

IFRS 12 Disclosure of Interest in Other Entities

Overview

IFRS 12 requires all disclosures that were previously required by IAS 27 Consolidated Financial Statements, IAS 31 Interest in Joint Ventures and IAS 28 Investment in Associates. In addition, IFRS 12 requires a number of new disclosures and one of the most significant of these is the judgements made by an entity to determine whether it controls another entity.

These changes were introduced by the IASB partly in response to the financial crisis and are intended to improve transparency as to the judgements made in deciding whether or not to consolidate and the financial impact if management reached a different conclusion.

Objective

The objective of IFRS 12 as set out in the standard is to require an entity to disclose information that enables 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.

To meet this objective, an entity shall disclose:

- The significant judgements and assumptions it has made in determining:
 - The nature of its interest in another entity or arrangement;
 - The type of joint arrangement in which it has an interest;
 - That it meets the definition of an investment entity if applicable; and
- Information about its interests in:
 - Subsidiaries;
 - Joint arrangements and associates; and
 - Structured entities that are not controlled by the entity.

Aggregation

IFRS 12 emphasises that it's necessary for financial statement preparers to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

An entity shall present information separately for the following interests (i.e. aggregation is not allowed):

- Subsidiaries
- Joint ventures
- Joint operations
- Associates
- Unconsolidated structured entities.

An entity shall consider the following when determining whether to aggregate information:

- Quantitative and qualitative information about the risk and return characteristics of each entity considered for possible aggregation; and
- The significance of each entity to the reporting entity.

Examples of aggregation levels that may be appropriate are:

- Nature of activities.
- Industry classification.
- Geography.

Scope

IFRS 12 shall be applied by an entity that has an interest in ANY of the following:

- Subsidiaries
- Joint arrangements (joint operations or joint ventures)
- Associates
- Unconsolidated structured entities.

IFRS 12 does not apply to:

- Post-employment benefit plans or other long-term employee benefit plans to which IAS 19 Employee Benefits applies.
- An entity's separate financial statements to which IAS 27 Separate Financial Statements applies.
- An interest held by an entity that participates in, but does not have joint control or significant influence over a joint arrangement.
- An interest accounted for in accordance with IFRS 9 Financial Instruments, except for:
 - Interest in an associate or joint venture measured at fair value through profit or loss in accordance with IAS 28 Investments in Associates and Joint Ventures; or
 - Interest in an unconsolidated structured entity.

IFRS 12 - effective date

IFRS 12 shall be applied for annual periods beginning on or after 1 January 2013. An entity shall apply those amendments made to IFRS 12 with regards to Investment Entities for annual periods beginning on or after 1 January 2014. Early application is permitted.

Defined terms

Structured entity – An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Income from structured entity – Income from a structured entity includes, but is not limited to, recurring and non-recurring fees, interest, dividends, gains or losses on the re-measurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

Significant judgements and assumptions

Information about significant judgements and assumptions (including changes to those judgements and assumptions) made by an entity in determining the following should be disclosed:

- That it has control of another entity;
- That it has joint control of an arrangement or significant influence over another entity; and
- The type of joint arrangement (joint operation or joint venture) when it has been structured through a separate vehicle.

Examples of situations that require disclosure

The entity:

- Does not control another entity even though it holds more than half of the voting rights.
- Controls another entity even though it holds less than half of the voting rights.
- Is a principal or an agent.
- Does not have a significant influence even though it holds 20% or more of the voting rights.

- Has significant influence even though it holds less than 20% of the voting rights.

Illustrative disclosure example - significant judgements and assumptions

Himalayas Group Limited
Notes to the consolidated financial statements for the year ended 31 December 2013

6. Significant judgements and assumptions
6.1. Control over Alps Limited

It was concluded that Alps Limited is a subsidiary of Himalayas Limited even though Himalayas Limited only has 48% voting rights and ownership interests in Alps Limited. The remaining 52% is widely held by thousands of unrelated shareholders.

An assessment of control was performed by Himalayas Limited based on whether Himalayas Limited has the practical ability to direct the relevant activities unilaterally. In making their judgement, the relative size and dispersion of other vote holders, potential voting rights held by them or others, rights from other contractual arrangements were considered. After the assessment, Himalayas Limited concluded that they had a dominant voting interest to direct the relevant activities of Alps Limited and it would take a number of vote holders to outvote Himalayas Limited therefore Himalayas Limited has control over Alps Limited.

