entity.**

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

Characteristics of control

Control must be current

10 Control must be current. A reporting entity has a present ability to direct the activities of an entity if it controls the strategic operating and financing policies of the entity or has contractual rights to direct the activities of the entity.

11 If the means of directing the activities of an entity have been predetermined, such predetermination gives the parent the present ability to direct the activities of the subsidiary. Control is current because that predetermination

ensures that any anticipated actions are taken for the benefit of the parent when such actions are necessary.

12 The ability to obtain control is not the same as having control. For example, although warrants, options, convertible instruments and other similar instruments can, if exercised or converted, give the holder control of an entity, such an instrument is not in itself sufficient to give its holder control of the entity.

13 However, a reporting entity that holds such instruments shall consider those instruments when assessing control. Such instruments are often accompanied by other rights that combine to give the instrument holder control of the entity. The reporting entity shall examine all facts and circumstances including any related contractual arrangements that affect the ability of the reporting entity to direct the activities of the other entity for its benefit.

14 A parent loses control of a subsidiary when it can no longer direct the subsidiary's activities.

Control is not shared

15 Although a parent does not share its control of a subsidiary, 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 restrict the power of the parent, but they do not preclude it from controlling the subsidiary.

Paragraphs B1 to B7 provide additional guidance on protective rights.

Assessment is continuous

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

circumstances. Therefore, assessing whether the reporting entity has power sufficient to control another entity is a continuous process.

17 A change in control is a consequence of a change in power. A change in the benefits to a reporting entity from another entity, without a corresponding change in the reporting entity's power over that entity, does not cause that reporting entity to obtain or lose control of that other entity.

18 A reporting entity might obtain or lose control of another entity 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 shall consider all of the terms and conditions of the arrangements and their economic effects.

19 One or more of the following indicate that a party should treat 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; or

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

Power and Benefits

Power

20 A reporting entity that controls another entity can direct the activities of the other entity and, by doing so, benefit from the activities of that entity.

21 A parent can direct the activities of a subsidiary:

(a) by determining the subsidiary's strategic operating and financing policies, whether that is achieved by controlling its governing body or by statute or agreement (see paragraphs 29 to 35);

(b) by means of contractual arrangements, including predetermining how the entity will respond to anticipated events, that ensure the parent obtains benefits from the activities of the subsidiary (see paragraphs 36 to 45); or

(c) by having the right to remove, without cause, another party that is empowered to direct the activities of the subsidiary.

22 A party that directs the activities of an entity primarily for the benefit of a reporting entity acts as an agent of the reporting entity. In such cases the reporting entity has the power to direct the activities of that entity through its agent.

Paragraphs B8 to B13 provide additional guidance on the relationship between a principal and its agent.

Benefits

23 The term benefit has wide meaning in this [draft] IFRS. The benefits to a parent include returns, such as dividends and changes in the value of the subsidiary attributable to the parent. Benefits also include up-front fees, access to cash or fees for servicing a subsidiary's assets or liabilities, tax benefits, and positive liquidity effects that a parent realises from controlling a subsidiary.

24 Some benefits that are available to the parent are not available to non-controlling interests. For example, a parent might use its own assets in combination with the assets of a subsidiary, 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 the parent's other assets.

25 Benefits potentially include a wide range of returns to the parent, and because returns can be positive or negative, the potential benefits to a parent can also be positive or negative. The fact that potential benefits to a parent can be positive or negative is consistent with the fact that a parent enjoys the rewards and is exposed to the risks from controlling a subsidiary.

26 The benefits to a parent from its interest in a subsidiary will vary with the activities of the subsidiary and have the potential to be positive. A parent has a right to a share of changes in the value of its subsidiary but, because benefits vary, a parent might never receive a positive return from a subsidiary. For example, a parent might establish a subsidiary to undertake research and development activities. The parent benefits from any successful outcome from those activities, but loses its investment in the subsidiary if those activities are unsuccessful.

27 A reporting entity shall consider the different types of benefits it has received, and expects to receive, from its involvement with another entity, including benefits from related arrangements. 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 sponsorship fees and the returns from the credit and liquidity support must be considered together.

