

News release

Meeta Bhar
Ernst & Young
+603 7495 8113
Meeta.Bhar@my.ey.com

New standards may change deal structures and increase transparency for investors

Kuala Lumpur, 13 May 2011 –Two new standards released yesterday by the International Accounting Standards Board (IASB), IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interest in Other Entities*, will fundamentally change how companies identify controlled entities and will increase understanding of control relationships for users of financial statements. In addition, the IASB released IFRS 11 *Joint Arrangements*, which will change how many companies account for such arrangements. Going forward, the manner in which deal structures are put together could also be severely impacted, in light of these new standards.

Ernst & Young's Global IFRS Leader, Ruth Picker says, "IFRS 10 includes a new definition of control and consequently, may change which companies are included in consolidated financial statements. Management will now have to exercise significant judgment to determine whether another entity is controlled, and may have to gather data about other shareholders and past voting patterns to make those judgments."

Ruth Picker adds, "For private equity funds, asset managers, even certain insurance companies, IFRS 10 will help them to assess whether they are 'principals' or 'agents' and therefore whether they have to consolidate. Other companies, particularly where there are options to acquire additional voting interests, or less than a majority of voting rights, will also need to consider the new rules and assess whether they have control."

Chan Hooi Lam, Financial Accounting Advisory Services (FAAS) Leader and Assurance Partner, Ernst & Young Malaysia says, "IFRS 10 replaces portions of IAS 27 *Consolidated and Separate Financial Statements* (the Malaysia equivalent is FRS 127) and also SIC-12 *Consolidation—Special Purpose Entities* (the Malaysia equivalent is IC Interpretation 112) with a single standard on consolidation. 'Control' is redefined in IFRS 10 to include potentially other situations not previously covered in FRS 127. It is possible that an investor could find itself in

control of an investee purely due to the circumstances that arise (such as 'de facto control'), rather than as a result of deliberate action by the investor.”

Chan Hooi Lam continues, “All facts and circumstances would need to be considered before reaching a conclusion. There are many aspects of this concept under IFRS 10 that will require significant judgment. For example, there aren't any 'bright lines' with respect to how large an investor's interest must be relative to other voters, or how widely dispersed they must be. While it may be easier to use hindsight to determine if an investor has control, it will be much more difficult to apply this concept prospectively. Thus, divergence in practice is likely to emerge.”

The objective of IFRS 12 is for an entity to disclose information that helps users of its financial statements evaluate both the nature of its involvement with other entities and the financial effects of that involvement on its financial position.

Ruth Picker comments, “The disclosure standard will increase the amount of information in financial statements about one company's relationship with another. Even if a company makes a judgment that it does not control another entity, management has to disclose the information that it considered in reaching that decision, so that judgment becomes more transparent. The new disclosures will help users of the financial statements to make their own assessment of the financial impact if management had made a different decision by providing more information about unconsolidated entities.”

Chan Hooi Lam adds, “This new IFRS combines the disclosure requirements for subsidiaries, joint ventures, associates and structured entities within a comprehensive disclosure standard that addresses a reporting entity's involvement with other entities. The standard also contains disclosure requirements for special purpose vehicles (SPVs) or special purpose entities (SPEs) that are established for specified reasons, and which are not consolidated into the reporting entity's group financial statements.”

IFRS 11 deals with joint arrangements where there is joint control. Whereas previously joint ventures were accounted for based on their legal form, the new principles consider the rights and obligations of the arrangement.

Ruth Picker adds, “Companies in the mining, extractive, oil, and gas industries, and also in real estate and construction, where joint arrangements are common, may feel the biggest impact from adopting IFRS 11. Entities that have investments in jointly controlled entities that are classified as joint ventures under IFRS 11 will now be required to apply equity accounting, which will fundamentally change both their balance sheets and income statements. However, some former jointly-controlled entities might now be classified as joint operations, in which case the joint operator will recognize its share of assets, liabilities, revenues, and expenses. This often looks similar to proportionate consolidation, but is in fact different.”

Chan Hooi Lam says, “IFRS 11 replaces IAS 31 *Interests in Joint Ventures* (the Malaysia equivalent is FRS 131). The new standard eliminates the current options available in FRS 131 (equity accounting or proportionate consolidation) for interests in jointly controlled entities and promotes consistency in accounting treatment.”

Ruth Picker concludes, “All companies operating under IFRS should assess how they will be affected and begin planning for adoption of the new standards as soon as possible. We could see management change how they structure deals and joint arrangements going forward, in light of these changes.”

In Malaysia, FRS are principally IFRS, and in accordance with the plan announced by the Malaysian Accounting Standards Boards (MASB) in 2008, FRS would be in full-convergence with IFRS by 1 January 2012.

-ends-

About Ernst & Young

About Ernst & Young Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com

This news release has been issued by Ernst & Young Malaysia.