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Staff Paper

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Project	<b>Consolidation</b>
Topic	<b>Disclosures for subsidiaries</b>

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## Introduction

1. Subtopic 810-10, as amended by Statement No. 167, of the FASB's Accounting Standards Codification provides that if a reporting entity is required to consolidate a variable interest entity, it is required to disclose:
  - (a) the significant judgements and assumptions made by an enterprise in determining whether it must consolidate a variable interest entity; and
  - (b) the nature of restrictions on a consolidated variable interest entity's assets and on the settlement of its liabilities.
2. ED 10 *Consolidated Financial Statements* proposes similar disclosures for all subsidiaries of a reporting entity, regardless of whether the subsidiary is a structured entity or an entity that is governed by voting (or similar) rights. In addition, ED 10 proposes disclosures about the interests that the non-controlling interests have in the group's activities.
3. The purpose of this agenda paper is to discuss:
  - (a) whether the IASB proposals in ED 10 should be amended in the light of respondents' comments; and
  - (b) how the proposals in ED 10 and the requirements in Subtopic 810-10, as amended by Statement No.167, could be aligned.
4. The following paragraphs discuss a reporting entity's disclosures of:
  - (a) the basis of control;

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- (b) the interest that the non-controlling interests have in the group activities;
  - (c) restrictions on consolidated assets and liabilities;
  - (d) potential additional disclosures for subsidiaries; and
  - (e) disclosures required by Subtopic 810-10 that were not proposed in ED10.
5. Both the FASB and the IASB have introduced, in the second phase of their joint project on business combinations, disclosure requirements about (a) the accounting consequence of changes in a reporting entity's ownership interest in a subsidiary that do not result in the loss of control and (b) the accounting consequences when the reporting entity loses control of a subsidiary. In addition, paragraph 810-10-50-1 of the Accounting Standards Codification requires that a reporting entity disclose its accounting policy for consolidation in its consolidated financial statements. We will carry-over these disclosures into the final disclosure requirements for subsidiaries.

**Basis of control**

***Requirements in Topic 810-10 for variable interest entities***

6. Paragraphs 810-10-50-5A of the Accounting Standards Codification requires an enterprise that is a primary beneficiary of a variable interest entity<sup>1</sup> to disclose, in part :
- (a) its methodology for determining whether the enterprise is the primary beneficiary of a variable interest entity, including, but not limited to, significant judgments and assumptions made;

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<sup>1</sup> A variable interest entity (VIE) may issue voting equity interests, and the entity that holds a majority voting interest also may be the primary beneficiary of the VIE. If so, and if the VIE meets the definition of a business and the VIE's assets can be used for purposes other than the settlement of the VIE's obligations, these disclosures are not required.

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- (b) if facts and circumstances change such that the conclusion to consolidate a variable interest entity has changed in the most recent financial statements, the primary factors that caused the change and the effect on the enterprise's financial statements.

**Proposals in ED 10**

- 7. Paragraph B32 of ED 10 states that a reporting entity should describe the basis for its assessment and any significant assumptions when it has concluded that:
  - (a) it controls an entity whose activities are directed through voting rights even though the reporting entity has less than half of that entity's voting rights [*this requirement has been carried over with little modification from IAS 27*];
  - (b) it does not control an entity whose activities are directed through voting rights even though it is the dominant shareholder with voting rights [*this requirement has been carried over with little modification from IAS 27*];
  - (c) it does not control a structured entity from which it receives returns that are potentially significant to the structured entity.
- 8. Paragraphs B33 and B34 propose also that, for the requirements in paragraph 7(a) and (b) of this paper, a reporting entity should provide information, in aggregate, that would help users evaluating the accounting consequences of the decision to consolidate another entity. This information might include disclosure of the total assets, liabilities, revenue and profit or loss of those entities. The ED did not propose a similar disclosure for unconsolidated structured entities because of the risk disclosures proposed for a reporting entity's involvement with such entities.

