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CONSOLIDATED FINANCIAL STATEMENTS AND RELATED DISCLOSURES

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Introduction – IFRS 10 Consolidated Financial Statements (CFS)

Establishes principles for the presentation and preparation of CFS

Supersedes IAS 27 and SIC 12

Reasons for a new Standard

- Divergence in practice in applying IAS 27
- Perceived conflict of emphasis of concept of control, between IAS 27 and SIC 12
- To address the issue of off balance sheet vehicles

Broad areas covered

- Objective & Scope, Principle of Control, Accounting Requirements & Definitions

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Introduction – IFRS 12 Disclosure of Interests In other entities

Applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity

Supersedes IAS 27, IAS 28 and IAS 31

Broad areas covered

- Objective & Scope
- Significant Judgements and Assumptions
- Interests in Subsidiaries
- Interests in unconsolidated Structured Entities

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Objective – IFRS 10

To establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities

IFRS 10 achieves this objective by:

- Requiring a *parent* to present consolidated financial statements
- Defining the principle of control and establishing *control* as the basis for consolidation
- Addressing application of principle of control
- Setting out the accounting requirements for the preparation of CFS

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Objective – IFRS 12

To require an entity to disclose information that enables users of its FS to evaluate:

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

IFRS 12 achieves this objective by requiring an entity to disclose:

- the significant judgements and assumptions made in determining the nature of its interest
- Information about its interests in subsidiaries, joint arrangements and associates and structured entities that are not controlled by the entity

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Scope – IFRS 10

General Requirement

- An entity that is a parent shall present CFS

Limited Exemptions (all must be satisfied)

- When the parent is a wholly owned subsidiary of another entity or partially owned where other investors do not object to non presentation of CFS
- Its debt or equity instruments are not publicly traded
- It is not in the process of listing its debt or equity
- Its ultimate or any intermediate parent produces IFRS compliant CFS that are available for public use

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Scope – IFRS 12

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

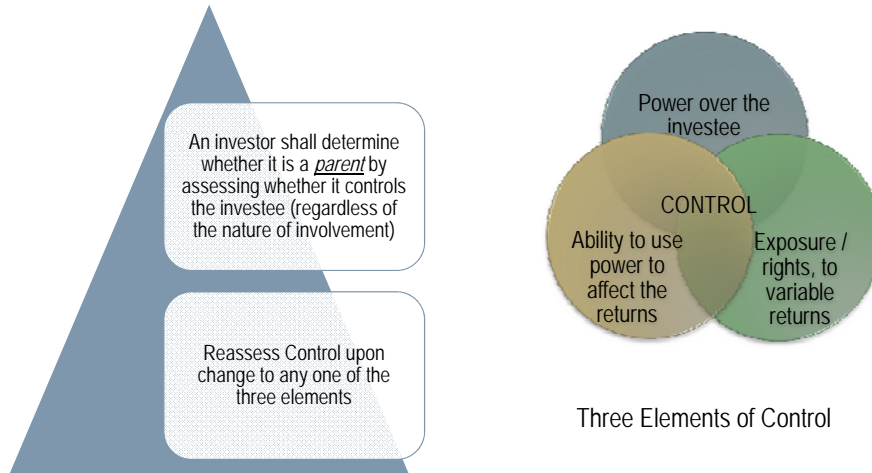
- Subsidiaries, Joint arrangements, Associates or Unconsolidated structured entities

IFRS 12 does not apply to:

- Post employment or long term employee benefit plans (LKAS 19)
- An entity's separate financial statements (LKAS 27)
- An interest in a joint arrangement without joint control or significant influence
- An interest in another entity that is accounted for in accordance with SLFRS 9 other than when:
 - It is an interest in an associate or a JV measured at FV through P/L (LKAS 28)
 - It is an interest in an unconsolidated structured entity

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Principle and Definition of Control



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Power

Existing rights that give the current ability to direct the relevant activities

Sometimes straight forward: when power is obtained directly and solely from the voting rights granted by equity instruments (*IAS 27 – power over more than half of the voting rights*)

In other cases more complex and require more than one factor to be considered: when power results from one or more contractual arrangements (*IAS 27 – Power to govern financial and operating policies by virtue of statute or agreement*)

An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised (*IAS 27 – Potential voting rights*)

