

IFRS Conference: São Paulo

Monday 15 April 2013

Special Interest Sessions (pre-conference)

Implementing IFRS 10 Consolidated Financial Statements, and IFRS 12 Disclosure of Interests in Other Entities

To assist you to prepare for the implementation of IFRS 10 Consolidated Financial Statements, and IFRS 12 Disclosure of Interests in Other Entities, the IFRS Foundation will hold an intensive half-day session immediately before the IFRS conference, on the morning of 15 April 2013.

09:00 ***Registration and refreshments***

09:30 ***Introduction***
Jan Engström
Member
IASB

09:35 ***IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities***
Patrina Buchanan
Technical Principal
IASB

10:45 ***Preparer perspective***
Luiz Murilo Strube Lima
Accounting Coordinator
Petróleo Brasileiro S.A.—PETROBRAS

11:15 ***Round-table Q&A***

Panellists:

- Patrina Buchanan
- Luiz Murilo Strube Lima

11:55 ***Concluding comments***
Jan Engström
Member
IASB

12:00 ***Close of session***

IFRS 10 Consolidated Financial Statements including related disclosures in IFRS 12

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

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Why we undertook the project

Issues – IAS 27 / SIC12

- Inconsistencies in practice
- Tension between IAS 27 (control) and SIC 12 (risk and rewards)
 - Inconsistent application

- Disclosures and financial crisis
- Sufficient guidance for structured entities?
 - Reputational risk as a basis for consolidation?
 - Inadequate disclosures?



Solution – IFRS 10, 12

- A single control model for all entities
- Clear principle of control
- Additional application guidance
- SIC 12 performed well. Use of existing principles to create a sound foundation for SPEs
- Enhanced disclosures particularly for unconsolidated structured entities



Definition of control

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Definition of control:

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.

- ✓ Single consolidation model for all entities, including structured entities
- ✓ Consolidation based on control – ‘power so as to benefit’ model
 - Controller must have some exposure to risks and rewards.
 - Exposure is an indicator of control but is not control of itself
 - Power arises from rights—voting rights (either majority or less than a majority), potential voting rights, other contractual arrangements, or a combination thereof.

Control <50% voting rights

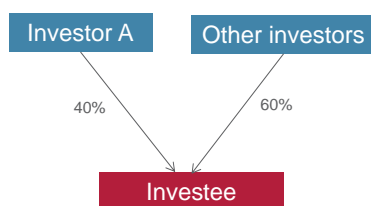
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- Entity can control with less than 50% of voting rights.
- Factors to consider include:
 - Size of the holding relative to the size and dispersion of other vote holders
 - Substantive potential voting rights
 - Other contractual rights
- If the above not conclusive consider additional facts and circumstances that provide evidence of power (eg voting patterns at previous board meeting, etc)
- If no evidence of power, entity does not control



Example: Control <50% voting rights

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- Investor A owns 40% of voting rights and, via shareholding, has appointed the Chairman and CEO of Investee
- Does Investor A control Investee?
 - If the other investors are widely dispersed (there are thousands of other investors)?
 - If there are only two other investors?
 - If other investors holding 40% actively participate in shareholders meetings?
- What if Investor A sells 10% of its shareholding?



Structured entities

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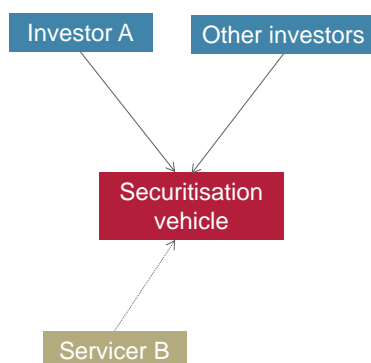
General principles apply for assessing control for all types of entities (ie...)

- Consider the purpose and design
- Identify the activities of the investee that significantly affect the returns of the investee (ie the relevant activities)
- Identify how decisions about relevant activities are made
- Determine whether the rights of the investor give it the ability to direct the relevant activities
- Determine whether the investor is exposed, or has rights, to the variability associated with the returns of the investee
- Determine whether the investor has the ability to use its power over the investee to affect its own returns



Example: Structured entities

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- Investor A transfers receivables to securitisation vehicle and appoints Servicer B to manage day-to-day cash flow streams
- Investor A can step in and manage the receivables upon default
- Investor A holds notes issued by Securitisation vehicle
- Does Investor A control Securitisation vehicle?



Agency relationships

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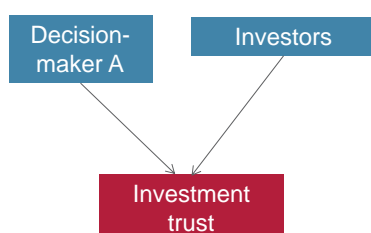
Consider all of the following factors:

- scope of the decision-making authority
- rights held by other parties (ie kick-out rights)
- remuneration of the decision-maker
- other interests that the decision maker holds in the investee



Example: Agency relationships

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- Decision-maker A has broad decision making powers
- Can be removed by simple majority vote of investors
- Remunerated via market-based fee – 1% of assets under management and 20% of profits over a hurdle
- Does Decision-maker A control Investment trust if it has:
 - no equity interest?
 - equity interest of 2%?
 - equity interest of 20%?



Investment entities

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Final amendments to IFRS 10: Published October 2012

An investment entity is one:

- Whose only substantive activities are investing for returns that are earned solely from investment income and/or capital appreciation
- That manages and evaluates performance of investments on a fair value basis

Accounting

- An investment entity measures investments in subsidiaries, JVs and associates at fair value
- Any parent of an investment entity (that is not an investment entity) consolidates subsidiaries, and measures JVs and associates of its investment entity subsidiary at fair value



International Financial Reporting Standards

IFRS 12



Scope

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Combined disclosure standard for:

- Subsidiaries
- Joint arrangements
- Associates
- Unconsolidated structured entities



Disclosure objective

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To disclose information that helps users of financial statements evaluate:

- (a) the nature of, and risks associated with, an entity's interests in other entities, and
- (b) the financial effects of those interests on the entity's financial position, financial performance and cash flows



Subsidiaries

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- The composition of the group
- Involvement of NCI in the group's activities (including profit or loss allocation and summarised financial information for subsidiaries with large NCI)
- The effect of significant or unusual restrictions on assets and liabilities
- The nature of, and changes in, the risks associated with structured entities



Unconsolidated structured entities

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Nature of interests in unconsolidated structured entities

- eg nature, purpose, size, activities and financing
- For sponsors not providing other risk disclosures
 - Type of income earned
 - The carrying amount of all assets transferred

Nature of, and changes in, the risks associated with an entity's interests

- Carrying amount of the assets and liabilities recognised
- Maximum exposure to loss and comparison to carrying amounts
- Non-contractual support provided



