

IFRS Developments

IASB issues three new standards: *Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities*

What you need to know

- ▶ IFRS 10 *Consolidated Financial Statements* includes a new definition of control, which is used to determine which entities are consolidated – see page 2
- ▶ IFRS 11 *Joint Arrangements* describes the accounting for joint arrangements with joint control; proportionate consolidation is not permitted for joint ventures (as newly defined) – see page 5
- ▶ IFRS 12 *Disclosure of Interests in Other Entities* includes all of the disclosure requirements for subsidiaries, joint arrangements, associates, and structured entities – see page 7
- ▶ These new standards are effective for annual periods beginning on or after 1 January 2013 – see page 7
- ▶ Differences will remain between IFRS and US GAAP – see page 7
- ▶ Significantly more judgement is required to apply the new standards

The International Accounting Standards Board (IASB) recently issued three new standards: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*. These new standards are effective for annual periods beginning on or after 1 January 2013.

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for **consolidated** financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in **separate** financial statements.

IFRS 10 establishes a single control model that applies to all entities (including 'special purpose entities,' or 'structured entities' as they are now referred to in the new standards, or 'variable interest entities' as they are referred to in US GAAP). The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Therefore, IFRS 10 may change which entities are within a group. These changes were made by the IASB, in part, in response to the financial crisis, when there was heavy criticism of accounting rules that permitted certain entities to remain off-balance sheet. In June 2009, the US Financial Accounting Standards Board (US FASB) responded to this criticism by making changes to US GAAP to improve financial reporting by entities involved with variable interest entities, and is now proposing further changes.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 uses some of the terms that were used IAS 31, but with different meanings. Thus, there may be some confusion as to whether IFRS 11 is a significant change from IAS 31. For example, whereas IAS 31 identified three forms of joint ventures (i.e., jointly controlled operations, jointly controlled assets and jointly controlled entities), IFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control.

Because IFRS 11 uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations (which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs), an entity recognises its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. In addition, when specifying the appropriate accounting, whereas IAS 31 focused on the legal form of the entity, IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement.

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28 *Investment in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if management concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements. The new disclosures will also assist users of the financial statements to make their own assessment of the financial impact were management to reach a different conclusion regarding consolidation – by providing more information about unconsolidated entities.

Following is a summary of the key principles of IFRS 10, IFRS 11, and IFRS 12.

IFRS 10 – Consolidated Financial Statements

Consistent with the requirements that were previously included in IAS 27, a group presents financial statements that consolidate the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries, as those of a single economic entity. A group will continue to consist of a parent and its subsidiaries (i.e., entities that the parent controls), however, IFRS 10 uses different terminology from IAS 27 in describing its control model. For example, the new standard uses the term 'investor' to refer to a reporting entity that potentially controls one or more other entities, and 'investee' to refer to an entity that is, or may potentially be, the subsidiary of a reporting entity.

IFRS 10 does not change consolidation procedures i.e., **how** to consolidate an entity. Rather, IFRS 10 changes **whether** an entity is consolidated, by revising the definition of control.

New definition of control

An investor controls an investee when it 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. This principle applies to all investees, including structured entities. Consequently, for an investor to control an investee, the investor must possess all of the following elements:

- ▶ Power over the investee, which is described as having existing rights that give the current ability to direct the activities of the investee that significantly affect the investee's returns (such activities are referred to as the 'relevant activities')
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ Ability to use its power over the investee to affect the amount of the investor's returns

Assessing whether you have control

In many cases, when decision-making is controlled by voting rights, and those voting rights entitle an entity to returns (e.g., voting shares), it is clear that whoever holds a majority of those voting rights controls the investee. However, in other cases (such as for structured entities, or when these are potential voting rights, or less than a majority of voting rights), it may not be so clear. In those instances, further analysis is needed and each of the factors above needs to be considered in more detail to determine which investor controls an investee (if any). Diagram 1 illustrates this assessment.

