30 Cannon Street, London EC4M 6XH, England
Phone: +44 (0)20 7246 6410, Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: http://www.iasb.org

International Accounting Standards Board

This document is provided as a convenience to observers at the round table discussion on Consolidation, to assist them in following the discussions. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff papers prepared for the round table discussion on Consolidation.

INFORMATION FOR OBSERVERS

Consolidation round table: September 2008, London

Title: ***Consolidated Financial Statements*** **- IASB staff draft**

IASB STAFF DRAFT (Version 3, 9 September 2008)
This draft ED has not been approved by the Board of the IASB.
COMMENTS WELCOME

[*Draft*] International Financial Reporting Standard X

Consolidated Financial Statements

Version 2.3, Friday 29 August 2008.

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

Core principle

1 An 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.

2 A controlling entity is the parent, the entities it controls are its subsidiaries and the economic entity is a group.

Scope

3 This [*draft*] IFRS applies to all entities.

4 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*).

5 A parent need not present consolidated financial statements if and only if:

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

Consolidated financial statements

6 The objective of this [*draft*] IFRS is to:

(a) identify the circumstances in which an entity is a parent and, therefore, must consolidate the financial statements of another entity with its own financial statements; and

(b) set out the accounting requirements for consolidation and the disclosure requirements in relation to control and significant involvement.

Control of an entity

7 A party controls an entity when it currently has power sufficient to enable it to manage the economic activities of that entity for its benefit by generating returns from those activities.

8 The definition of control requires that the controlling party benefit by generating returns from its involvement with an entity and being able to affect those returns from its power over that entity. Therefore, benefits and power are related and must be considered together when determining whether a party controls an entity. Generally, the more a party has to gain or lose from the variability of an entity's returns the more power it will want to have to manage that variability.

9 The power a party has to use or manage the economic activities of an entity can change as a consequence of actions by that party or changes in facts or circumstances. Assessing whether a party has power sufficient to be able to control an entity is, therefore, a continuous process.

Power and benefits

10 A party that controls an entity can manage the entity's assets and liabilities and exclude others from using or managing those assets and liabilities.

11 A party that controls an entity benefits by generating returns from its involvement with an entity that vary with the performance of that entity.

12 Benefits can be direct and indirect financial returns such as enhancements to returns, mitigations to risk and reductions of losses as well as direct and indirect non-financial returns.

13 Returns to a controlling party can be positive or negative and are not limited to the returns of the entity itself.

14 A party is presumed to have power over an entity if it has the right to cast a majority of the entity's voting interests. In such cases the party will control the governing body of the entity and, therefore, its strategic operating and financing policies. By controlling the strategic operating and financing policies of an entity a party can direct the day-to-day activities that affect the performance of the entity—whether that is achieved by making those decisions directly or by delegating that responsibility to management or others.

15 An entity might not have a governing body or the decisions that affect the economic activities of the entity rest outside of its governing body. In such cases the party that controls the decision processes that affect the variability of the entity's returns has power over that entity.

Loss of control

16 A party loses control of an entity when it ceases to have power sufficient to enable it to control the economic activities of that entity for its benefit.

17 A parent can lose control of a subsidiary with or without a change in absolute or relative ownership levels. This could occur, for example, when a subsidiary

becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

Purpose of the entity

18 This [*draft*] IFRS requires that an entity account for its assets and liabilities independent of the legal structure through which those assets and liabilities are controlled. This ensures that an entity accounts for its individual assets and liabilities the same way, whether it owns the assets and is responsible for the liabilities directly or whether it controls the entity that owns the assets or is responsible for the liabilities.

Linked transactions

19 A party might achieve or lose control of an entity as a consequence of completing two or more related arrangements (transactions). Multiple arrangements are linked and shall be treated as one transaction when the overall economic effect cannot be understood without reference to the arrangements as a whole. In determining whether to account for the arrangements as a single transaction, an entity must consider all of the terms and conditions of the arrangements and their economic effects.

20 One or more of the following could indicate that a party should account for the multiple arrangements as a single transaction:

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

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

(c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.

(d) 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.

Accounting requirements

Control

21 An entity, other than one described in paragraph 5, must present financial statements consolidating its assets, liabilities, equity, revenues and expenses with those of all the entities it controls.