**Respondents' comments to ED 10**

- 9. Users of financial statements generally welcomed the proposed disclosure in paragraph B32. However, many other respondents expressed concerns about the

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proposal. Paragraph 122 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose its significant accounting policies. Some respondents disagreed with the proposed disclosure because they thought that the proposals duplicate the requirements in IAS 1.

10. ED 10 limits the proposed disclosure to the three scenarios in paragraph 7 of this paper. Some respondents argued that the disclosures should not automatically be required without consideration of the individual facts and circumstances. Rather, the IASB should require a disclosure when the reporting entity applies significant judgement in the decision to consolidate an entity or the reporting entity's control assessment changed in the reporting period.
11. Respondents also had specific comments on the scenarios identified in ED 10. Paragraph BC70 of ED 10 states that the IASB did not support the use of the term "de facto control" to describe situations in which a reporting entity controls another entity even though it holds less than half of the voting rights in that entity because it implies, incorrectly, that obtaining control in such a manner is in some way weaker than other means of obtaining control. Therefore, some respondents argued that requiring additional disclosures when a reporting entity has concluded that it controls a voting interest entity even though the reporting entity has less than half of that entity's voting rights was inconsistent with the Board's conclusion in paragraph BC70. In their view, the disclosures should not distinguish between different means of control.
12. A few respondents identified additional situations in which disclosing the basis of control might be useful:
  - (a) The reporting entity controls an entity because it holds the majority of the voting rights, but it does not exercise its power (passive majority shareholder).
  - (b) The reporting entity does not control an entity, but receives unusually high returns or is exposed to the majority of risks or rewards from that entity.

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13. Many respondents argued that when the reporting entity has disclosed its basis for consolidating another entity there would be no need to provide additional quantitative information about the accounting consequences. Those respondents were concerned that such a disclosure would encourage “second-guessing” by users of financial statements and, therefore, replace the judgement of the management of the reporting entity with that of users of financial statements. Some respondents argued also that it was unnecessary to provide information about the accounting consequences because the separate or individual financial statements of the entity would already contain this information.

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14. The staff has discussed respondents’ concerns about the proposed disclosures with some financial analysts. Those analysts considered a disclosure about both the reporting entity’s basis of control and the related accounting consequences as essential. Analysts dismissed the argument that the proposed disclosures would encourage second-guessing by users because, in their view, it was part of the analysis of financial statements to challenge the judgement of management and to develop an estimate of the accounting effect of that judgement.
15. In light of those comments, we recommend that the boards require that a reporting entity should disclose its basis of control. However, we agree with respondents that the final standard should not simply identify a number of scenarios that would always require disclosure, regardless of the individual facts and circumstances.
16. We are concerned that an entity might have to disclose the basis of control over another entity even though the decision to consolidate the entity required little or no judgement. Similarly, we are concerned that a reporting entity might not disclose the basis of control, even though the control assessment required a high degree of judgement, because it did not match any of the scenarios in paragraph 7 of this paper. Rather, we recommend that the final standard should require that the reporting entity must disclose all significant judgements and assumptions in determining whether it controls another entity. To supplement

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that requirement, some staff recommend requiring the disclosure of the basis of control in situations in which a reporting entity holds a large proportion of the voting rights in a voting interest entity but concludes that it does not control the entity.