Identifying the relevant activities

Where it is not clear that control is through voting rights, a crucial step in assessing control is to identify the relevant activities. Examples of relevant activities are included in Diagram 1.

Understanding the purpose and design of an investee is also necessary when identifying who has control, and helps to determine:

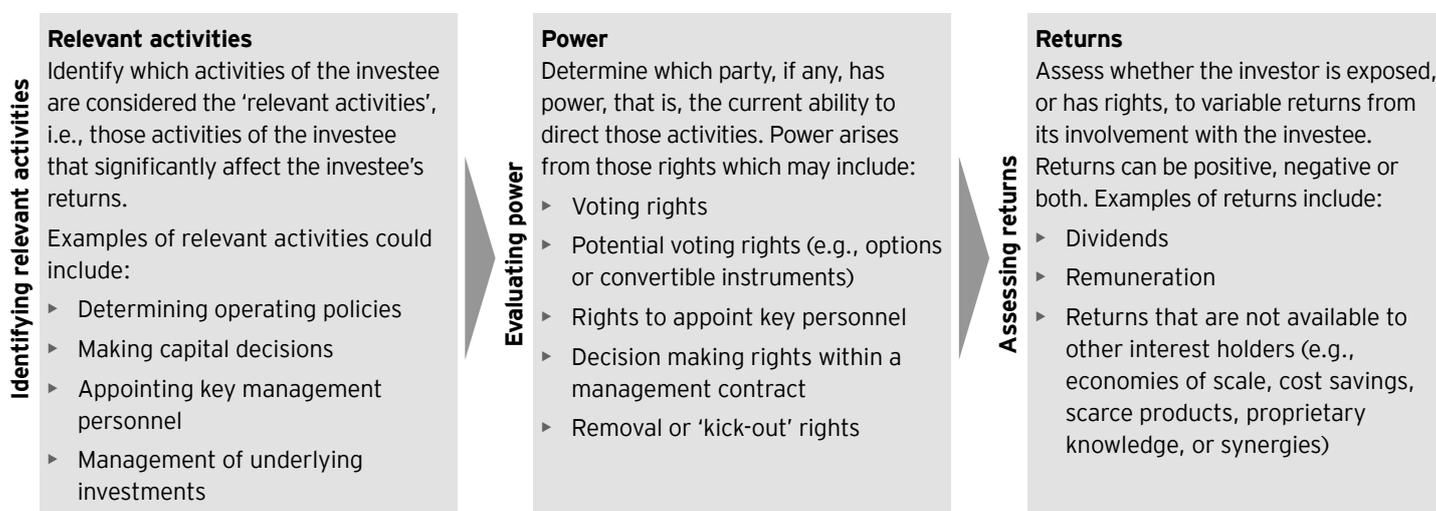
- ▶ What risks was the investee designed to be exposed to, and what risks was it designed to pass on to the parties involved with it?
- ▶ What are the relevant activities?
- ▶ How are decisions about the relevant activities made?
- ▶ Who has the ability to direct the relevant activities?
- ▶ Which parties receive returns from the investee?

How we see it

In some cases, identifying the 'relevant activities' may be complex, and there may be different views. For example, with respect to a life sciences company, is the relevant activity the development of a new drug, or the subsequent marketing and distribution of that drug? For an investment fund, is the relevant activity the appointment of the investment advisor, or the daily investment management itself?

An investor controls an investee when it 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

Diagram 1 – Assessing control



Understand purpose and design

Evaluating power

IFRS 10 also includes application guidance on evaluating whether various types of rights (such as the rights described in Diagram 1) give an investor power. But much of this application guidance differs significantly from IAS 27. As a result, when adopting IFRS 10, it is possible that assessments of whether an investor controls an investee will change. Where management concludes that an entity does not have control, the requirements of IFRS 11 and IAS 28 must still be considered to determine whether an investor has joint control or significant influence over an investee.

