


May 2011

## International Financial Reporting Standards



# Introducing IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosures*

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

# Housekeeping items

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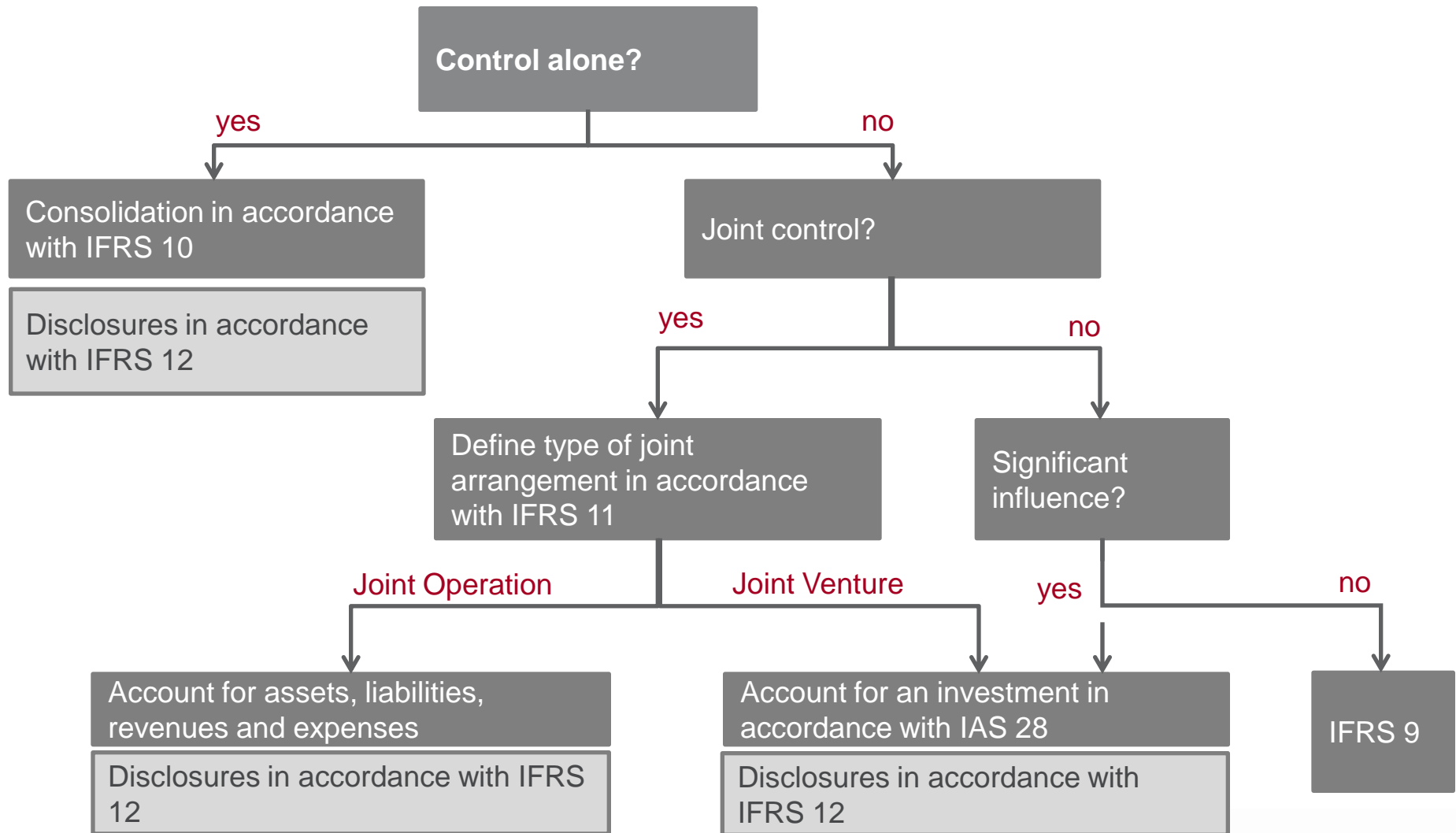
- Slides can be downloaded by clicking on the button below the slides window
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- A recording of the webcast will be available online at [www.ifrs.org](http://www.ifrs.org) and [www.fasb.org](http://www.fasb.org)
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# Important improvements