22 An entity consolidates the financial statements of another entity with its own financial statements from the date that it achieves control and ceases consolidation when it loses control.

23 When an entity achieves control over another entity this will be the first consolidation of the other entity. If the entity achieves control by way of a business combination, it accounts for that initial recognition in accordance with IFRS 3.

Loss of control

24 If an entity loses control over another entity, the assets and liabilities of that entity are derecognised from the consolidated financial statements and gain or loss attributable to the controlling equity interest is recognised.

25 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.

Consolidation procedures

26 In preparing consolidated financial statements, a parent combines its financial statements and those of its subsidiaries and presents them as those of a single entity.

Non-controlling interests

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

28 Non-controlling interests in the net assets comprise:

(a) the amount of those non-controlling interests at the date of the original combination calculated in accordance with IFRS 3; and

(b) the non-controlling interests' share of changes in equity since the date of the combination.

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

Disclosure

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

(a) the judgements that management has made in applying this [*draft]* IFRS when reaching decisions to consolidate or not and the financial effects of those judgements.

(b) the nature and financial effects of restrictions on assets and liabilities resulting from a parent's use of subsidiaries to manage its group.

(c) the nature of, and risks and benefits associated with entities that it does not control but with which it has significant involvement.

(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.

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

31 To meet the objectives in paragraph 30, an entity shall disclose the information specified in paragraphs B72 to B878.

32 If the requirements in paragraphs B72 to B878 do not meet the objectives in paragraph 30, an entity shall disclose whatever additional information is necessary to meet those objectives.

Effective date

33 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

34 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 presented as a single economic entity.

Control of an entity is the current power of a party sufficient to enable it to control the economic activities of that entity for its benefit by generating returns from those activities.

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.

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

Consolidation of all subsidiaries (application of paragraph 3)

B1 The consolidated financial statements include the parent and all of its subsidiaries. The parent does not exclude a subsidiary from consolidation simply because:

(a) the parent is a venture capital organisation, mutual fund, unit trust or similar entity;

(b) its business activities are dissimilar from those of the other entities within the group; or

(c) control over the subsidiary is temporary.

B2 Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of the subsidiaries. For example, the disclosures required in paragraphs 30 to 32 of this [*draft*] IFRS and by IFRS 8 *Operating Segments* help to explain the significance of different business activities within the group.

B3 However, 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 subsidiary is accounted for in accordance with IFRS 5.

Control (application of paragraphs 7 to 9)

B4 A party can control an entity in a variety of ways, and the underlying facts and circumstances can vary. Determining whether a particular party controls an entity can require judgement.

Control is not shared

B5 Although the controlling party 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 legal protection, which, for example, often exists for non-controlling interests. Protective rights restrict the power of the controlling party.

Control must be current

B6 Control must be current. The ability to obtain control is not the same as current control. For example, a currently exercisable option is not in itself sufficient to give its holder power over an entity. However, the existence of the option could indicate that its holder has other rights that combine to give the option holder power over the entity.

B7 Options to acquire voting interests that are economically equivalent to the interests themselves are deemed to be voting interests, such as when an option is exercisable for little or no cash or other consideration. 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.

Assessment is continuous

B8 Assessment of control is a continuous process. This [*draft*] IFRS assumes that the power a party is able to secure will reflect an expectation of the returns anticipated and will be proportionate to that power. If market conditions change or the entity performs better or worse than expected, such a change in the returns does not in itself indicate a change in control. For example, the holder of a fixed return debt would not expect to have power sufficient to give it control of the entity to which it has advanced the funds. If, as a result of poor performance, the entity can no longer repay the full amount of principal, the holder will now have a variable return. Unless the unexpected losses cause the debt holder to be given power over the entity then absorbing those losses does not cause the debt holder to control the entity.

Power and benefits (application of paragraphs 10 to 15)

Power - protective rights

B9 Sometimes the ability of a party to manage the economic activities of an entity are restricted by approval or veto rights granted to other parties. Those rights may have little or no impact on the party's ability to control the entity. Alternatively, the rights of the other parties may be so restrictive that they hinder the party from controlling the entity.

