

Disclosure of Interests in Other Entities

1. Background

On 12 May 2011, the International Accounting Standards Board ("IASB") issued IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12"). IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

This Financial INSIGHT provides an overview of the disclosure requirements of IFRS 12.

2. Objective of IFRS 12 *Disclosure of Interests in Other Entities*

The objective of IFRS 12 is for an entity to disclose information that helps users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in other entities; and
- the effects of those interests on its financial position, financial performance and cash flows.

This new disclosure requirement will improve and increase financial information provided for an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

3. Scope

IFRS 12 is applicable for entities¹ with an interest in any of the following:

- subsidiaries;
- joint arrangements (i.e. joint operations or joint ventures);
- associates; or
- unconsolidated structure entities.

The term 'structured entity' is introduced in IFRS 12. It refers to an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. This would occur where, for instance, voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A common example of a structured entity is a securitisation vehicle.

4. Disclosure requirements

The summary of disclosures that follow is not a comprehensive list of the disclosure requirements of IFRS 12. It only details some of the main requirements of IFRS 12.

Significant judgements and assumptions

One of the new requirements of IFRS 12 is for an entity to disclose information about significant judgements and assumptions it has made (and changes in those judgements and assumptions) in determining:

- that it controls another entity;
- that it has joint control of an arrangement or significant influence over another entity; and
- the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement is structured through a separate vehicle.

¹It is expected that the Australian version of the standard will apply only to reporting entities

This new disclosure requirement reflects the degree of significant judgement that is now required to determine whether the entity is controlled or not. It will also result in entities having to make disclosure of the significant assumptions and judgements made in determining that it does not control or have significant influence over an investee.

Interests in Unconsolidated Structured Entities

The required disclosures for the interests in unconsolidated structured entities have been significantly expanded.

An entity is now required to disclose information that enables users of financial statements to:

- understand the nature and extent of its interests in unconsolidated structured entities; and
- evaluate the nature of, and changes in, the risks associated with its interest in unconsolidated structured entities.

Some examples of disclosures that would be required to meet this objective are:

- the terms of any arrangement that could require an entity to provide financial support;
- losses incurred and income received by the entity relating to its interests in unconsolidated structured entities;
- details regarding requirement of the entity to absorb losses of an unconsolidated structured entity; and
- details regarding financing and funding of unconsolidated structured entities.

Interests in subsidiaries

IFRS 12 also expands the disclosure requirements for interests in subsidiaries. Entities are required to disclose such information that enables users of its consolidated financial statements to:

- understand the composition of the group;
- understand the interest that non-controlling interests have in the group's activities and cash flows;
- evaluate the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
- evaluate the nature of, and changes in, the risks associated with its interest in consolidated structured entities;
- evaluate the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and
- evaluate the consequences of losing control of a subsidiary during the reporting period.

Specific disclosures would be required regarding non-controlling interests and significant restrictions on the ability of the parent to access net assets of the group.

Interests in joint arrangements and associates

Similar to the disclosure requirements of interests in unconsolidated structured entities, an entity with interests in joint arrangements and associates shall disclose information that enables users of its financial statements to evaluate:

- the nature, extent and financial effects of its interests in joint arrangements and associates; and
- the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

In addition, IFRS 12 specifies detailed requirements for the disclosure of summarised financial information for each joint venture and associate that is *material* to the reporting entity. Furthermore, for each joint venture and associate that is material to the reporting entity the parent entity is now required to provide detailed summarised financial information pertaining to the investee.

Effective date

The standard applies to annual reporting periods beginning on or after 1 January 2013, with early adoption permitted.

Where to from here?

Given the increased number and specificity of disclosures that will be required, entities with interests in other entities need to assess whether the information that will be required is readily available and start planning for these disclosures.

If you wish to discuss any of the issues raised in this publication contact your local RSM Bird Cameron advisor.

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