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- 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





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# ***Consolidated Financial Statements and related Disclosures***

# Why we undertook the project

## Issues – IAS 27 / SIC12

- Inconsistencies in practice
- Tension between IAS 27 (control) and SIC 12 (risk and rewards)
  - Inconsistent application

- Disclosures and financial crisis
- Sufficient guidance for structured entities?
  - Reputational risk as a basis for consolidation?
  - Inadequate disclosures?



## Solution – IFRS 10, 12

- A single control model for all entities
  - Clear principles of control
  - Additional application guidance
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- 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

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## 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 (eg 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

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## 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

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- ✓ **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



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# ***Joint Arrangements and related Disclosures***

# IAS 31

## 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.

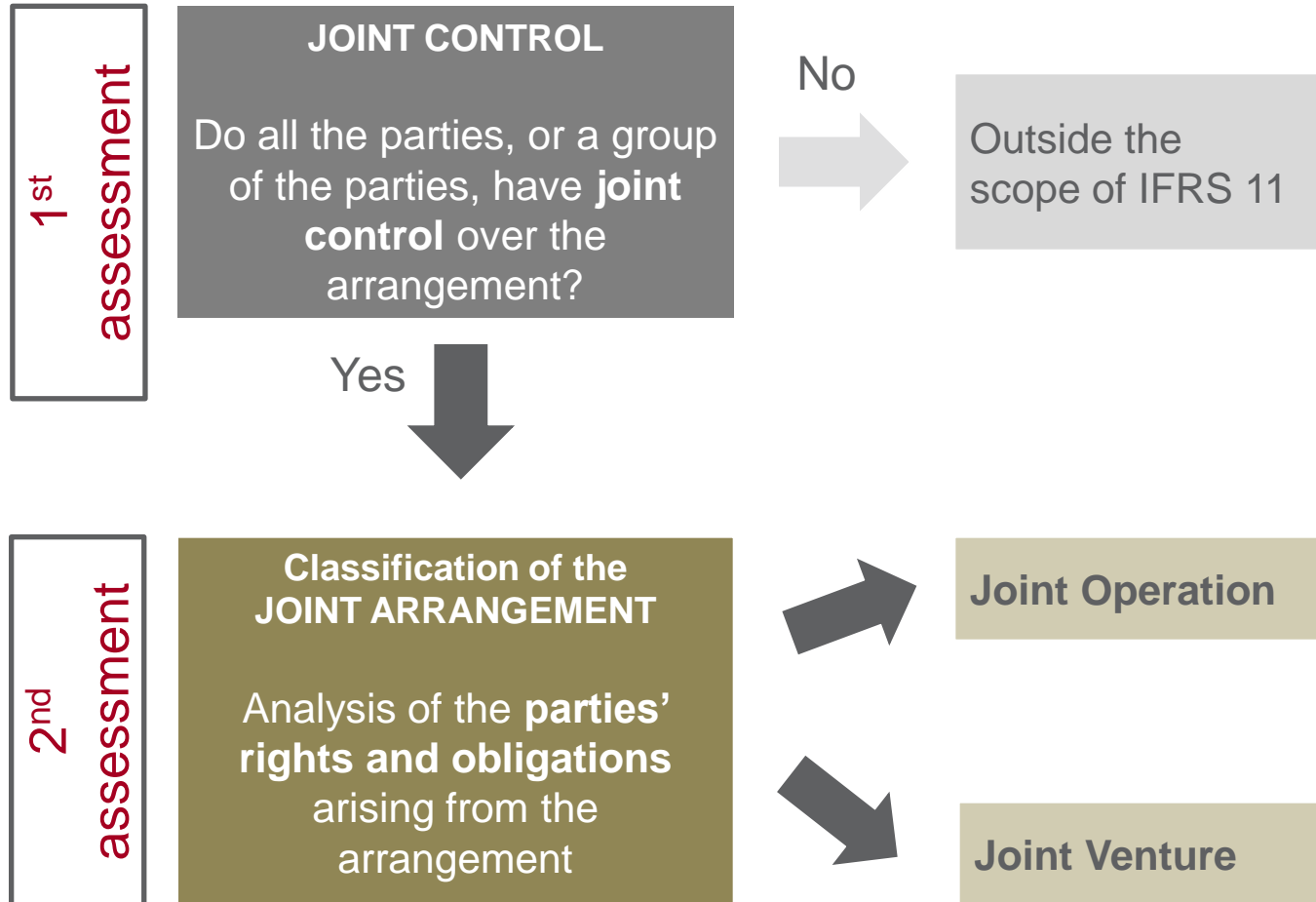
The guiding principle:

A party to a joint arrangement recognises its rights and obligations arising from the arrangement.

- As a result: accounting options are eliminated.

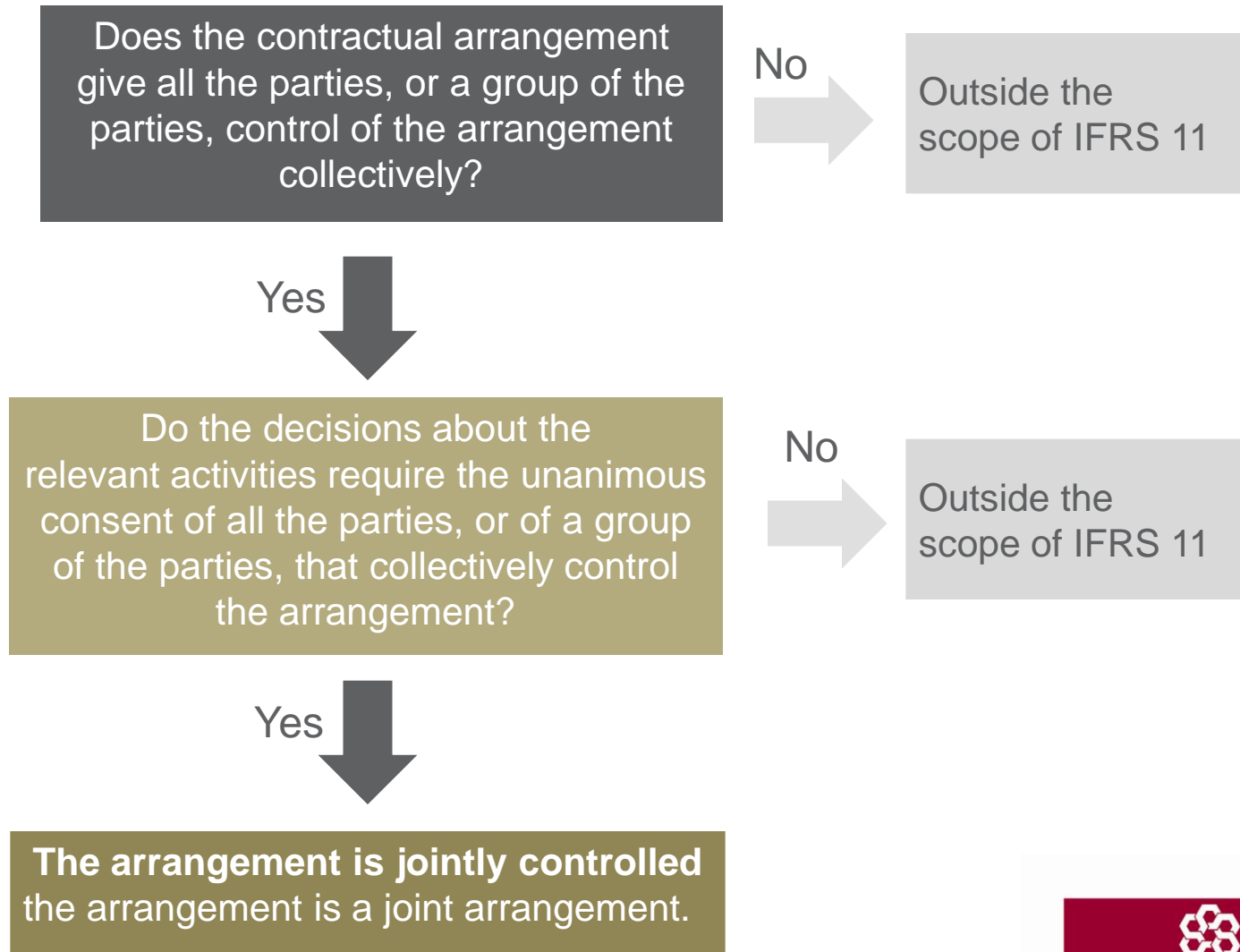
# IFRS 11

## The assessments required



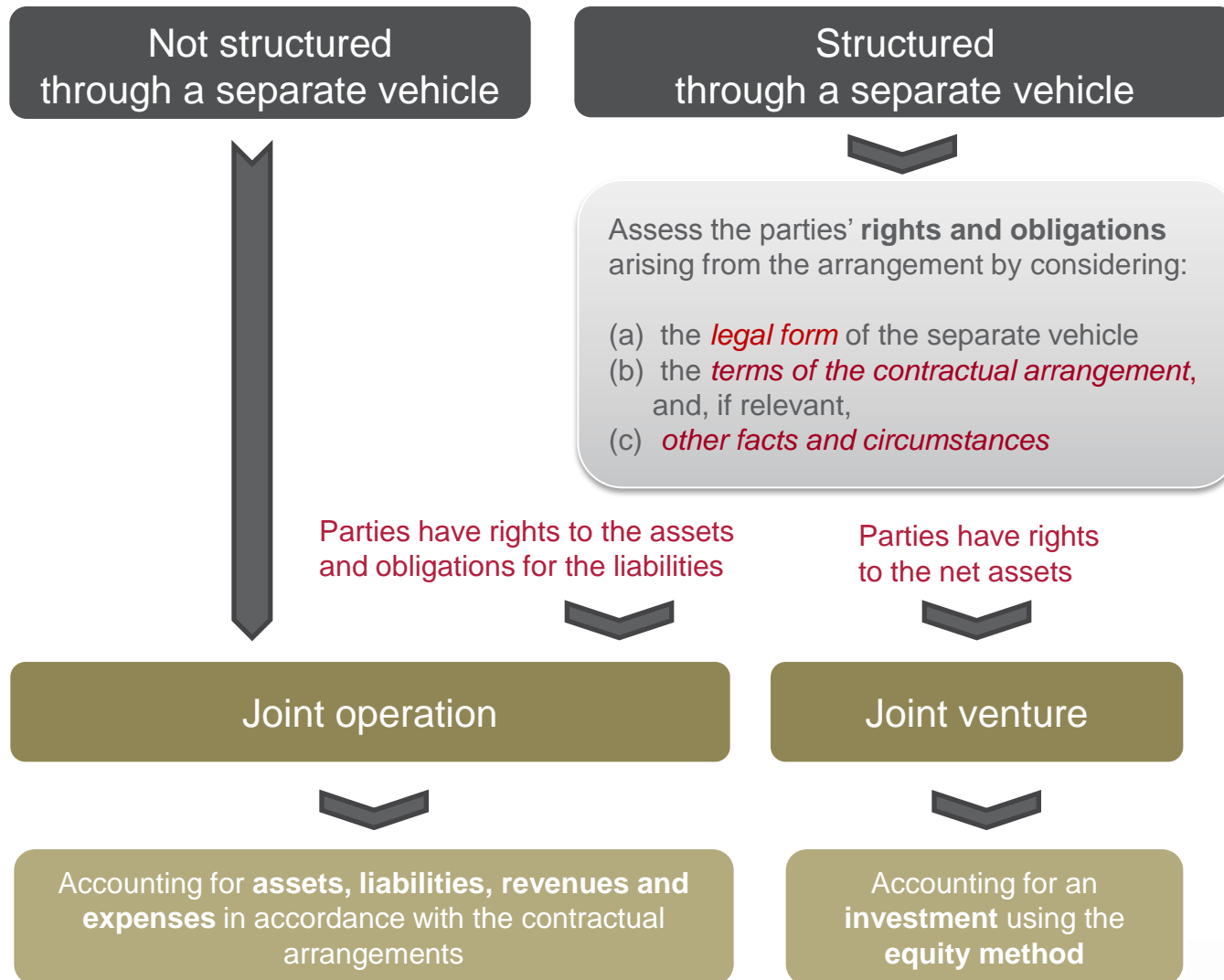
# IFRS 11

## Assessing joint control



# IFRS 11

## Assessing the classification





# IFRS 11 Improvements

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- 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

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- 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?

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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.



# Questions or comments?

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what happens if you don't apply yet IFRS10,11 and 12?

# Questions or comments?

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Control will be about ability and not whether it is actually being exercised or not?

# Questions or comments?

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In IFRS 10, must ALL criteria be met to achieve control, (i.e. if power criteria is not satisfied, then no further evaluation is required as there can be no control) or must all criteria be evaluated simultaneously (i.e. it may not be conclusive that there is power, but the other criteria are satisfied, therefore the overall view can be taken that control exists)?

# Questions or comments?

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Why does the exposure to risks and rewards not in itself determine control?