B10 A party assesses whether it controls an entity even though other parties have approval or veto rights based on whether those parties are able to participate in the decisions about the day-to-day activities of the entity that affect the returns generated by the party's involvement in the entity.

B11 This [*draft*] IFRS refers to rights that do not give other parties the ability to participate in decisions about the day-to-day activities of an entity as protective rights. A party can control an entity even though other parties have protective rights in that entity.

B12 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:

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

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

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

B13 While all rights of other parties could be described as protective, some of those rights also allow other parties to participate in decisions about the day-to-day

activities of the entity. This *[draft]* IFRS refers to those rights as participating rights. A party does not control an entity if other parties have participating rights in that entity.

B14 Examples of participating rights include the right to:

(a) select, terminate and set the compensation of key management; or

(b) set or change the operating and financing decisions of the entity, including budgets, in the ordinary course of business.

B15 In assessing whether rights of other parties affect the power of the party over an entity, the party considers all rights of other contracting parties, both individually and in aggregate.

Benefits

B16 A party that controls an entity benefits by generating returns from its involvement with an entity that vary with the performance of that entity. Returns can be positive or negative.

Returns are not limited to those from the entity

B17 The term 'return' has a wide meaning in this [*draft*] IFRS. It includes dividends from the entity as well as other economic benefits.

B18 The returns a party generates from controlling an entity include dividends and changes in the value of the entity. However, the potential returns to a party from controlling an entity are not limited to returns from the performance of the entity itself.

B19 A party might also generate returns through up-front fees, access to cash or by servicing an entity's assets or liabilities. In addition, a party's interest in an entity might allow that party to generate returns that are not available to others. This is the case when the party uses the assets of the entity in combination with its other assets, 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.

B20 To determine the returns it generates from its involvement with an entity a party considers all economic benefits from its involvement with that entity.

B21 A party might generate returns because it acts as an agent of the party that controls the legal entity. In such circumstances the powers available to the party would be consistent with those available to a party acting as an agent and are likely to be more restricted than those available to the principal. The relationship between a principal and its agent is explained in paragraphs B33 to B412.

The returns must vary

B22 The returns a party receives from its control of an entity must vary with the performance of that entity. The returns generated by an entity are shared among those who invest in it. Some parties will receive contractually agreed fixed returns

that correspond with or reflect the risks assumed. Some parties receive returns that vary with the performance of the entity.

B23 An *expected return* is an estimate of the return an investor expects to receive from its investment. It reflects the distribution of the returns that are possible and the likelihood of each of those possibilities occurring. The actual returns an investor receives might differ from the expected return. Any difference between the expected return and the actual return will cause the investor to receive a higher or lower than expected returns.

B24 Understanding the likely range of outcomes can help a party assess the nature of any powers it has in relation to an entity. Its powers might be conditional in that they only take effect if specified conditions occur. Some rights, such as the ability to seize assets, might take effect only if the value of the entity falls in excess of the lowest returns expected. In some cases those powers might give the party the ability to control the entity, but only if the conditions that cause their powers to become effective occur. If this happens control of the entity will change.

B25 If the powers enable a party to affect the financial performance of the entity within the range of likely outcomes, those powers are more likely to indicate that the party controls the entity.

B26 Returns can vary with the performance of an entity, regardless of their form. For example, a creditor might have agreed to a fixed interest rate, when lending funds to an entity. In this case, the contractual 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 realised returns depend on the entity's performance and the creditor has variable returns from its loan to the entity.

Receiving a variable return is not a sufficient determinant of control

B27 A party must assess the extent to which it expects to generate returns from its involvement with another entity. The party that has the most to gain, or the most to lose, from the variability of an entity's returns is the party most likely to have power sufficient to allow it to control that entity.

B28 To maximise its positive returns and to protect its exposure to negative returns a party will require power to affect the performance of the entity. A party will normally require more power over an entity the higher its ability to maximise returns or the higher its exposure to negative variable returns.

B29 Although the party that has the greatest exposure to variable returns is likely to have the greatest incentive to control an entity this is not always the case. In some circumstances a party can control an entity even though it does not have the greatest exposure to variable returns. For example, the other parties might be willing to cede control to that party to generate returns from the particular business knowledge or expertise it will provide to the entity.