Assessing returns

To control an investee, an investor must be exposed, or have rights, to variable returns from its involvement with the investee. Returns can be positive, negative or both. Examples of returns include:

- ▶ Dividends, other distributions of economic benefits (e.g., interest on debt securities) and changes in the value of the investment in the investee
- ▶ Remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to liquidity that an investor has from its involvement with an investee

- ▶ Returns that are not available to other interest holders (e.g., economies of scale, cost savings, scarce products, proprietary knowledge, or synergies)

Link between power and returns

Returns are often an indicator of control. This is because the greater an investor's exposure to the variability of returns from its involvement with an investee, the greater the incentive for the investor to obtain rights that give the investor power. However, the magnitude of the returns is not determinative of whether the investor holds power.

The link between power over an investee and returns is essential to having control. An investor that has power over an investee, but cannot benefit from that power, does not control that investee. An investor that receives a return from an investee, but cannot use its power to direct the activities that significantly affect the returns of that investee, does not control that investee.

Differences from current IFRS

IFRS 10 describes how to evaluate whether rights give an investor power. Below, we summarise the key areas where IFRS 10 differs most significantly from current IFRS with respect to the assessment of power.

Potential voting rights

When assessing who has control over an investee, an investor considers the voting rights and potential voting rights that it holds, as well as the rights and potential voting rights held by others. Common examples of potential voting rights include rights that result from the exercise of an option or conversion feature of a convertible instrument.

Potential voting rights are only considered if they are substantive (i.e., the holder has the practical ability to exercise the right). Whether potential rights are substantive depends on facts and circumstances, for example, whether the option to acquire additional voting rights is 'in the money' or 'out of the money', or whether an investor would benefit for other reasons (e.g., by realising synergies between the investor and investee). Barriers to exercising the option, such as financial penalties, narrow exercise periods, or terms that mean that the option is not exercisable as of a given date, would also be considered. IFRS 11 states that, usually, to be substantive, the potential voting rights need to be currently exercisable. In some cases, this will require an assessment by management, because the term 'current' is used more broadly than in IAS 27.

Less than a majority of voting rights (de facto control)

An investor might have control over an investee even when it has less than a majority of the voting rights of that investee (sometimes referred to as *de facto* control). In assessing whether *de facto* control exists, the following should be considered:

- ▶ Size of the investor's holding of voting rights relative to the size and dispersion of other vote holders - specifically, it is more likely that the investor has power over the investee:
 - ▶ The more voting rights an investor holds
 - ▶ The more voting rights an investor holds relative to other vote holders
 - ▶ The more parties that would need to act together to outvote the investor (i.e., the more widely dispersed the other parties are)
- ▶ Voting patterns at the investee's previous shareholders' meetings (e.g., the percentage of voters who turned up at past meetings, and whether that pattern is expected to be indicative of current voting behaviour).

In some cases, an investor might not have *de facto* control on its own. However, in assessing whether an investor has power, all facts and circumstances must be considered, including whether the investor has power through any (or a combination) of the following:

- ▶ A contractual arrangement (i.e., the investor can direct others how to vote)
- ▶ Rights arising from other contractual arrangements (e.g., the ability to direct some of the manufacturing processes of an investee or to direct other operating or financing activities of an investee that significantly affect the investee's returns)
- ▶ Potential voting rights (e.g., option or conversion feature of a convertible instrument), as described above

How we see it

Applying the concept of *de facto* control is likely to be a significant change in practice for many entities with substantive voting interests in investees. Because there are no bright lines, applying this concept will require significant judgement of the facts and circumstances. For example, how large does an investor's interest need to be relative to others? How widely dispersed do the other investors need to be? An investor could find itself in control of an investee simply because of circumstances that exist at a point in time, rather than because of deliberate action. In addition, while it may be easy to use hindsight to determine whether an investee has control, it might be difficult to apply this principle on a real-time basis. External assistance might be needed to gather and analyse relevant information, so that management can reach a timely conclusion.

Principal-agency relationships

In some cases, where decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether a party is principal or agent to determine whether it has control.