Assessing control

28 Power and benefits are related and must be considered together. The party that has the most to gain or lose from an entity's activities is the party most likely to have the power to direct that entity's activities.

Directing the activities of an entity

29 **A reporting entity that has power sufficient to direct the activities of an entity is presumed to use that power for its own benefit.**

30 **A reporting entity has the power to direct the activities of another entity if it can:**

(a) **appoint or remove the majority of the members of that entity's governing body, if control of that entity is by that body; or**

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

31 Many entities have a governing body that is responsible for determining that entity's strategic operating and financing policies and directing its activities. A reporting entity that has power over such an entity's governing body has the ability to direct the activities of that entity.

32 If membership of an entity's governing body is determined by voting rights, a reporting entity that can exercise more than half of those voting rights has power over that governing body and therefore controls that entity. An agreement between the reporting entity and other vote holders can also give the reporting entity the right to exercise more than half of the voting rights, even though the reporting entity itself may not hold more than half of the voting rights. The holder of such power is presumed to use that power for its own benefit.

A majority of the voting rights but no control

33 A reporting entity can have a majority of the voting rights of an entity but not control that entity. This will occur if legal requirements, the founding documents or other contractual arrangements of the other entity restrict the power of the reporting entity to the extent that it cannot direct the activities of the entity. For example, if an entity in which a reporting entity has a majority of the voting rights is placed under statutory supervision, the

reporting entity is prevented from directing the activities of that entity and therefore does not control that entity.

Control with less than a majority of the voting rights

34 A reporting entity can control another entity even if it holds less than half the voting rights of that entity.

35 A reporting entity controls another entity if:

(a) the reporting entity has substantially more voting rights than any other party; and

(b) the reporting entity's voting rights are sufficient to give the reporting entity power over that entity's governing body.

Other means of control

36 A reporting entity controls another entity if the reporting entity has a significant voting interest in that entity and other arrangements that allow the reporting entity to direct the activities of that other entity. Such arrangements might include supply contracts for goods or services that are part of the ongoing major or central activities of the reporting entity or the right of the reporting entity to participate in appointing the management of the other entity.

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

Structured entities

37 The founding documents of an entity (such as a constitution) and the legal framework in which the entity operates often define how the activities of that entity are directed. Such documents can 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 activity

without all of its owners agreeing to such an investment. An agreement between the entity and the parties that contract with the entity also might restrict the entity's activities. For example, a debt agreement might limit the entity's ability to invest in a new type of activity. Often, the conditions for changing or relaxing those restrictions are limited severely.

38 Some entities' activities are restricted by allocating responsibilities to parties by way of contractual arrangements, including predetermining how a party must respond to anticipated circumstances arising in the entity. In such cases, the direction of the entity cannot be determined by assessing who controls the governing body or by assessing who directs its strategic operating and financing policies.

39 Such entities are sometimes called special purpose entities, special purpose vehicles or conduits. Sometimes, those entities are referred to according to the type of transaction in which they are involved, such as securitisation vehicles, structured investment vehicles and lease vehicles, among other names. Some such entities are typically established to undertake a specific type of activity, such as to perform research and development for the benefit of the reporting entity. For the purposes of this [*draft*] IFRS, entities for which control cannot be determined by assessing who controls the governing body or by assessing who directs its strategic operating and financing policies are referred to as *structured entities*.

Control of a structured entity

40 This [*draft*] IFRS presumes that if the reporting entity benefits substantially more than any other party from its interest in a structured entity, then the reporting entity has power sufficient to control that structured entity. This presumption is on the basis that power and benefits are related.

41 A reporting entity that benefits substantially more than any other party from its interest in a structured entity must demonstrate that it does not control

the structured entity. In assessing whether a reporting entity controls a structured entity, the form of the structured entity is less important than establishing who benefits from its activities and how decisions about the activities that affect those benefits, if any, are made.

42 An entity that has a limited range of activities, such as an entity that manages an asset securitisation, needs only a correspondingly limited range of activities to be controlled. For example, if the only assets of an entity are receivables, then how any defaulting receivables are managed is the only activity that affects the benefits generated by the entity. In this example, the party with the power to direct how any defaulting receivables are managed, for its benefit, controls that entity.