Exposure to losses

B30 A party that is exposed to variability of returns could choose to manage down-side risk by means of loss insurance. In such cases the party will have paid a third party to absorb any lower than expected returns.

B31 Although the loss insurance reduces the guaranteed party's exposure to lower than expected returns, that party continues to generate variable returns from its involvement with the entity.

B32 In contrast, accepting the risk of any lower than expected returns is not sufficient to give the guarantor control over the entity. If the party absorbing the potential losses has been paid a fee at market rates, those losses are not a variable return. In any case, the party exposed only to potential losses would also need to meet the requirement to have power over the entity.

Agency relationships

B33 An entity must assess whether it is acting in its own interests or as an agent for other parties.

B34 When an investor engages another party to act on its behalf, such as making investment decisions, the investor will have delegated some decision-making authority to that party. This establishes a principal-agency relationship, with the investor 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.

B35 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 incorporation 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 manage the individual assets—such as using sale proceeds within its business or using the assets as security for its own borrowings.

A party acting as an agent of the entity

B36 When assessing control, a party must also consider the rights of agents. A party might have control of an entity because:

(a) its agent has power over that entity; or

(b) its rights combined with the rights of its agents give it power over that entity.

B37 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 an 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 an 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) senior management of the reporting entity;

(f) a party that has a close business relationship with the reporting entity, such as the relationship between a professional service provider and one of its significant clients; and

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

The entity acting as an agent

B38 An entity might act as an agent on behalf of another party. An entity does not control another entity if it must use its rights in that entity for the benefit of another party.

B39 A fiduciary relationship, such as one involving trustees and beneficiaries of trusts, is an example of when the 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.

B40 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 legal entity. This is because the agent benefits from its ability to use or manage the assets and liabilities of the legal 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.

B41 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 assets and liabilities of an entity on behalf of all investors. When assessing whether that investor has control of the entity, it considers its powers and benefits in both roles.

B42 This *[draft]* IFRS presumes that a party that acts simultaneously in the role of the 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 its role as a principal.

Control without a majority of the voting rights

B43 A party is presumed to control an entity if it controls more than half of the voting rights of the entity. Having the rights to a majority of the voting rights of an entity is a common way of having power over the strategic operating and financing policies

of an entity. However, a party does not need to have the majority of the voting rights to control an entity.

Conditions that lead to a presumption of control

B44 A party is presumed to control an entity if it holds less than a majority of the entity's voting interests and satisfies any of the following conditions:

(a) it has the ability to exercise more than half of the entity's voting rights by virtue of an agreement with other investors.

(b) it has the ability under a statute or an agreement to determine the entity's strategic operating and financing policies.

(c) it has the ability to appoint or remove the majority of the members of the entity's board of directors or equivalent governing body and control of the entity is by that board or body.

(d) the right to cast votes sufficient to constitute a majority of the votes at meetings of the entity's governing body.

Dominant shareholder

B45 A party can have control over an entity with less than half the voting rights when there are no other more dominant voting interests in the entity—be they a single party or by means of a common control arrangement whereby other parties with voting interests have organised their interests in such a way that they actively cooperate when they exercise their votes so as to have more dominant voting power than the holder of the single largest ownership interest. A party does not control an entity if another party has the right to exercise a larger number of votes, whether or not that other owner has previously exercised that right.

Indicators of control

B46 Often, although not always, there will be other factors that combine to indicate that the party with the most dominant voting interest, or an option to acquire an interest that gives it the majority of the voting rights, has control over a legal entity even though it holds less than the majority of the voting interests in that entity.

B47 The existence of any of the following factors might indicate that the holder of 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 ability of the party to dominate the governing body, and therefore the strategic policy decision process. Examples of indicators of this nature are:

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

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

(b) The ability of the party to participate in the management of an entity, such as:

   (i) the right to appoint, hire, reassign or dismiss an 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 material transactions that benefit the party.

(c) The ability of the party to access the residual assets of an entity, such as:

   (i) the right to dissolve an entity and redirect the use of its assets; or

   (ii) the right under a statute or an agreement to access or use an entity's resources.

Previous voting interests

B48 In assessing whether a party controls an entity, it does not matter how the party was able to achieve power over the entity. What matters is that the party has power and is able to use that power to generate returns.