An agent is a party engaged to act on behalf of another party or parties (the principal(s)), but it does not have control over the investee. A principal may delegate decision-making authority on some specific issues or on all relevant activities to the agent, but, ultimately, the principal retains that power. The terms and conditions of the arrangement that are considered to assess whether an entity is an agent or a principal include the following:

- ▶ Scope of decision-making authority
- ▶ Rights held by others (e.g., existence of removal rights or 'kick-out' rights)
- ▶ Remuneration of the decision-maker
- ▶ Exposure to variability of returns through other interests

Power over a portion of an investee (silos)

IFRS 10 introduces a significant change from IAS 27 relating to the unit of account for which control is assessed. Similar to IAS 27, under IFRS 10, an investor is generally assessing whether it has control over an investee in its entirety. However, IFRS 10 goes beyond this point and states that, when assessing control, an investor also considers whether it has power over a portion of an investee, that is, whether the investor has power over specified assets of an investee, and whether this portion of an investee is considered to be a separate 'deemed entity' (often referred to as a 'silo'). In substance, if all of the assets, liabilities and equity of the deemed entity are ring-fenced from the rest of the investee, control over such portion is assessed separately. Thus, under IFRS 10, control could exist at a level below a legal entity, resulting in consolidation or deconsolidation of those specified assets, but not the entire legal entity.

Other parties acting on behalf of an investor ('de facto agents')

IFRS 10 also requires management to consider whether there are other parties who are acting on behalf of an investor by virtue of their relationship with the investor, that is, whether the other parties are acting as *de facto* agents of the investor. The rights held by *de facto* agents, and the returns received by such parties, are considered when evaluating whether an investor has control. IFRS 10 provides examples of parties that might be considered *de facto* agents of an investor, such as those who are related parties, as defined in IAS 24 *Related Party Disclosures*, those who maintain a close business relationship with the investor, or those who cannot finance their operations without subordinated support from the investor.

IFRS 11 – Joint Arrangements

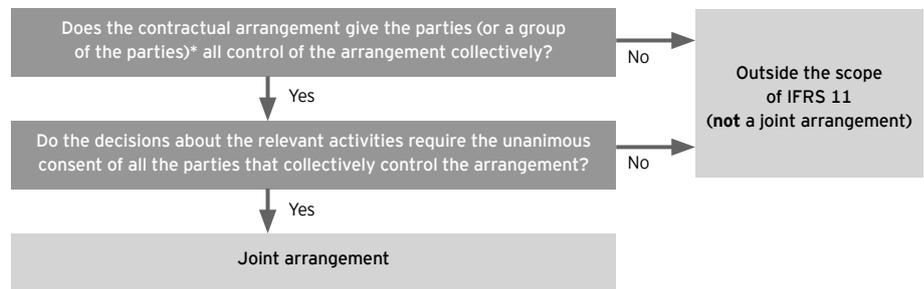
IFRS 11 describes the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control, as illustrated in Diagram 2. Although the change in the title of the standard (i.e., from 'joint ventures' to 'joint arrangements') might indicate otherwise, IFRS 11 does not broaden the scope of the standard as compared with IAS 31.

New definition of joint control

Joint control is defined as, "the **contractually agreed** sharing of control of an arrangement which exists only when the decisions about the **relevant activities** require the **unanimous consent** of the parties sharing control." IFRS 11 describes the key aspects of joint control as follows:

- ▶ *Contractually agreed* – contractual arrangements are usually, but not always, written, and provide the terms of the arrangement
- ▶ *Control and relevant activities* – IFRS 10 describes how to assess whether a party has control, and how to identify the relevant activities, as described on page 2
- ▶ *Unanimous consent* – exists when the parties to an arrangement have collective control over the arrangement and no single party has control

Diagram 2 – Is it a joint arrangement?



* The reference to "a group of the parties" refers to a situation in which there is a joint control between two or more parties, but other parties to the joint arrangement are passive investors (i.e., there are other parties in the arrangement who do not have joint control). While such investors are technically within the scope of IFRS 11, they account for their investment in accordance with the relevant standard (e.g., IAS 28 if they have significant influence, or as a financial instrument).