17. In our view, the staff recommendation implies that the reporting entity must also disclose any changes in its control assessments that require significant judgement and the reasons for those changes. However, we believe that it will assist the consistent application of the final standard if it contains an explicit requirement to disclose changes in the control assessment and the reasons for it, similar to paragraph 810-10-50-5A of the Accounting Standards Codification.
18. We acknowledge that paragraph 122 of IAS 1 already requires a reporting entity to disclose this information. However, we believe that a specific disclosure requirement in the final standard would assist preparers to apply the general principle in the context of the assessment of control. The disclosure requirement in paragraph B32 of Ed 10 does not require a disclosure separate from that in IAS 1. Therefore, we do not believe that the proposal will result in redundant information or additional costs for preparers.
19. The proposals in ED 10 require a reporting entity to provide, in aggregate, disclosures about the accounting consequences of a reporting entity's decision to consolidate another entity, or not. We recommend that the boards delete this proposed disclosure requirement. In our view, this information is provided through the disclosure requirements in other standards.
20. IFRS 3(R) *Business Combinations* and Topic 805, *Business Combinations* require a reporting entity to disclose information that enables users of financial statements to evaluate the nature and financial affect of a business combination—ie when a reporting entity obtains control of another business or businesses. Furthermore, if a reporting entity's assessment that it does not control another entity requires significant judgement, we believe that the reporting entity will often conclude that it has either joint control or significant influence over such an entity. IAS 28 and IAS 31, and Topic 323, require a reporting entity to provide disclosures about its investments in joint ventures and

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associates. Finally, agenda paper 8I proposes that a reporting entity provide risk disclosures about its involvement with unconsolidated structured entities. ED10 did *not* propose requiring disclosure of the accounting consequences associated with not consolidating a structured entity because those risk disclosures would be sufficient to meet the needs of users in this respect. Therefore, we do not believe that there is a need for a separate disclosure requirement about the accounting consequences of a reporting entity's decision to consolidate another entity, or not.

**Questions 1 - 3 for the boards**

(1) Do the boards agree with the staff recommendation that a reporting entity should disclose:

- (a) all significant judgements and assumptions in determining whether it controls another entity; and
- (b) any changes in its control assessments that require significant judgement and the reasons for those changes?  
If not why?

(2) To supplement the basis of control disclosure requirements, do the boards think that a reporting entity, which holds a large proportion of the voting rights in a voting interest entity but concludes that it does not control the entity, should be specifically required to disclose its basis of control?

(3) Do the boards agree with the staff recommendation that a reporting entity should *not* be required to disclose the accounting consequences of its significant judgements and assumptions in determining whether it controls another entity? If not, why?

**The interest that the non-controlling interests have in the group's activities**
***Proposals in ED 10***

21. According to paragraph B35 of ED 10, a reporting entity would disclose information about the interest that the non-controlling interests (NCIs) have in the performance, cash-flows and net assets of the group. This information would include, for example: (a) the non-controlling interests' share of profit or loss and comprehensive income; (b) its proportionate interest in dividends paid by subsidiaries; and (c) the business activity or segment to which the non-

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controlling interests relate. Statement No. 167 does not contain a similar requirement. However both Topic 810-10 as amended by Statement No.160 and IAS 1 *Presentation of Financial Statements* would require disclosure of the NCI share of profit or loss, and the NCI proportionate interest in dividends paid by subsidiaries (as part of the reconciliation required in the statement of changes in equity).

**Respondents' comments to ED 10**

22. A few respondents commented on the proposal. Those respondents disagreed with the proposed disclosure for the following reasons:
  - (a) In the conceptual framework project, the boards adopted an entity approach and they believed that disclosures for non-controlling interests are not consistent with that approach, as it reintroduces a parent-entity approach.
  - (b) They believed that the purpose of consolidated statements is to portray the group as a single entity; thus it would be inconsistent with this objective to disaggregate the information in the consolidated financial statements.
23. In addition, respondents had some application questions with respect to the proposal. In particular, they asked the IASB to clarify whether a reporting entity should disclose the interest that the non-controlling interests have in the performance, cash flows and net assets of the group before or after intercompany eliminations.
24. IFRS 8 *Operating Segments* does not require allocating non-controlling interests to segments. Therefore, some respondents argued that the allocation of non-controlling interests to business activities or segments could not be done easily and would require additional application guidance. Therefore, they asked the IASB to remove the disclosure requirement in paragraph B35(c) of ED 10.

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**Staff analysis**

25. Some staff support including a requirement to disclose information to enable users to evaluate the interest that the NCI have in the performance, cash flows and net assets of the group.
26. Paragraphs BC131 and BC132 of the ED explain:

The consolidated financial statements present the assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries as a single entity. Users of financial statements agree that consolidated financial statements provide decision-useful information. However, many users stated that further information about the interest that the non-controlling interests have in the group's activities would assist their analysis of consolidated financial statements.