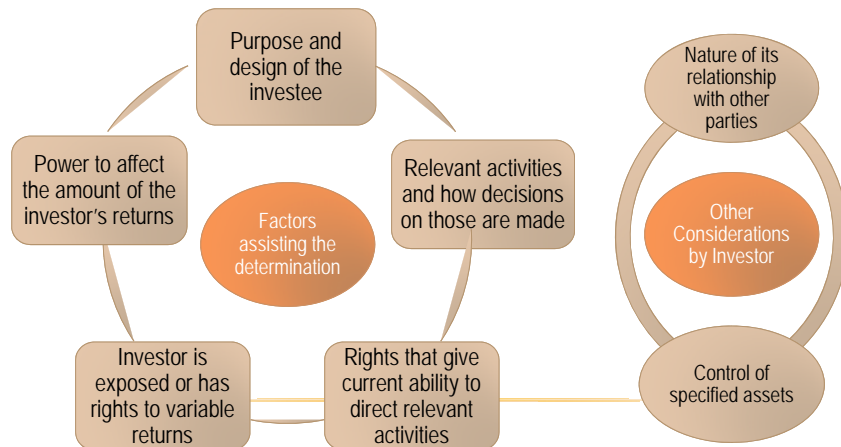
If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee (*New*)

An investor can have power over an investee even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, ex- significant influence (*New as a specific provision but was possible under IAS 27*)

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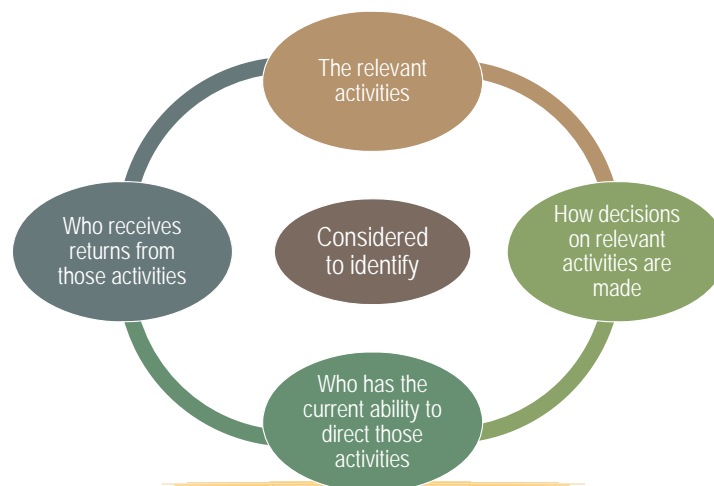
Assessment of Control

To determine Control, an investor shall assess whether it has all three elements of Control



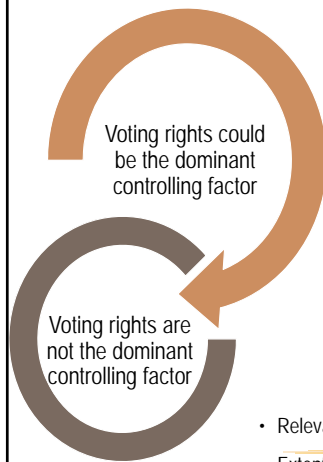
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Purpose and Design of the Investee



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Purpose and Design of the Investee



- who is able to exercise voting rights sufficient to determine the investee's operating and financing policies
- Power with a majority of the voting rights
 - Relevant activities are directed by a vote of the holder
 - Majority of the Board that directs the relevant activities are appointed by the vote of the holder
- Power without a majority of the voting rights
 - Contractual arrangement between the investor and the other vote holders
 - Rights arising from other contractual arrangements
 - Investors voting rights - size of holding relative to the size and dispersion of the other vote holders
- Potential voting rights
- A combination of 1-4 above
- Relevant activities may be directed by contractual arrangements
- Extent to which the investor is exposed to the risks of investee



Relevant activities and decisions

- Sale and purchase of goods & Services
- Managing financial assets
- Selection, Acquisition or Disposal of assets
- R&D of new products and processes
- Determining funding structure