It may not always be clear at which level to assess whether joint control exists – that is, the unit of account. In many cases, this assessment is made at the contract level. However, some contracts may contain more than one joint arrangement. For example, a master agreement may contain the terms and conditions for numerous entities that each constitute a joint arrangement. Once a joint arrangement is identified, it is then classified as either a joint venture or a joint operation, as outlined in more detail below.

How we see it

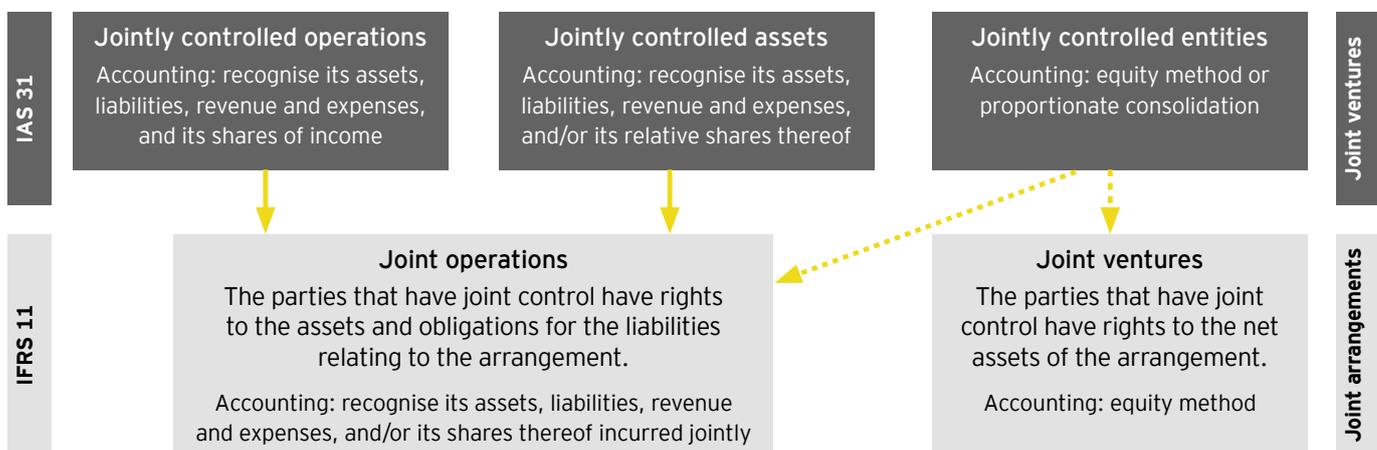
While certain aspects of joint control are unchanged from IAS 31, the changes to the definition of 'control' and 'relevant activities' in IFRS 10 could change assessments of whether joint control exists.

Differences between joint ventures and joint operations

Joint arrangements are classified as either: joint operations or joint ventures. Although the term 'joint venture' is used broadly in practice, this term is narrowly defined within IFRS 11. Diagram 3 illustrates how the new terminology differs from the terms used in IAS 31.

Jointly controlled assets and jointly controlled operations (as defined under IAS 31), are now called joint operations under IFRS 11, and the accounting for those arrangements will be the same as under IAS 31. That is, the joint operator (now defined as a party that has joint control of that of a joint operation) continues to recognise its assets, liabilities, revenues and expenses, and/or its relative shares of those items, if any.

Diagram 3 – Similar concepts, different terms



Where proportionate consolidation was used to account for jointly controlled entities under IAS 31, and such entities are classified as joint ventures under IFRS 11, the transition to IFRS 11 will result in substantial changes to the financial statements of the joint venturer (now defined as a party who has joint control in a joint venture). This is because joint ventures are now required to be accounted for using the equity method. This will result in recognising a single line item investment in a joint venture in the statement of financial position, and a single line item for the proportionate share of net income and changes in equity in the statement of comprehensive income. This could potentially be a significant change in the presentation of these areas of the financial statements of affected entities. In some cases, there may also be a measurement difference, whereby profit or loss differs from the amount that would have been recognised using proportionate consolidation.