Purpose

43 A reporting entity controls another entity when that other entity has been created by, or for, the reporting entity to undertake activities for the benefit of the reporting entity. In such cases, the creation of the entity for the benefit of the reporting entity is evidence that the reporting entity has power sufficient to control the other entity. For example, such is the case when a parent creates a subsidiary as a means of providing the parent with a source of long-term financing, to hold legal title to an asset that the parent uses in its own activities or to provide the parent with a supply of goods or services that are part of the parent's activities.

44 Economic dependence of an entity on the reporting entity (such as relations of suppliers to a significant customer) does not, by itself, lead to a conclusion that the reporting entity controls that other entity.

Ability to change the restrictions under which an entity operates

45 A reporting entity controls a structured entity if the reporting entity has a unilateral ability to direct the activities of the structured entity for the benefit of the reporting entity through changes in the restrictions under

which the structured entity operates. For example, a reporting entity controls an entity if the reporting entity has the right to dissolve the entity, change (or veto any changes to) the entity's charter or bylaws or replace any agent that directs the activities of the entity on behalf of the reporting entity.

Related arrangements

46 A parent can control a subsidiary by directing activities by means of multiple, related arrangements. For example, a parent could establish a subsidiary, with restrictions on its activities, to hold assets that the parent uses in its activities. The parent also appoints an agent to direct the activities of the subsidiary in accordance with predetermined policies. Those policies require the parent to assume responsibility for the subsidiary from the agent in specified circumstances. All of these arrangements would be considered in establishing that the parent controls the subsidiary.

Accounting requirements

47 **Consolidated financial statements present the assets, liabilities, equity, revenues and expenses of the parent and its subsidiaries after eliminating all transactions between the entities in the group during the reporting period and all balances between the entities in the group at the reporting date.**

48 **Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.**

49 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Non-controlling interests

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

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

Loss of control

52 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 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

53 **An entity must disclose information that enables users of its financial statement to evaluate:**

(a) **the judgements made by management in applying this [*draft*] IFRS when reaching decisions about whether it controls other entities;**

(b) **the nature and financial effect of legal boundaries that are a consequence of the use of subsidiaries to structure the activities of the group;**

(c) **the nature of and risks associated with its involvement with structured entities that it does not control;**

(d) **the accounting consequences for the parent shareholders when their ownership interest relative to that of any non-controlling interests in a subsidiary changes during the reporting period, but the parent does not lose control of that subsidiary; and**

(e) **the accounting consequences for the group when the entity loses control of a subsidiary during the reporting period.**

54 To meet the objectives in paragraph 53, an entity shall disclose the information specified in paragraphs BX-BX of the application guidance.

55 If the specific disclosures required by this and other IFRSs do not meet the objectives in paragraph 53, an entity shall disclose whatever additional information is necessary to meet those objectives.

Effective date

56 An 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 an 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

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

Appendix A - Defined terms

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

For the purposes of this [*draft*] IFRS, **involvement** includes both contractual and non-contractual involvement that the entity has in structured entities that exposes the entity to risk. Involvement includes the holding of equity or debt instruments, as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement, guarantees, and asset management services.

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

An **entity** is …[ensure that a silo is consolidated. Suggest including a definition of a subsidiary and a paragraph (application or an example) with a silo.]

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 the purposes of this [*draft*] 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, which 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 might have little or no effect on the reporting entity's ability to control the entity or they might be so restrictive that they prevent the reporting entity from controlling the other entity.

B2 A reporting entity shall assess 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 other parties are able to direct the activities of the entity.

B3 This [*draft*] IFRS refers to rights that do not give a party control 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 are usually related to contractual arrangements an entity has with other parties. For example, a lender to an entity might have rights that protect the lender from the risk that the entity will change its activities to the detriment of the lender, such as selling important assets or undertaking activities that change the credit risk of the entity. Such rights are not intended to prevent another party from controlling the entity; they are protective rights. Accordingly, protective rights often relate to fundamental changes in the activities of an entity or might apply only in exceptional circumstances. For example, protective rights might include the right to approve capital expenditure, in excess of a particular threshold, that is not undertaken in the ordinary course of business or the right to approve the issue of equity or debt instruments beyond normal operating requirements.