Users stated that it would, for example, affect their analysis whether an asset that is of particular importance for the reporting entity is held in a wholly-owned subsidiary or in a subsidiary with a large non-controlling interest. Users have requested information about the interest that the non-controlling interests have in the activities of the group at segment or business activity level. In addition, users believe that information about the performance, cash flows and net assets of the group that are attributable to non-controlling interest would provide valuable inputs in their valuation of the reporting entity.
27. In the view of those staff, the adoption of an entity view in the conceptual framework does not imply that the final standard could not require disclosures about particular groups of investors. IFRSs and US GAAP contain many presentation and disclosure requirements that are applicable only to the owners of the parent entity. For example, IAS 33 *Earnings per Share* and Topic 260 *Earnings per Share* require the calculation of earnings per share for profit or loss attributable to the ordinary equity holders of the parent entity only and not for all equity holders. Similarly, they do not believe that the presentation of the group as if it were a single entity necessarily implies that the reporting entity could not provide supplemental information in respect of particular capital providers.
28. Those staff, however, agree that it would be difficult to allocate non-controlling interests to particular segments because neither IFRS 8 nor Topic 280 *Segment Reporting* require such an allocation. They also note that the NCIs' share of profit or loss and comprehensive income, and the NCIs' proportionate interest in dividends paid by subsidiaries are already required in US GAAP and IFRS.

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Therefore, they would recommend that the boards do not include any of these three disclosures as examples of the requirements within the final standard.

29. However, those staff would propose to include an example of the types of disclosures that the requirement might entail as follows:

The NCIs' proportionate interest in particular non-persistent components of profit or loss, eg the NCIs' proportionate interest in the gain or loss on disposal of a business

30. Those staff would also clarify that the disclosures should be provided after intercompany eliminations.
31. Other staff do not recommend that this NCI disclosure requirement be added to the current disclosure requirements because they view the requirements relating to NCI that are already required in other standards as adequate to meet the needs of users in this respect.<sup>2</sup>

**Question 4 for the boards**

(4) Do the boards believe that a reporting entity should disclose the interest that the non-controlling interests have in the performance, cash flows and net assets of the group, in addition to the NCI disclosures that are already required in other standards? An example of the types of disclosures that this might entail is the NCIs' proportionate interest in particular non-persistent components of profit or loss, eg the NCIs' proportionate interest in the gain or loss on disposal of a business.

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<sup>2</sup> The NCI disclosure requirements that are required by 810-10 as amended by Statement No.160 and IAS 1 are as follows:

- (a) Profit or loss attributable to NCIs
- (b) Total comprehensive income attributable to NCIs
- (c) A reconciliation of the opening to closing carrying amount for NCIs, including separate presentation of contributions by and distributions to NCIs, and changes in ownership interests in subsidiaries that do not result in the loss of control—this would include, among others, disclosure of dividends paid by subsidiaries to NCIs.

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**Restrictions on consolidated assets and liabilities*****Requirements in Subtopic 810-10 for VIEs***

32. Paragraph 810-10-50-3 of the Accounting Standards Codification requires the primary beneficiary of a variable interest entity to disclose:
- (a) the carrying amounts and classification of the variable interest entity's assets and liabilities in the statement of financial position that are consolidated, including qualitative information about the relationship(s) between those assets and liabilities. For example, if the variable interest entity's assets can be used only to settle obligations of the variable interest entity, the enterprise shall disclose qualitative information about the nature of the restrictions on those assets.
  - (b) lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary.

***Proposals in ED 10***

33. Paragraph B37 of ED 10 proposes that a reporting entity should disclose the nature of restrictions that are a consequence of assets and liabilities being held by subsidiaries. This disclosure would include information about (a) the extent to which non-controlling interests can restrict the activities of a subsidiary; (b) legal, contractual and regulatory restrictions; and (c) the carrying amount of the assets and liabilities to which those restrictions apply.