Returns

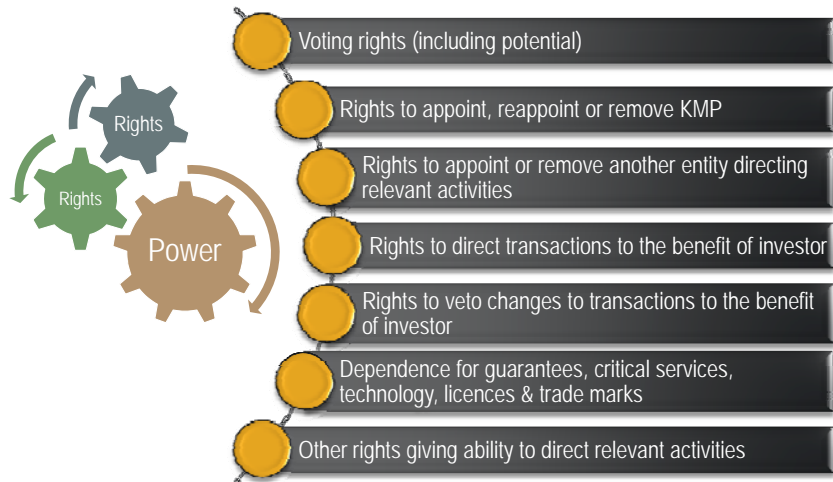
Investor(s)

Decisions about relevant activities

- Opex and Capex decisions
- Budgets
- Appointing / terminating and remunerating KMP
- Appointing / terminating service providers



Rights giving Power



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Voting Rights

Power with majority of voting rights

- Relevant activities are directed by a vote of the majority holder
- A majority of the governing body that directs the relevant activities are appointed by a vote of the majority holder

Majority voting rights but no power

- When the voting rights are not Substantive

Power without majority voting rights

- Contractual arrangement with other vote holders
- Rights from other contractual arrangements
- Investor's voting rights
- Potential voting rights
- Combination

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Substantive Rights

Rights are Substantive

- Holder has practical ability to exercise the right
- Exercisable when decisions about the direction of the relevant activities need to be made
- Rights are not merely protective rights

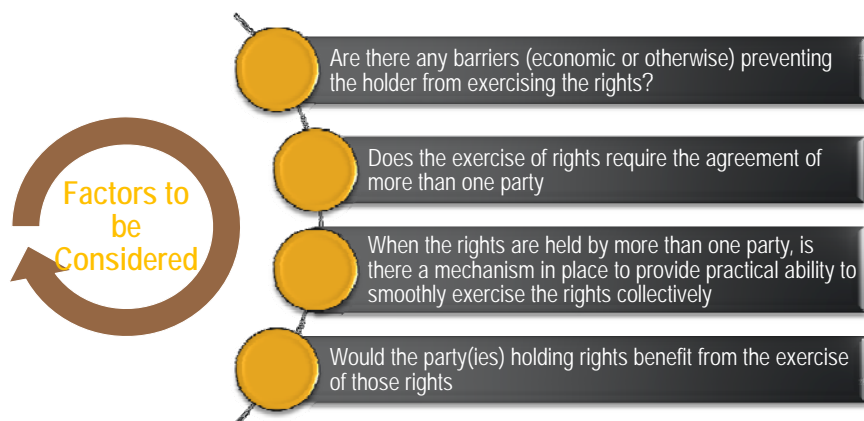
Only substantive rights are considered in assessing power

Determining whether the rights are substantive requires

- Judgement
- Consideration of all facts and circumstances

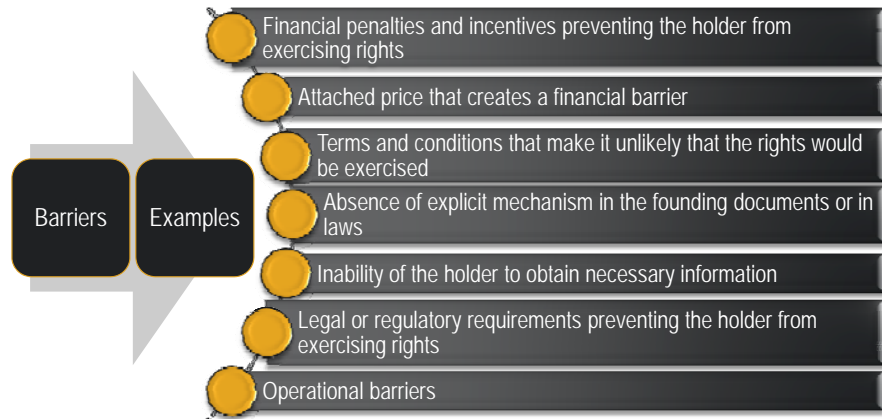
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Are Rights Substantive?



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Are Rights Substantive?