B5 Protective rights can also limit the operating activities of an entity, particularly when they are related to other arrangements. For example, a franchise agreement for which the entity is the franchisee might restrict the pricing, advertising or other operating activities of the entity.

B6 Protective rights include the ability to remove the party that directs the activities of the entity in exceptional circumstances, such as bankruptcy or on breach of contract by that party.

B7 In assessing the rights of other parties, the reporting entity considers all rights of other parties, both individually and in aggregate, in relation to the entity being assessed.

Agency relationships

Agents acting on behalf of the reporting entity

B8 When a reporting entity engages a party to act on its behalf, the reporting entity delegates 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 benefit the principal. A governing body is an agent of the shareholders, assuming that they have the voting rights, of an entity.

B9 An agent is unlikely to be able to establish or change strategic policies of an entity. What powers the agent 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 is not sufficient to use proceeds from sale of the entity's assets within the agent's business or use the assets as security for its own borrowings.

B10 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 to act in the best interests of the beneficiaries of the trust.

B11 An agent is compensated 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 of the entity. This is because the agent benefits from its ability to direct the activities of the entity. However, this ability is limited by the agent's fiduciary responsibility to act in the best interests of the principal. The performance-related fee that the agent receives is compensation for the services it performs for the principal.

B12 When assessing control, a reporting entity must also consider the rights of its agents. A reporting entity might control an entity because:

(a) the reporting entity has an agent exercising power over that entity on behalf of the reporting entity;

(b) the reporting entity's rights, combined with the rights that its agents can exercise on its behalf, give the reporting entity power over that entity; or

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

B13 The following parties might act as agents of a reporting entity:

(a) the reporting entity's related parties as defined in IAS 24 *Related Parties*;

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

(c) a party that has an agreement that it cannot sell, transfer or encumber its interests in the 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) the reporting entity's 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

B14 A reporting entity might act as an agent of another party. 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 its power can be taken from it by the party for which it is acting.

Dual role

B15 A party might act simultaneously in the role of principal and agent. This [draft] IFRS presumes that a reporting entity that acts both as a principal and as an agent uses 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 is obliged to act in the best interests of other parties, or 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 A reporting entity that has more voting rights than any other party can control an entity even though it holds less than the majority of the voting interests in that entity.

B17 Any of the following factors indicates, in the absence of other factors, that a reporting entity with less than a majority voting interest in an entity controls that entity:

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

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

(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 entity and the reporting entity. For example, the entity and the reporting 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 reporting entity.

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

(i) dissolving the entity and redirecting the use of its assets; or

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

B18 Having significantly more voting interests than any other party allows a parent to prevent other parties from changing the contractual arrangements it uses to direct the activities of the entity.

Previous voting rights

B19 It does not matter how a parent obtains power over a subsidiary. The fact that the parent controlled the entity by means of its voting rights before reducing its interest to less than half of the voting rights is not of itself an indicator of power. However, by having had a majority of the voting rights the parent 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 rights. In that respect, how the current interests were established might affect the likelihood that other indicators of control exist.

Accounting requirements

Consolidation procedures

B20 To consolidate the financial statements of a parent with those of its subsidiaries, the parent :

(a) combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses;

(b) offsets (eliminates) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. IFRS 3 explains how to account for any related goodwill;

(c) eliminates in full intragroup balances and transactions, including income, expenses and dividends. Profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full;

(d) identifies non-controlling interests in the profit or loss of subsidiaries for the reporting period; and

(e) identifies non-controlling interests in the net assets of subsidiaries separately from the parent's interests in them.

Measurement

B21 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.

Options and convertible rights

B22 When a subsidiary has instruments that give other parties an option to obtain equity instruments or convert a liability into equity instruments, 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 of options or convertible instruments.

Reporting date

B23 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.

B24 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.

Non-controlling interests

B25 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.

B26 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

B27 When the proportion of the equity held 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 is 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

B28 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 xx; and

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

Other comprehensive income

B29 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 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.

B30 Paragraph xx 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.

