

Extensive disclosures about interests in other entities



IFRS 12 *Disclosure of Interests in Other Entities* combines, in a single standard, the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. It was issued by the IASB¹ on 12 May 2011 as part of its new suite of consolidation and related standards, replacing existing requirements for subsidiaries and joint ventures (now joint arrangements), and making limited amendments in relation to associates. Here we focus on IFRS 12.

Scope extended to structured entities

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. *Interests* are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the other entity's performance.

During the financial crisis it was perceived that there was a lack of transparency about the risks to which a reporting entity is exposed due to its involvement with structured entities. The IASB addresses this issue by requiring specific disclosure about interests in such entities. *Structured entities* are entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The disclosure requirements encompass risk exposures for the sponsor of such an entity even if it no longer has any contractual involvement.

Additionally, the IASB has used this opportunity to integrate all of the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities into a single standard.

Expanded and new disclosures

The required disclosures aim to provide information to enable users to evaluate:

- the nature of, and risks associated with, an entity's interests in other entities; and

Highlights

- Expanded disclosures about subsidiaries, joint arrangements and associates
- New disclosures about unconsolidated structured entities
- New requirements effective in annual periods beginning on or after 1 January 2013

Our forthcoming publications
First Impressions: IFRS 10 Consolidated Financial Statements and First Impressions: IFRS 11 Joint Arrangements will provide more details about the requirements and discuss some of the potential application issues. Speak to your usual KPMG contact if you would like copies.

- the effects of those interests on the entity's financial position, financial performance and cash flows.

This basic principle is further supported by more detailed disclosure objectives and requirements. The following specific disclosure areas are addressed in IFRS 12:

- significant judgements and assumptions made in determining the nature of interests in an entity or arrangement;
- interests in subsidiaries;
- interests in joint arrangements and associates; and
- interests in unconsolidated structured entities.

The standard emphasises that while aggregation of the disclosures is permitted (with disclosure of the basis thereof), the presentation of information should be consistent with the overall disclosure objective and information should not be obscured.

We expect particular interest in the new disclosures in respect of structured entities, especially in the financial services sector. Entities will need to:

- understand what a structured entity is in the context of their operations. The IASB thinks it unlikely that structured entities will be significantly different from special purpose entities under current guidance;
- apply judgement in assessing whether they are 'involved' with a structured entity, which has the potential to broaden the transactions and relationships to which the disclosures may apply, particularly for those who sponsor, or perhaps even transact with, but do not consolidate structured entities; and
- assess the level of disclosure that they believe will be meaningful to users of the financial statements.

Adoption in periods beginning on or after 1 January 2013

The new suite of standards is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided that the entire suite is adopted at the same time. Entities are encouraged to provide information required by IFRS 12 before the effective date, but this early disclosure would not compel the entity to apply either IFRS 12 in its entirety or the other new consolidation standards.

The new suite of consolidation standards

The diagram below shows the five new or amended standards issued and their respective scopes.

	Accounting	Disclosure	Separate financial statements
Subsidiaries	IFRS 10	IFRS 12	IAS 27 (2011)
Associates	IAS 28 (2011)		
Joint ventures	IFRS 11		IFRS 11
Joint operations			IFRS 12
Unconsolidated structured entities	Generally IFRS 9/IAS 39		IFRS 12

Abbreviations

- 1 IASB: International Accounting Standards Board

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Publication name: *In the Headlines*

Publication number: Issue 2011/16

Publication date: May 2011

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