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Protective Rights

Definition

- Rights designed to protect the interest of the holder without giving power over the entity
- Holder cannot have power or prevent another party from having power

Examples

- A lender's right to restrict a borrower from undertaking activities changing the credit risk to the detriment of the lender
- Right of a lender to freeze the assets of the borrower in the event of default
- Right of non controlling interest to approve issue of debt or equity
- A Franchiser's decision making rights of a franchisee's activities pertaining to protection of the franchise brand



Exposure or rights to variable returns

Variable returns are those that are not fixed and have the potential to vary as a result of the performance of an investee

- Can be positive, negative or both positive and negative
- Variability depends on the substance (over legal form)
- Variability depends on the ability to generate sufficient income to pay the fee

Examples of returns

- Dividends and other distributions
- Remuneration for servicing an investee's assets or liabilities
- Returns that are not available to other stake holders



Power and Returns

Delegated
Power

An investor with decision making power shall determine whether it is a principal or an agent

An agent is primarily engaged to act on behalf and for the benefit of another

Principal's power may be held by an exercisable by an agent, but on behalf of the principal.

Only principals may have control and not agent.

Agent or Principal? Factors considered

The scope of decision making authority – evaluated by considering

- Activities that are permitted
- Discretion when making decisions
- Level of involvement in design of the investee
- Risks designed to be passed

Rights held by other parties

- Substantive removal rights held by a single party or many parties
- Substantive rights held by other parties restricting discretion
- Rights exercisable by investee's board of directors

Remuneration entitlement

- Magnitude of and variability associated with remuneration to the returns of the investee

Exposure to variability of returns from other interests



Relationship with Other Parties

The investor shall consider

- whether they are de facto agents
- their decision making rights
- indirect exposure or rights to variable returns through de facto agent

Examples of such other parties

- Investor's related parties
- A party that received its interest in the investee as a contribution or loan from investor
- A party that has agreed not to sell its interest in the investee without prior approval from investor
- A party that cannot finance its operations without subordinated financial support from the investor
- An investee where majority of KMP are from investor
- A party that has close business relationships



Control of Specified Assets

An investor shall consider

- whether it treats a portion of an investee as a deemed separate entity and,
- if so whether it controls the deemed separate entity

Condition for a deemed separate entity

- specified assets are the only source of payment for specified liabilities
- parties other than those with specified liabilities have no rights to the specified assets

If the investor controls the deemed separate entity

- investor shall consolidate the same
- Other parties exclude that portion in their consolidation of the investee



Accounting Requirements

When preparing Consolidated Financial Statements

- Uniform accounting policies shall be used
- Consolidation begins from the date of obtaining control
- Financial statements of parent and subsidiaries shall have the same reporting date
- Profit/loss and changes in equity are allocated to parent and non controlling interest based on the existing ownership interest

Non-controlling interest

- Presented in the consolidated SFP within equity but separately from the equity of the parent

Changes in ownership interest

- Changes without losing control, are equity transactions
- If a parent loses control:
 - Assets and liabilities of the subsidiary are derecognized in the consolidated SFP
 - Any retained investment is recognised at FV (IFRS 9)
 - The gain or loss associated with loss of control is recognised

Disclosures

Disclosure of Significant judgements and assumptions



Information about SJA in determining that it has (or has no) control of another entity

Specific disclosure of SJA when the investor

- doesn't control another entity in spite of holding >50% voting rights
- controls another entity though it holds <50% of the voting rights
- is an agent or a principal

Disclosure of Interests in Subsidiaries

Information that enables users of CFS to understand

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

Information that enables users of CFS to evaluate

- Nature and extent of significant restrictions on ability to access or use assets, and settle liabilities of the group
- Risks associated with interests in consolidated structures entities
- Consequences of changes in its ownership interest that do not result in a loss of control
- Consequences of losing control of a subsidiary during the reporting period

When the reporting date is different from the parent

- Reporting period and the date of the end of that period
- Reason for using a different date or period

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Disclosure of Information on Non-Controlling interest

- Name of the subsidiary and Principal place of business / country of incorporation
- Proportion of non-controlling ownership interest
- Proportion of voting rights held by non-controlling interests
- Profit or loss allocated to non-controlling interests during the reporting period
- Accumulated non-controlling interests at the end of the reporting period
- Dividends paid to non-controlling interests
- Summarised financial information about the subsidiary
CA, NCA, CL, NCL, Revenue, Profit or Loss, TCI (before inter-company eliminations)

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Disclosure of Significant Restrictions