# Questions or comments?

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How do you reconcile the guidance in §B13 when 2 or more investors have the current ability to direct relevant activities that occur at different times (e.g. R&D/regulatory approval of a medical product and, subsequently, manufacturing) with the definition of power in §10 (i.e. the current ability to direct the relevant activities)?

# Questions or comments?

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Question to IFRS 10: Is the definition "controlling the relevant activities of an entity" wider than "governing the financial and operating policies"?

# Questions or comments?

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Do you think that IFRS 10 will lead to less SPEs being consolidated due to the addition of the power criterion to the actual criteria of SIC 12?

# Questions or comments?

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Are there plans for associates to be measured at fair value?

# Questions or comments?

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For IFRS 11, whenever the legal form of an entity ring-fences the rights and obligations of the parties to the JA, how can the arrangement be anything else than a joint venture?

# Questions or comments?

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What about jointly controlled assets in IAS 31, are they now part of joint operation?

# Questions or comments?

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Wouldn't the rights to assets and obligations of liabilities be the same as rights to net assets under joint arrangements?

# Questions or comments?

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For joint arrangements that can no longer be proportionately consolidated, do the parties have to restate their financials to switch to equity method, as if the equity method was in place since the initial investment?



# Questions or comments?

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Is a joint operation required to do full consolidation or proportional consolidation?

# Questions or comments?

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Does IFRS 11 include the carve out for venture capital companies to continue to hold interests in a joint venture at fair value

# Questions or comments?

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Is there a rebuttable presumption that more than 50% holding means control unless proved otherwise.

# Questions or comments?

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When an entity has less than 50% voting rights, is the entity required to go and identify all other shareholders to determine whether they have de facto control? This could be quite an onerous requirement for companies

# Questions or comments?

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What will happen to entity that are consolidated under risk and reward model. Will they cease to be consolidated if they prefer to early adopt?