For jointly controlled entities that are classified as joint operations under IFRS 11, there may be confusion as to whether the adoption of IFRS 11 will impact the financial statements. That is, when is the accounting for the joint operator's assets (or share of) in a joint operation the same as 'proportionate consolidation'?

- ▶ Where a joint operator has rights to a specified percentage of all assets and obligations for a specified percentage of all liabilities, there would likely be no difference between the accounting for a joint operation and proportionate consolidation.
- ▶ However, where the joint operator has rights to a specified percentage of certain assets and differing rights (and percentages) to other assets, and different obligations for various liabilities, the financial statements would look very different when accounting for those individual rights and obligations, as compared with proportionately consolidating a blended percentage of all assets and liabilities.

As a consequential amendment, the IASB also amended IAS 28, which has been renamed IAS 28 *Investments in Associates and Joint Ventures*, to describe the application of the equity method to investments in joint ventures in addition to associates.

How we see it

Where investments in jointly controlled entities are material to the financial statements, the impact of changing from proportionate consolidation to the equity method (if such entity is classified as a joint venture under IFRS 11) could be significant.

Classifying a joint arrangement

When classifying a joint arrangement as either a joint operation or a joint venture, several issues should be considered, as shown in Diagram 4.

The structure (i.e., legal form) of a joint arrangement is only one element to be considered in classifying a joint arrangement as either a joint operation or a joint venture. IFRS 11 focuses more on the nature and substance of the rights and obligations arising from the arrangement.

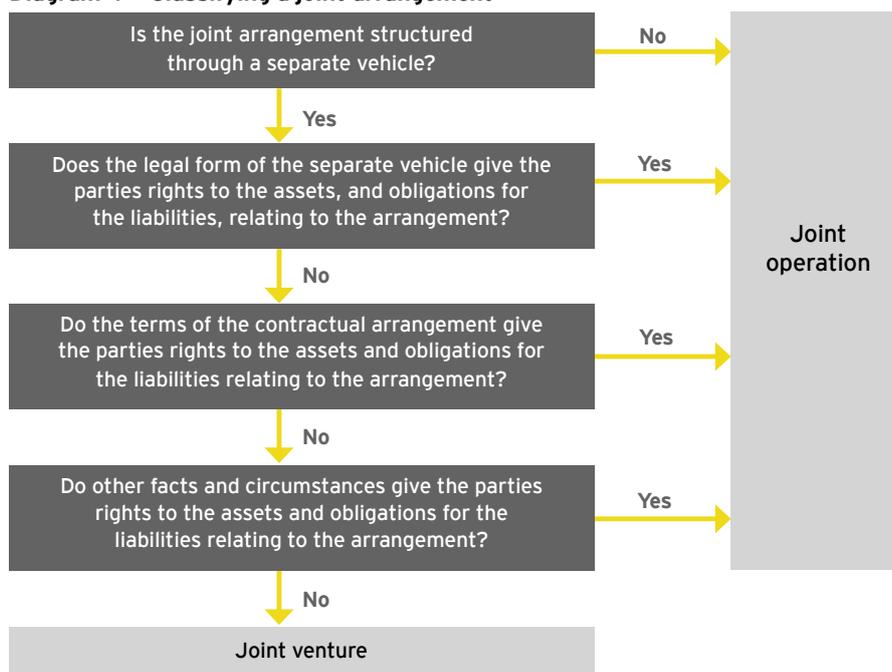
This is a significant change from IAS 31, where the legal form of the arrangement was the primary factor in determining the appropriate accounting.

Nevertheless, the structure of the joint arrangement is still very important. As shown in Diagram 4, a joint arrangement that is not structured through a separate vehicle (such as a partnership, corporation, or other financial structure) is classified as a joint operation. However, if there is a separate vehicle, the joint arrangement is not necessarily a joint venture. The contractual terms of the joint arrangement itself, as well as other facts and circumstances, impact its classification.