B49 A party might have less than a majority voting interest in an entity having controlled the entity previously by having a majority voting interest. The fact that the party has 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 controlled the entity previously by way of the voting interests, the party 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, the circumstances in which the current interests have been established might affect the likelihood that the party has established factors that are indicators of control.

Majority of the voting rights but no control

B50 In exceptional circumstances, the party that has a majority of the voting rights will be able to demonstrate that it is not the controlling party. For example, legal requirements, the constituting documents or other contractual arrangements of the entity might restrict the power of the party that holds the majority of the voting rights to the extent that it does not have the power to direct the economic activities.

Control without power over the strategic operating or financing policies

B51 The constituting (founding) documents of an entity, and the legal framework in which it operates, sometimes define the range of transactions and activities in which it can engage or expressly prohibit some types of transaction or activities. For example, the constituting documents might require that an entity is not able to invest in a new type of business without all of its owners agreeing to such a change.

B52 An agreement between the entity and the parties that contract with it can also restrict its activities. For example, covenants in a debt agreement might limit the entity's ability to invest into a new business.

B53 Accordingly, restrictions to the power of an entity might be established when the entity is formed or by agreement between parties contracting with the entity. Often the conditions for changing or relaxing those restrictions are limited severely.

B54 The powers available to the entity might be limited to the extent that it is not even necessary for that entity to have a governing body. Or if there is a governing body, its powers are not economically substantive and will not be sufficient to affect the performance of the entity. The type of entity that has such limited powers is often 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.

B55 Such an entity can be controlled by a party that has power that is sufficient to allow it to manage the entity's individual assets and liabilities to ensure that it generates returns from its involvement.

B56 Power could be achieved by having a contract to service or administer the individual assets or liabilities, or both, of the entity. The ability of a party to appoint management personnel or dominate the major contracts of an entity might also give it power.

B57 The constituting documents or other contractual arrangements of an entity might restrict the power available to its governing body to the extent that those powers will not affect the benefits generated by the entity. In such cases the party assesses whether it benefits from that entity and has the power to make the decisions that affect those benefits.

Linked transactions

B58 A party that provides credit and liquidity support to an investment vehicle might do so only because it generates returns from arranging the financing for the vehicle. In such a case the positive returns are outside of the entity itself and the negative returns are, potentially, generated by the entity. In combination, the party benefits from positive returns and negative returns.

Accounting requirements (application of paragraphs 21 to 29)

Consolidation procedures

B59 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:

(c) 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);

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

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

Potential voting rights

B60 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

B61 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

B62 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.

B63 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 adjusts 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

B64 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 are 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

B65 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.

B66 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 dividends have been declared.

Changes in the proportion held by non-controlling interests

B67 In such circumstances, 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

B68 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 B69; and

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

Other comprehensive income

B69 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.

B70 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.

B71 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 30 to 32)

B72 To meet the disclosure objectives in paragraph 30, an entity must disclose the information set out in paragraphs B73 to B878.

Judgment in the decision to consolidate (paragraph 30(a))

B73 To enable users of its financial statements to evaluate the judgements that management has made when reaching decisions to consolidate, or not, the entity shall describe the basis for its decision:

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

(b) not to consolidate an entity in which it has significant involvement.

Financial effects of the decision to consolidate an entity (paragraph 30(a))

B74 To enable users of its financial statements to evaluate the financial effects of the those judgements used in reaching a decision to consolidate or not that have the most significant effect on the amount recognised in the financial statements, a parent shall disclose for each subsidiary identified in B73(a) the following amounts that have been included in the group financial statements:

(a) total assets;

(b) total liabilities;

(c) revenue; and

(d) net income.

B75 The entity must also disclose any other factors in relation to these subsidiaries, such as concentrations of assets or liabilities, which are likely to be relevant to the users of its financial statements.

B76 The entity is also required to disclose information in relation to the entities identified in B73(b) because they are entities in which it has significant involvement. Those requirements are outlined in paragraphs B79 to B87.