Disclosure information required under IFRS 12

Interest in subsidiaries

Objective

An entity is required to disclose information that enables users of its consolidated financial statements to **Understand**:

- The composition of the group; and
- The interest that non-controlling interests have in the group's activities and cash flows; and

Evaluate

- The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
- The nature of, and changes in, the risks associated with its interests in consolidated structured entities;
- The consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and
- The consequences of losing control of a subsidiary during the reporting period.

Disclosure

Non-controlling interests in group activities and cash flows

For each of its subsidiaries that have a non-controlling interest that is material and shows interest in the group's activities and cash flows, the reporting entity shall disclose the following

- The name of the subsidiary
- The principal place of business and country of incorporation of the subsidiary
- The proportion of ownership interests held by non-controlling interests
- The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held
- The profit or loss allocated to non-controlling interests of the subsidiary during the reporting period
- Accumulated non-controlling interests of the subsidiary at the end of the reporting period
- Summarised financial information about the subsidiary

Refer to illustrative disclosure example that follows

Nature of risks in consolidated structured entities

When a parent, subsidiary relationship exists, the following is required to be disclosed in the group financial statements

- Terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss
- If during the reporting period, financial or other support is provided to a consolidated structured entity, without having a contractual obligation to do so
 - The type and amount of support provided
 - The reasons for providing the support
- If financial or other support has been provided to a previously unconsolidated structured entity that resulted in control, an explanation of the relevant factors in reaching that decision
- Any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support

Illustrative disclosure example - Subsidiaries disclosure - Non-controlling interests in group activities and cash flows

Flora Group Limited Notes to the consolidated financial statements for the year ended 31 December 2013

20. Subsidiaries
20.1 Composition of the group

Name of subsidiary	Principal activity	Place of operation	Proportion of ownership interests	Wholly or non-wholly owned subsidiary
Oak Limited	Distribution of widgets	South Africa	70%	Non-wholly owned
Pine Limited	Manufacture of widgets	France	100%	Wholly owned
Teak Limited	Retail of widgets	England	60%	Non-wholly owned
Willow Limited	Manufacture of widgets	Australia	100%	Wholly owned

Details of non-wholly owned subsidiaries that have a material non-controlling interest are disclosed in note 20.2.

20.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

Name of subsidiary	Proportion of ownership interests held by non-controlling interests	Profit (loss) allocated to non-controlling interests	Accumulated non-controlling interest
Oak Limited	30%	1,234,000	10,234,000
Teak Limited	40%	600,000	6,543,000
Total			16,777,000

Nature and extent of significant restrictions

When a parent, subsidiary relationship exists, the following is required to be disclosed in the group financial statements

- Significant restrictions on its ability to access or use assets and settle the liabilities of the group
- The nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group
- The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply

Consequences of changes in a parent's ownership interest in a subsidiary

- That does not result in a loss of control – The entity shall present a schedule that shows the effects on the equity attributable to owners of the parent of any changes in its ownership interest in a subsidiary
- That does result in a loss of control
 - An entity shall disclose the gain or loss, if any, and
 - The portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost
 - The line item/s in profit or loss in which the gain or loss is recognized

Interest in unconsolidated subsidiaries (Investment entities)

An investment entity shall disclose the following for each unconsolidated subsidiary:

- The name of the subsidiary;
- The principal place of business and country of incorporation of the subsidiary; and
- The proportion of ownership interests held by the investment entity and if different, the proportion of voting rights held.

The above disclosures shall also be provided by an investment entity parent for investments that are controlled by its investment entity subsidiary.

An investment entity shall also disclose:

- The nature and extent of any significant restrictions on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends, or to repay loans or advances made by the investment entity; and
- Any current commitments or intentions to provide or assist in obtaining financial or other support to an unconsolidated subsidiary.

Interest in Joint arrangements and Associates

Objective

An entity is required to 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, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and
- The nature of, and changes in, the risks associated with its interests in joint ventures and associates.