How we see it

While many joint arrangements are likely to retain similar classifications when transitioning from IAS 31 to IFRS 11, some jointly controlled entities may now be classified as joint operations, as shown in Diagram 3. Therefore, careful consideration of these changes will be required when assessing the impact of adopting IFRS 11.

Diagram 4 – Classifying a joint arrangement



The new disclosures will assist users to make their own assessment of the financial impact were management to reach a different conclusion regarding consolidation

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard. Many of the disclosure requirements were previously included in IAS 27, IAS 31, and IAS 28, while others are new.

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

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

One of the new requirements of IFRS 12 is that an entity discloses the significant judgements and assumptions it has made (and changes thereto) in determining:

- ▶ Whether it has control, joint control or significant influence over another entity
- ▶ The type of joint arrangement (i.e., joint operation or joint venture) when the joint arrangement is structured through a separate vehicle

The requirement in IFRS 12 is more expansive than the requirement in IAS 27, which only required entities to disclose circumstances where: (1) a subsidiary was consolidated and the parent owned less than a majority of voting rights; and (2) an investee was not consolidated, and the investor owned more than a majority of voting rights. This change in the disclosure requirements reflects the degree of judgement that is now required to determine whether an entity is controlled, and, therefore, consolidated. For example, an entity is now required to disclose how it evaluated potential voting rights (e.g., options), whether it is a principal or an agent and how it determined whether joint arrangement is a joint venture or joint operation.

IFRS 12 expands the disclosure requirements for subsidiaries with non-controlling interests (NCI), joint arrangements and associates that are

individually material. For example, a parent is now required to disclose summarised financial information for each subsidiary that has non-controlling interests that are material. The required disclosures with respect to summarised financial information for joint arrangements and associates are also expanded.

IFRS 12 introduces a new term 'structured entity,' which replaces and expands upon the concept of a 'special-purpose entity' that was previously used in SIC-12. The required disclosures for the interests in such entities have been significantly expanded. An entity is now required to disclose the nature and extent of, and changes in, the risks associated with its interests in both its consolidated and unconsolidated structured entities. For example, an entity is required to disclose the terms of any arrangement that could require the entity to provide financial support. If an entity provides financial or other support to a structured entity without being obliged to do so, it is required to disclose the type and amount of support, the situation, and reasons for providing the support, any change in control that resulted there from, and whether there is any current intention to provide support.

Transition and continuous assessment

IFRS 10, 11, 12, and the consequential amendments to IAS 27 and IAS 28 are effective for annual periods beginning on or after 1 January 2013. These new standards may be adopted early, but must be adopted as a package, that is, all as of the same date, except that an entity may early adopt the disclosure provisions for IFRS 12 (without adopting the other new standards). These new standards are applied on a modified retrospective basis.

In the context of IFRS 10, this means that if an investor controls an investee that was previously not consolidated, the investor applies acquisition accounting as of the date on which it obtained control. However, if it is not practicable to apply IFRS 10 on a fully retrospective basis, consolidation of the controlled investee (and acquisition accounting) is required from the earliest date practicable.

In the context of IFRS 11, this means that there are certain simplifications that should ease transition. For example, for JCEs that were accounted for using proportionate consolidation that are now accounted for using the equity method, the joint venturer aggregates the amounts that were previously recorded, tests that amount for impairment, and uses that amount as the deemed cost for applying the equity method going forward.

An investor is required to reassess whether it controls (or jointly controls) an investee if the facts and circumstances indicate that there are changes to one of the three elements of control (and therefore to the control aspect of 'joint control'). Therefore, it is possible that an investee could 'flip in and out' of the consolidated group, or into or out of joint control between reporting periods, as facts and circumstances change. For example, if a fund manager provides all of the seed money for a fund upon inception, it is possible that the fund manager controls (and therefore consolidates) the fund at inception, but this conclusion may change as third parties invest in the fund and dilute (or eliminate) the fund manager's interest.