***Respondents' comments to ED 10***

34. A few respondents commented on the proposal. Some respondents were concerned that the proposed disclosure would require a reporting entity to disclose an excessive amount of information because:
- (a) the requirement to disclose the extent to which non-controlling interest can restrict the activities of a subsidiary implied that a reporting entity

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would be required to disclose all protective rights that the non-controlling interests have; and

- (b) the requirement to disclose legal, contractual and regulatory restrictions might imply disclosure of all contractual covenants. Respondents noted also that the disclosure should not require the reporting entity to disclose the legal reason for a restriction, but rather explain what the restriction is.
35. In contrast, other respondents asked the IASB to expand the proposal in two respects:
- (a) The ED requires that a reporting entity should disclose restrictions on consolidated assets and liabilities being held by subsidiaries. Respondents asked the IASB to require a reporting entity also to disclose restrictions that are a consequence of assets and liabilities being held by the *parent*.
  - (b) The ED refers to restrictions that may restrict dividends being paid within the group. Respondents asked to extend this requirement to *dividends and other forms of capital distributions*.
36. One respondent asked the IASB to expand the disclosures about restrictions on consolidated assets and liabilities into a more comprehensive disclosure about liquidity risks from consolidated entities. In particular, that respondent believes that in addition to information about restrictions with respect to the amount and timing of cash transfers *from consolidated entities*, a reporting entity should also disclose enforceable commitments to transfer cash from the parent or other consolidated entities *to a consolidated entity*.
37. Therefore, that respondent would require a reporting entity to disclose:
- (a) when the parent or another entity within the group is obliged to provide liquid financial assets to a subsidiary, information including the following:
    - (i) the nature and terms of any obligations, including any terms that limit or trigger the obligation;

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- (ii) a description of any amendments made to the subsidiary's financing arrangements during the reporting period;
  - (iii) whether there are any other parties that provide liquidity support and, if so, how the reporting entity's or other related entity's obligation ranks with those other parties;
  - (iv) the carrying amount of assets and liabilities recognised in the subsidiary's financial statements; and
  - (v) the cash flows generated by the subsidiary during the preceding two years;
- (b) when no entity within the group, including the parent, is obliged to provide liquid financial assets to a subsidiary, information about the subsidiary that is experiencing liquidity difficulties; and
- (c) information that enables users of its financial statements to evaluate the location of liquid financial assets within the group at the statement date.

**Staff analysis**

38. We do not believe that the proposals in ED 10 would require a reporting entity to disclose every restriction on consolidated assets or liabilities. As with all disclosures, the concept of materiality would apply to the proposals. According to paragraph 30 of the IASB's conceptual framework, information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Paragraph 123 of FASB Concepts Statement No. 2 *Qualitative Characteristics of Accounting Information* contains a comparable concept.
39. We believe that the inclusion of a general disclosure principle will assist preparers weighing which restrictions would be material for users.
40. Nonetheless, we agree that the wording of the proposals regarding restrictions on consolidated assets and liabilities in ED10 is unclear. We would propose clarifying the words so that we do not require disclosure of the extent to which non-controlling interests can restrict the activities of a subsidiary because this implies disclosing the NCIs' protective rights that are set out in the legislation of

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each territory. Rather, we would suggest requiring disclosure of the nature of rights held by the NCI that go beyond typical protective rights set out in legislation, eg rights that the NCI have to ‘step in’ and prevent the reporting entity from controlling the subsidiary if specified events happen or circumstances arise.