Restrictions on assets and liabilities of subsidiaries (paragraph 30(b))

B77 The consolidated financial statements present the assets, liabilities, equity, revenues and expenses of the parent combined with those of the entities it controls. The legal structures used by the parent can affect its ability to access assets and its exposure to liabilities. Accordingly, the ability to compare the group financial statements of two or more reporting entities is enhanced when users of those financial statements have information about the extent to which its assets, liabilities, equity, revenues and expenses are managed within subsidiaries of the group.

B78 To enable users of its financial statements to evaluate the nature and financial effect of restrictions on assets and liabilities resulting from legal boundaries that exist within its group, an entity must disclose:

(a) for each individually material subsidiary (with materiality assessed on the basis of the subsidiaries relative to each other):

(i) its name;

(ii) its main activities; and

(iii) its region of operations.

(b) An explanation of the extent to which non-controlling interests are able to restrict the activities of subsidiaries, such as being able to restrict cash flows or investment and financing decisions.

(c) The non-controlling interest's proportionate interest in the group's:

(i) assets;

(ii) liabilities;

(iii) operating cash flows;

(iv) investing cash flows;

(v) financing cash flows; and

(vi) dividends paid, distinguishing between dividends paid to the parent and to non-controlling interests.

Significant involvement with other entities (paragraph 30(c))

B79 A party has significant involvement in an entity, when it has the ability to participate in the decisions of how to manage the individual assets and liabilities of the entity so as to generate returns from them but not sufficient to control the entity.

B80 Assessing whether a party has significant involvement in an entity involves the same decision process as is undertaken in assessing whether the party controls the entity. The difference is that the party will have concluded that the powers available to it are not sufficient to give it control over the entity.

B81 Accordingly, a party can have significant involvement in an entity by:

(a) participating in its governing body, such as by having the ability to appoint, or having sufficient voting rights to appoint, directors to the governing body;

(b) having the ability to appoint management personnel; or

(c) being party to significant contracts of the entity.

B82 An entity is likely to have had its available powers restricted if its purpose is to facilitate a securitisation arrangement, other investment vehicle and other arrangements that have a narrower purpose than operating a business. In such circumstances, a party that is a sponsor of the entity or manages the individual assets or liabilities of that entity and generates variable returns from its involvement with that entity is likely, at a minimum, to have significant involvement in the entity and might control the entity. This is particularly so if the party also provides credit enhancement or liquidity support to the entity.

B83 To enable users of its financial statements to evaluate the nature of, and risks associated with, its significant involvement with entities that it does not control, an entity shall disclose:

(a) the assets and liabilities of entities with which it has significant involvement, aggregated so that entities with similar economic characteristics are aggregated into a single category;

(b) for each category of such entities, any concentrations of assets or liability maturities that help users of the financial statements assess the risks to which the entity is exposed as a result of its involvement with these entities; and

(c) the conditions or circumstances related to its significant involvement that would cause it to have control of the entities and whether it has any discretion or ability to avoid being given control of the entities.

B84 The purpose of the disclosures outlined in paragraph B83 is to provide users of an entity's financial statements with information about the scale of activities that the entity does not control but with which it has significant involvement.

B85 The categories shall be appropriate to the entity but might include securitisation or investment entities. If the entity has different types of, for example, investment entities that have different economic characteristics those differences should cause the entity to disclose these in separate categories.

B86 The information shall be presented and summarised so that a user of the financial statements of the entity can identify the total assets and liabilities for each category of entity in which it has significant involvement without having to perform their own aggregations for each category. One way to present summary information is by way of a tabular form showing the assets and liabilities for each category of entity relative to the assets and liabilities controlled by the group. However, how this information is disclosed should reflect the circumstances of the group and other more effective ways to disclose this information could be appropriate.

B87 In addition to the disclosure requirements in this IFRS, the entity shall also comply with IFRS 7 *Financial Instruments: Disclosures* in relation to any financial instruments to which it and the entities with which it has significant involvement are a party.

Financial effects of changes in a parent's ownership interest or the loss of control of a subsidiary (paragraph 30(d – e))

B88 To enable users of its financial statements to evaluate the financial effects of changes in a parent's ownership interest or the loss of control of a subsidiary, the parent must disclose:

(a) 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.

(b) If control of a subsidiary is lost, the parent shall disclose the gain or loss, if any, recognised in accordance with paragraph B68, and:

(i) 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

(ii) 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).