Convergence with US GAAP

Consolidated financial statements

The 2006 Memorandum of Understanding (MOU) between the IASB and the US Financial Accounting Standards Board (US FASB) included a joint project to eliminate differences between US GAAP and IFRS with respect to consolidation. As a result of this MOU and in response to the financial crisis, the IASB issued IFRS 10. The US FASB also completed its project to address issues for consolidation of variable interest entities (VIEs) and related disclosures. The IASB and the US FASB indicated that they believe the requirements for consolidating structured entities and VIEs, respectively, to be substantially converged.

The US FASB plans to propose amendments to US GAAP to help distinguish whether a decision-maker is an agent or a principal, and so that the evaluation of how kick-out rights are

treated will be the same for both voting interest entities and variable interest entities. However, notwithstanding the MOU and joint deliberations, differences between IFRS and US GAAP will remain even after these projects are complete with respect to the application of the control principle, and differences in other areas of consolidation procedures will remain.

Joint arrangements

The issuance of IFRS 11 is a significant step in converging with US GAAP, which does not allow proportionate consolidation in most industries. This was one of the main reasons for the project, which was part of the MOU.

Exception for consolidation of controlled subsidiaries by 'investment entities'

In the second quarter of 2011, the IASB and the US FASB plan to publish exposure drafts that will converge much of the accounting by investment entities for their controlled investments. It is expected that the exposure drafts will be largely based on current US GAAP in establishing the criteria that must be met to be considered an 'investment entity,' and the accounting by investment entities (that is, that investment entities will measure their investments in controlled entities at fair value, rather than consolidating such investments). We expect that to be an investment entity, the IASB and the US FASB will propose the entity must have all of the following:

- ▶ Only investing activities
- ▶ The express business purpose of investing
- ▶ A defined exit strategy for its investments
- ▶ Unit ownership, to which its net assets are attributed
- ▶ Significant ownership by unrelated third parties
- ▶ Investments that are managed on a fair value basis

Based on tentative decisions to date, we expect there to be a key difference in the two proposals with respect to the accounting by the parent of an investment entity that is not itself an investment entity:

- ▶ The IASB is likely to propose that such a parent will be required to consolidate that investment entity (e.g., the fund), and any controlled investments held by that entity (e.g., investments held by the fund)
- ▶ The US FASB is likely to propose that such a parent will be able to retain the fair value accounting used by the fund for its controlled investments

If finalised, the proposals in the IASB's exposure draft would amend the scope of the consolidation requirements in IFRS 10. The IASB has stated that it expects to complete the project on investment entities before IFRS 10 becomes effective, and that the amendment will have the same effective date, so that investment entities will not have to change twice.

It is also expected that the IASB will propose that only investment entities, as defined, will measure their investments in joint ventures and associates using fair value.

This means that venture capital organisations, mutual funds, unit trusts, and similar entities, including investment-linked insurance funds that do not meet the definition of an investment entity would no longer be permitted to measure their investments in joint ventures and associates at fair value, but would instead be required to use the equity method.

How we see it

Given that certain members of the IASB have previously stated that they believe that fair value provides information that is more decision-useful than the equity method, it is not clear why the IASB would potentially limit the number of entities that measure their investments at fair value. Some might argue that the measurement of joint ventures and associates at fair value is a choice that should be afforded to all entities, regardless of their nature.

Constituents are encouraged to comment on the IASB's and US FASB's proposals for investment entities, when the exposure draft is issued.

Plan now for easier transition

Even though the new standards do not take effect until 1 January 2013, entities are required to disclose the impact of adopting issued IFRS even before they become effective. In addition, an early analysis of the impact of adopting these new standards will help avoid surprises and ease the transition process.

Future publications and webcasts will describe these new IFRS in more detail, including the impact of adoption. See our *Practical Matters* publication for our insights into the impact on your business. Information coming soon at www.ey.com/ifrs.

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