41. We will also investigate whether we can further improve the wording of the disclosure requirement to clarify that the boards do not expect a reporting entity to disclose every restriction, regardless of its materiality to users.
42. We agree with the suggestions set out in paragraph 35 of this paper and recommend incorporating them into the final consolidation standard.
43. We note that paragraph 810-10-50-3(c) contains a disclosure requirement for lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary. ED 10 does not contain a similar requirement. Some staff believe that the disclosure should not be required. In their view, creditors or other parties that transact with a subsidiary will generally not have recourse to the assets of other entities within the group. Therefore, those staff believe that the disclosure would apply to most assets in a group and bears little informational value. Other staff believe that this disclosure is important for consolidated structured entities because it provides users of financial statements with important information about the liquidity of such subsidiaries.
44. We have sympathy with those respondents who asked the IASB to expand the disclosures about restrictions on consolidated assets and liabilities into a more comprehensive disclosure about liquidity risks from consolidated entities. Such disclosures are discussed in paragraphs 54-58 of this paper.

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**Questions 5 - 7 for the boards**

(5) Do you agree with the staff recommendation that a reporting entity should disclose the nature of restrictions that are a consequence of assets and liabilities being held by the parent or its subsidiaries? If not, why?

(6) As part of those disclosures about the nature of restrictions, do you think that a reporting entity should disclose the nature of rights held by the NCI that go beyond typical protective rights set out in legislation?

(7) Do you think that a reporting entity should be required to disclose the lack of recourse of creditors (or beneficial interest holders) to the general credit of other entities within the group? If so, do you agree with the staff supporting this view that the requirement should apply to consolidated structured entities only, rather than all subsidiaries?

**Additional disclosures*****Proposals in ED 9 and ED 10***

45. Paragraph C7 of ED 9 *Joint Arrangements* proposed that the reporting entity should disclose a list of significant subsidiaries, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting powers held. Users had asked the IASB to reintroduce the disclosure after it had previously eliminated a similar disclosure from IAS 27 as part of the Improvements project in 2003. Most respondents to ED 9 welcomed the proposal. ED 10 did not propose any related disclosure requirements. Subtopic 810-10 does not contain any comparable disclosure requirements.

***Respondents' comments to ED 9 and ED 10***

46. Most respondents to ED 9 agreed that the IASB should reintroduce a requirement according to which a reporting entity would disclose a list of significant subsidiaries. However, some respondents disagreed with the proposal because, in their view, the informational objective underpinning such a disclosure is already met by the segment disclosure requirements in IFRS 8 and Topic 280 *Segment Reporting*.

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47. Respondents emphasised also that many jurisdictions already require a similar disclosure outside of the financial statements. As a consequence, those respondents believed that the proposal would duplicate information that is already available to users. Other respondents expressed concerns that it might be practically difficult to introduce the proposed disclosure for large groups with hundreds or even thousands of subsidiaries.
48. Even though ED 10 did not address this issue, some respondents asked the IASB to require a reporting entity to disclose information about its subsidiaries that would go beyond the proposals in ED 9. Those respondents asked the IASB to provide a table of summary information by legal structure, such as, condensed financial statements of all material legal structures reconciled to the consolidated financial statements. In their view, such a disclosure would provide insight into the structures within the group that comprise a significant portion of the consolidated group's assets and revenues. This information would enable users to better predict cash flows by identifying the assets and liabilities that are being held by subsidiaries, evaluating risk exposures of particular group entities (eg. by identifying which entities hold debt) and assessing which entities generate cash flows. Users of financial statements have consistently requested such information.

**Staff analysis**

49. Some staff agree with respondents to ED 10 and recommend that the boards require that a reporting entity should disclose a list of significant subsidiaries, including:
- (a) the name, country of incorporation or residence;
  - (b) the proportion of ownership interest and, if different, proportion of voting rights held; and
  - (c) summarised financial information about the subsidiary, such as the subsidiary's assets, liabilities, revenues, profit or loss and cash flows (before intercompany eliminations).