B31 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 (application of paragraphs 53 to 55)

B32 To meet the disclosure objectives in paragraph 53, an entity must disclose the information set out in paragraphs B34 to B51.

B33 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this IFRS, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture with combining information with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between the types of involvement or associated risks.

Judgement in determining control (paragraph 53(a))

B34 To enable users of its financial statements to evaluate the judgements that management has made when assessing whether the reporting entity controls another entity, the entity shall describe the basis for its assessment:

(a) that it controls an entity in which it does not have more than half of the voting interest; and

(b) that it does not control a structured entity, which it set up or sponsored.

Use of subsidiaries to structure the activities of the group (paragraph 53(b))

B35 To meet the objective in paragraph 53(b), an entity shall disclose:

(a) a list of individually material subsidiaries, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting interest, main activity and total consolidated assets of each subsidiary as reported in the statement of financial position of the reporting entity.

(b) the non-controlling interest's share of the group's:

  (i) revenue;

  (ii) profit or loss;

  (iii) comprehensive income;

  (iv) operating, investing and financing cash flows.

(c) the non-controlling interest's proportionate interest in dividends paid by subsidiaries, distinguishing between dividends paid to the parent and to non-controlling interests.

(d) information about restrictions on the ability of the entity to direct the assets and liabilities of a subsidiary. Those restrictions include:

(i) the extent to which non-controlling interests can restrict the activities of subsidiaries, such as restricting cash flows or investment and financing decisions.

(ii) legal and contractual restrictions such as those that arise from debt covenants or assets pledged as collateral.

(iii) lack of recourse if creditors have no recourse to the general credit of the entity.

B36 In disclosing restrictions as required in paragraph B35, the entity shall provide qualitative and quantitative information about those restrictions including:

(a) the nature of the restrictions;

(b) the carrying amount of the consolidated assets and liabilities to which the restrictions apply; and

(c) the line item(s) in the statement of financial position in which the consolidated assets and liabilities to which the restrictions apply are recognised.

Nature of, and risks and benefits associated with, structured entities (paragraph 53(c))

B37 To achieve the disclosure objective in paragraph 53(c), an entity shall disclose information that enables users of its financial statements to evaluate:

(a) the nature and extent to which the entity is involved with structured entities that it does not control.

(b) the nature and extent of, and changes in, the market (interest rate, prepayment, currency and other price) risk, credit risk and liquidity risk from its involvement with structured entities that it does not control. This exposure may arise from both contractual and non-contractual commitments, and from past and present activities.

B38 If providing any of the disclosures required by this [*draft*] IFRS is impracticable, the entity shall disclose why it is unable to obtain the information, and how it manages its exposure to risk from its involvement with entities for which it is unable to obtain the information.

Nature and extent of involvement

B39 In accordance with the disclosure requirements in paragraph B37(a), the entity shall disclose qualitative and quantitative information about its involvement with structured entities that it set up or sponsored, or in which it has involvement. This includes information about the nature, purpose, size and activities of the structured entity.

B40 The entity shall also explain how its involvement with structured entities fits into its business model, including why the structured entity was set up.

B41 For structured entities that it has set up or sponsored, the entity shall present in tabular form, unless another format is more representative of its circumstances, a summary of:

(a) total income from its involvement with structured entities that it has set up and sponsored; and

(b) the value of the assets transferred to those structured entities, at the date the transfers were completed. The entity should disclose the basis of the valuation of the assets presented in the summary.

The summary should separate the activity into relevant categories (such as by type of structured entity or asset that exposes the entity to different risks). It should also identify the extent to which the activity relates to structured entities in which the entity has involvement and those in which it has not.

B42 The entity shall disclose the information in paragraph B41 for the current period and the preceding two periods. The entity shall assess whether this information meets the disclosure objectives in paragraph B37(a) and provide comparative information for additional reporting periods if considered necessary to meet the objective.

Nature of risks

B43 To achieve the disclosure objective in paragraph B37(b), a entity shall disclose information about its exposure to risks from its involvement with structured entities. The risk disclosures required by this [*draft*] IFRS relate to those within and outside the scope of IFRS 7.

Risk disclosures within the scope of IFRS 7

B44 The following disclosures relate to structured entities in which the entity has involvement and that, because of the existence of a financial instrument, are within the scope of IFRS 7.

