The views expressed in this presentation are those of the presenter, not necessarily those of the IFRS Foundation or the IASB.
Housekeeping items

- Slides can be downloaded by clicking on the button below the slides window
- To ask a question, type into the designated text box on your screen and click “submit”
- Remember to turn off your pop-up blocker
- A recording of the webcast will be available online at www.ifrs.org and www.fasb.org
- CPE credit is not available for this webcast
Important improvements

• IFRS 10, 11 and 12 were published on 12 May 2011
• They create a consistent, principle based package for the involvement of companies with other entities
• Enhance convergence with US GAAP in key areas
• Conclude an important component of our response to the financial crisis
Interaction between IFRS 10, 11, 12, and IAS 28

Control alone?
- yes: Consolidation in accordance with IFRS 10, Disclosures in accordance with IFRS 12
- no: Joint control?
  - yes: Define type of joint arrangement in accordance with IFRS 11
  - no: Significant influence?
    - yes: Account for an investment in accordance with IAS 28, Disclosures in accordance with IFRS 12
    - no: Joint Venture
      - yes: Account for assets, liabilities, revenues and expenses, Disclosures in accordance with IFRS 12
      - no: Joint Operation
        - yes: Account for assets, liabilities, revenues and expenses
        - no: Disclosures in accordance with IFRS 12

IFRS 9
Consolidated Financial Statements and related Disclosures
### Why we undertook the project

#### Issues – IAS 27 / SIC12

<table>
<thead>
<tr>
<th>Inconsistencies in practice</th>
<th>Disclosures and financial crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tension between IAS 27 (control) and SIC 12 (risk and rewards)</td>
<td>• Sufficient guidance for structured entities?</td>
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<td>• Inconsistent application</td>
<td>• Reputational risk as a basis for consolidation?</td>
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<td>• Inadequate disclosures?</td>
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#### Solution – IFRS 10, 12

- A single control model for all entities
- Clear principles of control
- Additional application guidance
- SIC 12 performed well. Use of existing principles to create a sound foundation for SPEs
- Enhanced disclosures particularly for unconsolidated structured entities
The control model – overview

Definition of control:
An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

✓ Single consolidation model for all entities, including structured entities

✓ Consolidation based on control – ‘power so as to benefit’ model
  - Controller must have some exposure to risks and rewards.
  - Exposure is an indicator of control but is not control of itself
  - Power arises from rights—voting rights (either majority or less than a majority), potential voting rights, other contractual arrangements, or a combination thereof.
Main decisions

1. "De facto" control
   - Entity can control with less than 50% of voting rights.
   - Factors to consider include:
     - Size of the holding relative to the size and dispersion of other vote holders
     - Potential voting rights
     - Other contractual rights
   - If the above not conclusive consider additional facts and circumstances that provide evidence of power (e.g., voting patterns at previous board meeting, etc)

2. Structured entities
   - No separate guidance. General principles apply for assessing control for all types of entities.
Main decisions

3. Agency relationships

- Consider all of the following factors:
  - scope of the decision-making authority
  - rights held by other parties (ie kick-out rights)
  - remuneration of the decision-maker
  - other interests that the decision maker holds in the investee

4. Disclosures

- Enables investors to assess the nature of, and changes in, the risks associated with its interests in consolidated and unconsolidated structured entities
Improvements

✓ **Consistency and additional guidance**
  - Applying the definition of control
  - Control without a majority of voting rights
  - Agency relationships

✓ **Removal of ‘bright lines’**
  - Better reflection of the economic substance of the underlying relationship between entities

✓ **One disclosure package**
  - Enhanced disclosures and unified disclosure objectives in IFRS 12 will provide useful information to capital markets and improves transparency about the entity’s exposure to risk
Joint Arrangements and related Disclosures
What needed to be improved?

- The structure of the arrangement is the **only** driver for the accounting.

- When arrangements are structured in entities, preparers have an accounting option.

This results in:

- arrangements that entitle the parties to similar rights and obligations are accounted for differently and, conversely,
- arrangements that entitle the parties to different rights and obligations are accounted for similarly.
IFRS 11
How does IFRS 11 improve on IAS 31?

• IFRS 11 establishes a clear principle that is applicable to the accounting for all joint arrangements.

The guiding principle:
A party to a joint arrangement recognises its rights and obligations arising from the arrangement.

• As a result: accounting options are eliminated.
IFRS 11
The assessments required

1st assessment

JOINT CONTROL
Do all the parties, or a group of the parties, have joint control over the arrangement?

Yes

Joint Operation

No

Outside the scope of IFRS 11

2nd assessment

Classification of the JOINT ARRANGEMENT
Analysis of the parties’ rights and obligations arising from the arrangement

Joint Venture
IFRS 11
Assessing joint control

Does the contractual arrangement give all the parties, or a group of the parties, control of the arrangement collectively?

Yes

Do the decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties, that collectively control the arrangement?

Yes

The arrangement is jointly controlled
the arrangement is a joint arrangement.

No

Outside the scope of IFRS 11

No

Outside the scope of IFRS 11
IFRS 11
Assessing the classification

Not structured through a separate vehicle

Structured through a separate vehicle

Assess the parties’ rights and obligations arising from the arrangement by considering:

(a) the legal form of the separate vehicle
(b) the terms of the contractual arrangement, and, if relevant,
(c) other facts and circumstances

Parties have rights to the assets and obligations for the liabilities

Parties have rights to the net assets

Joint operation

Joint venture

Accounting for assets, liabilities, revenues and expenses in accordance with the contractual arrangements

Accounting for an investment using the equity method
IFRS 11
Improvements

• Enhanced *verifiability* and *understandability*
  – the accounting reflects more faithfully the economic phenomena that it purports to represent

• Improved *consistency*
  – it provides the same accounting outcome for each type of joint arrangement; and

• More *comparability* among financial statements
  – it will enable users to identify and understand similarities in, and differences between, similar arrangements
IFRS 12
Disclosures for joint arrangements

Description of the nature, extent and the financial effects of an entity’s interests in joint arrangements

Joint operations

Joint ventures

Summarised financial information for each individually material joint venture and in total for all other joint ventures.
Effective date
IFRS 10, IFRS 11, IFRS 12

• Aligned effective date for IFRS 10, IFRS 11 and IFRS Annual periods beginning on or after 1 January 2013.

• Earlier application permitted.
  – If an entity applies any of the IFRSs earlier, it is required to apply the other IFRSs at the same time.
Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.