Disclosure

Nature, extent and financial effects of an entity's interests in joint arrangements and associates

An entity shall disclose

For each joint arrangement and associate that is material to the reporting entity

- The name of the joint arrangement or associate
- The nature of the entity's relationship with the joint arrangement or associate
- The principal place of business and country of incorporation of the joint arrangement or associate
- The proportion of ownership interest or participating share held by the entity and if different, the proportion of voting rights held (if applicable)

For each joint venture and associate that is material to the reporting entity

- Whether the investment is measured using the equity method or fair value
- Summarised financial information about the joint venture or associate as specified
- If there is a quoted market price for the investment and the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate

Financial information about the entity's investments in joint ventures and associates that are not individually material

- In aggregate for all individually immaterial joint ventures
- In aggregate for all individually immaterial associates

Note: Joint ventures and Associates should be aggregated in two separate groups.

Illustrative disclosure example – Joint Venture summarized financial information disclosure

Extract of notes to the consolidated financial statements for the year ended 31 December 2013

22. Joint venture

22.1 Details of material joint venture (Jointy Limited)

Summarised financial information of the material joint venture has been set out below. The summarised financial information shown represents amounts from the joint venture's financial statements that were prepared in accordance with IFRS.

Current assets	1,234,000
Non-current assets	11,111,000
Current liabilities	(567,000)
Non-current liabilities	(5,432,000)

The following amounts have been included in the amounts above

Cash and cash equivalents	500,000
Current financial liabilities	(20,000)
Non-current financial liabilities	(4,321,000)

Revenue	5,432,000
Profit or loss from continuing operations	987,000
Post-tax profit or loss from discontinued operations	20,000
Other comprehensive income	35,000
Total comprehensive income	1,042,000

The following amounts have been included in the amounts above

Depreciation and amortisation	350,000
Interest income	5,000
Interest expense	35,000
Income tax expense	22,000

NOTE – The summarised financial information is not the entity's share but the actual amount included in the separate IFRS financial statements of the joint venture.

Nature, extent and financial effects of an entity's interests in joint arrangements and associates

An entity shall also disclose

- The nature and extent of any significant restrictions on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity
- Where there is a difference in the reporting date or period of a joint venture or associate's financial statements used in applying the equity method
 - The date of the end of the reporting period of that joint venture or associate and
 - The reason for using the different date or period
- The unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method



Illustrative disclosure example

Fruit Group Limited
Extract from the notes to the consolidated financial statements for the year ended 31 December 2013

21. Associates
20.1 Details of material associates

Pear Limited has a year end of 30 November. This reporting date was established when the company was incorporated. The reporting date cannot change as it is not permitted by the government of the country in which Pear Limited operates.

Pear Limited's financial statements for the year ended 30 November 2013 have been used and appropriate adjustments have been made for the effects of any significant transactions that occurred between Pear Limited's year end and Fruit Group Limited's year end. This was necessary so as to apply the equity method of accounting.

Based on the quoted market price available on the stock exchange as at 31 December 2013 of the country in which Pear Limited operates, the fair value of Fruit Group Limited's interest in Pear Limited was 2.5 million.

Risks associated with an entity's interest in joint ventures and associates

An entity shall disclose

- Commitments that it has relating to its joint ventures separately from the amount of other commitments
- In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, unless the probability of loss is remote, contingent liabilities incurred relating to its interest in joint venture or associates, separately from the amount of other contingent liabilities. This includes an entity's share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates

Interest in unconsolidated structures entities

Objective

An entity is required to disclose information that enables users of its 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 interests in unconsolidated structured entities.

Disclosure

The information below should be disclosed in a tabular format unless another format is more appropriate.

Nature of interest	<p>An entity is required to disclose qualitative and quantitative information about its interests in unconsolidated structured entities. This includes but is not limited to the nature, purpose, size, activities and how the structured entity is financed.</p> <p>If an entity has sponsored an unconsolidated structured entity for which it does not provide information required (for example, because it does not have an interest in the entity at the reporting date), it must disclose</p> <ul style="list-style-type: none"> • how it has determined which structured entities it has sponsored • income from those structured entities during the reporting period, including a description of the types of income presented and • the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period
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Nature of risks	<p>An entity is required to disclose</p> <ul style="list-style-type: none">• The carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities• The line items in the statement of financial position in which those assets and liabilities are recognized• The entity's maximum exposure to loss from its interests in unconsolidated structured entities if determinable and how that exposure is determined <p>A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities</p>
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In conclusion

The disclosure requirements of IFRS 12, enables users of an entity's financial statements to understand and evaluate the information contained therein. Refer to IFRS 10 and IFRS 12 e-Learning for more.