B45 The entity shall present in tabular form, unless another format is more representative of its circumstances, a summary of:

(a) the total value of assets held by the structured entities, measured at the reporting date of the entity. The entity should disclose the basis of the valuation of the assets presented in the summary.

(b) the amount that best represents the reporting entity's:

(i) maximum exposure to loss (including how the maximum exposure to loss is determined);

(ii) expected exposure to loss or range of that loss if it believes that the maximum exposure to loss is not representative of the expected exposure to loss. The disclosure shall include a description of the methodology used to determine the expected exposure to loss or range of that loss.

(c) the carrying amount of its involvement.

(d) the line item(s) in the statement of financial position in which the involvement is recognised.

B46 The information required in paragraph B45 should be classified into categories that are representative of the entity's exposure to risk (such as by type of structured entity or type of assets transferred) and by class of involvement.

B47 The entity shall disclose the following information, if such disclosure is relevant to an assessment of the risks to which the entity is exposed:

(a) In relation to structured entities' assets:

(i) their categories and rating;

(ii) weighted-average life;

(iii) write-downs or downgrades.

(b) In relation to funding and loss exposure:

(i) the forms of funding (commercial paper, medium-term notes, etc) and the weighted-average life of structured entities' funding;

(ii) any difficulties the structured entities have experienced in financing their activities during the period;

(iii) losses of structured entities the entity has been exposed to during the reporting period;

(iv) whether the entity is required to bear any losses ahead of other investors in the structured entity, the ranking and amounts of losses borne by each category of party involved, and the maximum limit of such losses.

(c) The types of returns the entity receives from the instruments it holds in structured entities.

(d) In relation to liquidity facilities for which the entity has an obligation:

(i) a description of any triggers associated with the obligation to fund;

(ii) whether there are any terms that would limit the obligation to provide liquidity support;

(iii) whether there are any other parties that provide liquidity support and, if so, how the entity's obligation ranks with those other parties.

(e) In relation to support that has been provided by the entity to structured entities:

(i) whether any commercial paper or other securities issued by the structured entities has been purchased by the entity, and whether any agreement required the entity to make these purchases;

(ii) whether any other assistance was provided to the structured entity in obtaining any other type of support, or whether there are any current intentions to do so.

Risk disclosures outside the scope of IFRS 7

B48 If an entity has provided support to structured entities without having a contractual or constructive obligation, it shall disclose that fact. This is often referred to as reputational risk.

B49 The entity shall disclose the following:

(a) the extent of support provided, including its nature and amount (including situations in which the entity assisted the structured entity in obtaining another type of support, or in which there are current intentions to do so);

(b) an explanation of why the support was provided;

(c) an explanation of how the provision of the support resulted in the entity controlling the structured entity, if applicable.

Accounting consequences of changes in a parent's ownership interest (paragraph 53(d))

B50 To meet the objective in paragraph 53(d), the parent shall disclose a schedule that shows the effects of any changes in a parent's ownership interest in a subsidiary that do not result in a loss of control on the equity attributable to owners of the parent.

Accounting consequences of the loss of control of a subsidiary (paragraph 53(e))

B51 To meet the objective in paragraph 53(e), the parent shall disclose the gain or loss, if any, recognised in accordance with paragraph xx, and:

(a) the portion of that gain or loss attributable to recognising any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(b) the line item(s) in the statement of comprehensive income in which the gain or loss is recognised (if not presented separately in the statement of comprehensive income).

Appendix C – Amendments to other IFRSs

[*will be provided later*]

Basis for Conclusions

[*will be provided later*]

Approval of ED X by the Board

The exposure draft ED X Consolidated Financial Statements was approved for publication by the thirteen members of the International Accounting Standards Board.

Sir David Tweedie	Chairman
Thomas E Jones	Vice-Chairman
Mary E Barth	
Stephen Cooper	
Philippe Danjou	
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[*DRAFT*] Illustrative Examples
IFRS X Consolidated Financial Statements

This [draft] guidance accompanies, but is not part of, [draft] IFRS X.

Introduction

[paragraphs not reproduced for observers]