Statutory, Contractual and regulatory restrictions on ability to use the assets and settle the liabilities of the group

- Restrictions on parent / subsidiaries to transfer cash or other assets
- Guarantees or other requirements that may restrict
 - Dividends and other capital distributions
 - Loans and advances

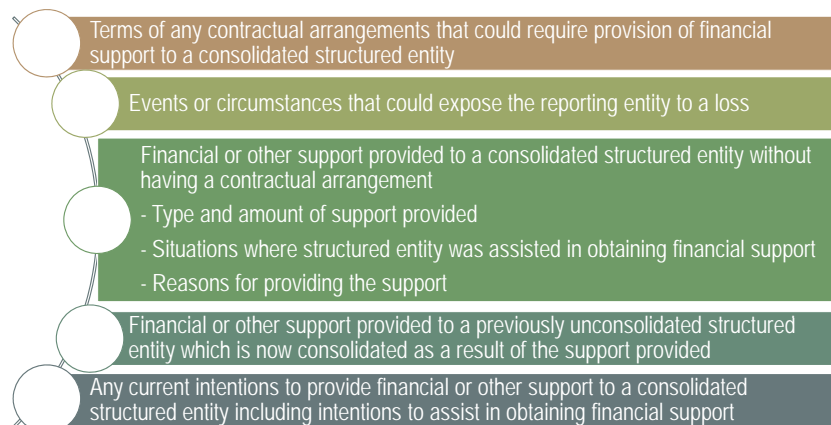
Restrictions arising from protective rights of non-controlling interests

- Settlement of external liabilities before settling parent
- Requirement of approval of non controlling interest

The carrying amounts in the CFS of assets and liabilities to which the above restrictions apply

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Disclosure of Risks - Consolidated Structured Entities



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Disclosure of changes in ownership interest

There is no loss of control

- Present a schedule showing the effects on the equity attributable to owners of the parent

Loss of control

- Gain or loss
- Portion of the gain or loss attributable to measuring any retained investment at FV

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Disclosure of Interests in unconsolidated structured entities (USE)

Information that enables users of financial statements to

- understand the nature and extent of its interests in USE
- evaluate risks associated with interests in unconsolidated structures entities

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Information that enables users of financial statements to understand the nature and extent of its interests in USE

Qualitative and quantitative information – nature, purpose, size, activities and how it is financed

Sponsored USE

- How it has decided which structured entities it has sponsored
- Income from those structured entities
- Carrying amount of all assets transferred

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Information that enables users of financial statements to evaluate risks associated with interests in unconsolidated structures entities

Carrying amounts of assets and liabilities relating to interests in USE

The line items in the SFP in which those assets and liabilities are recognised

Maximum exposure to loss including how it is determined

A comparison of the carrying amounts of the assets and liabilities of the entity relating to USE and entity's maximum exposure to loss from those entities






Financial or other support provided to a USE without having a contractual arrangement:

- Type and amount of support provided
- Situations where USE was assisted in obtaining financial support
- Reasons for providing the support

Any current intentions to provide financial or other support to a consolidated structured entity including intentions to assist in obtaining financial support







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Definitions – IFRS 10

-  **Consolidated financial statements** - The financial statements of a **group** in which the assets, liabilities, equity, income, expenses and cash flows of the **parent** and its **subsidiaries** are presented as those of a single economic entity.
-  **Control of an investee** - 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.
-  **Decision maker** - An entity with decision-making rights that is either a principal or an agent for other parties.
-  **Group** - A parent and its subsidiaries
-  **Non-controlling interest** - Equity in a **subsidiary** not attributable, directly or indirectly, to a parent.

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Definitions – IFRS 10

-  **Parent** - An entity that **controls** one or more entities.
-  **Power** - Existing rights that give the current ability to direct the **relevant activities**.
-  **Protective rights** - Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.
-  **Relevant activities** - For the purpose of this IFRS, relevant activities are activities of the investee that significantly affect the investee's returns.
-  **Removal rights** - Rights to deprive the decision maker of its decision-making authority.
-  **Subsidiary** - An entity that is controlled by another entity.

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Definitions – IFRS 12

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 a structured entity

- For the purpose of this IFRS, income from a **structured entity** includes, but is not limited to, recurring and non-recurring fees, interest, dividends, gains or losses on the measurement or de-recognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity

Interest in another entity

- For the purpose of this IFRS, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship

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THANK YOU