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50. Those staff acknowledge that IFRS 8 and Topic 280 contain a disclosure requirement comparable to the requirement in paragraph 49(c) for the reporting entity's reporting segments. However, they believe that those standards and the proposed disclosures pursue different informational objectives. The segment reporting standards require a reporting entity to disclose information that enables users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. In contrast, the proposed disclosure aims to provide users of financial statements with information about the composition of the group and the effect of legal structures within the group on the reporting entity's ability to access and use assets and resources of consolidated entities. Therefore, they believe that the disclosures complement each other and are not duplicative.
51. Those staff also do not believe that the proposed disclosure would impose excessive costs on preparers of financial statements because the information to be disclosed must be available to the reporting entity when preparing consolidated financial statements. In addition, they would clarify when drafting the proposed requirement that they would expect this disclosure to cover a limited number of significant subsidiaries only, rather than all subsidiaries of the reporting entity.
52. If the boards were to agree with this recommendation, the staff supporting this view believe that the following disclosures discussed earlier in this paper would not be required:
- (a) disclosures relating to the interest that the non-controlling interests have in the group's activities (see paragraphs 21-31 of this paper); and
  - (b) the disclosures relating to the lack of recourse of creditors to the general credit of the reporting entity (see paragraph 43 of this paper).
53. Other staff do not believe that the disclosures proposed in paragraph 49 of this paper should be required as part of this project. They believe that the objective of providing such disclosures would be similar to the objectives of providing segment information. If the boards were to require summarised financial information for significant subsidiaries, they believe that preparers would

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question why both the summarised financial information and the segment information should be presented. Those staff would suggest that, if the boards think that providing the summarised financial information for significant subsidiaries would be beneficial, that this would be addressed as part of a separate project that would address segment reporting.

**Question 8 for the boards**

(8) Do the boards think that a reporting entity should disclose a list of significant subsidiaries including (a) the name and country of incorporation or residence; (b) the proportion of ownership interest and, if different, proportion of voting rights held; and (c) summarised financial information about the subsidiary, such as the subsidiary's assets, liabilities, revenues, profit or loss and cash flows? If not, why?

Note: this would represent a change to the disclosure requirements in Subtopic 810-10 and to the proposals in ED9 and ED10.

**Disclosures required by Subtopic 810-10 that were not proposed in ED10**

54. Subtopic 810-10 contains disclosures about the nature of, and risks associated with, a reporting entity's involvement with consolidated structured entities. Paragraph 810-10-50-5A (d) requires an enterprise that is the primary beneficiary of a variable interest entity to disclose qualitative and quantitative information about the enterprise's involvement (giving consideration to both explicit and implicit variable interests) with the variable interest entity, including, but not limited to, the nature, purpose, size, and activities of the variable interest entity, and how the entity is financed.
55. In addition, Subtopic 810-10-50-5A(c) requires the primary beneficiary of a variable interest entity to disclose the terms of the arrangement, giving consideration to both explicit arrangements and implicit variable interests that could require the enterprise to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to the variable interest entity, including events or circumstances that could expose the enterprise to a loss.

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56. Paragraph 36 of this paper noted that one respondent to ED 10 had asked the IASB to consider whether it should develop a disclosure for a reporting entity's risk exposure from its subsidiaries.
57. We agree with this respondent that it would assist users in their analysis of financial statements if a reporting entity provided disclosures about the nature of, and risks associated with, a reporting entity's subsidiaries. However, we would propose to restrict such a disclosure so that it is required only for consolidated structured entities. This is because we believe that it would be difficult to make such a requirement operational for all entities in that it would imply asking for disclosure of all commitments (including loans) that a parent or any of its subsidiaries would have in relation to other subsidiaries.
58. Therefore, we recommend that the disclosure in Subtopic 810-10-50-5A(c) be required for consolidated structured entities. We also recommend that the disclosure in paragraph 810-10-50-5A (d) be required for a reporting entity's involvement with consolidated structured entities.

**Questions 9 and 10 for the boards**

(9) Do you agree with the staff recommendation that a reporting entity should disclose qualitative and quantitative information about its involvement with a consolidated structured entity, including, but not limited to, the nature, purpose, size, and activities of the structured entity, and how the entity is financed?

(10) Do you agree with the staff recommendation that a reporting entity should disclose the terms of explicit arrangements that could require the enterprise to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss? (note: implicit arrangements are discussed in agenda paper 8J)