STAFF PAPER

September 2014

IFRS Interpretations Committee Meeting

Project	**New items for initial consideration**
Paper topic	**IFRS 12 *Disclosure of Interests in Other Entities*—** Disclosures for a subsidiary with a material non-controlling interest and for a material joint venture or associate

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Introduction

1. In July 2014, the IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify the requirements to disclose information in respect of a subsidiary that has a non-controlling interest that is material to the reporting entity. This request is with reference to paragraphs 12(e)–(g) and B10(b) of IFRS 12 *Disclosure of Interests in Other Entities*.

Submission received

2. The submitter observes that paragraphs 12(e)–(g) and B10(b) of IFRS 12 do not specify on which basis an entity has to prepare the required financial information for subsidiaries that have non-controlling interests that are material to the reporting entity.

3. The submitter offers two alternatives for the presentation of this information, which are explained below:

View 1—disclose information for the single subsidiary, if it is material

4. Under this alternative, the required information is provided at the subsidiary level and is based on the stand-alone financial statements of the single subsidiary (ie the

'legal' entity). The submitter notes that this alternative is consistent with the guidance in:

(a) paragraph B10 (ie "for each subsidiary that has non-controlling interests that are material to the reporting entity…");

(b) paragraph B11 (ie "the summarised financial information required by paragraph B10(b) shall be the amounts before inter-company eliminations"); and

(c) paragraph BC29, which notes that the IASB does not think that providing "information about subsidiaries with material non-controlling interests will be particularly onerous to prepare".

View 2—disclose information for the subsidiary that has a non-controlling interest that is material to the reporting entity together with its investees

5. The submitter explains that under this alternative, the required information is provided at a subgroup level for the subgroup that of the subsidiary that has a non-controlling interest that is material to the reporting entity and its investees. This information is based on the amounts included in the consolidated financial statements of the subsidiary and its investees as a subgroup. The submitter further observes that this information could either:

(a) *View 2A*–reflect the amounts of the subgroup included in the consolidated financial statements of the reporting entity (contribution view). In this respect, the submitter thinks that this approach would be in conflict with paragraph B11 in IFRS 12, because such information would include the elimination of intercompany transactions between the subgroup and other members of the reporting entity's group.

(b) *View 2B*–reflect the amounts from consolidated financial statements of the subgroup (stand-alone view). Transactions and balances between the subgroup and other entities outside the subgroup will be presented on a gross (non-eliminated) basis. In this respect, the submitter thinks that this approach would be contrary to paragraph BC29 of IFRS 12, because a reporting entity would not provide relevant information and applying this approach would be very costly and also time-consuming.

6. **Appendix D** includes an example provided by the submitter that illustrates the application of the three views (View 1, View 2A and View 2B) described above.

7. The submitter asks the Interpretations Committee to clarify which view should be followed because of the divergent practices that it has observed in the application of the requirements in IFRS 12.

Additional issue that we analysed in this paper

8. We have been made aware of similar concerns to the ones raised by the submitter, on an issue relating to the disclosures required in IFRS 12 for joint ventures and associates. Some think that IFRS 12 does not specify the basis on which an entity has to prepare the required summarised financial information for joint ventures and associates in accordance with paragraphs 21(b)(ii) and paragraphs B12 and B13. The question raised is whether this information should be presented for each material joint venture and associate on an individual basis, or whether this information should be disclosed for the subgroup of the joint venture or associate together with its investees.

9. We have included this issue as part of our analysis in this paper.

Outreach performed

10. We performed outreach on this topic with the International Forum of Accounting Standard-Setters (IFASS), securities regulators and the global IFRS technical teams of the international networks of the large accounting firms, in order to find out how widespread the issue raised by the submitter is and to what extent significant diversity in practice exists. The results of this outreach are included in this paper.

Purpose of the paper

11. The purpose of this paper is to:

(a) provide an analysis of the issue raised in the submission about the disclosure of information in respect of a subsidiary that has non-controlling interests that are material to the reporting entity;

(b) provide an analysis of the additional issue raised about the disclosure of summarised financial information for joint ventures and associates;

(c) provide a summary of the outreach results on the issue raised (refer to **Appendix A**);

(d) present an assessment of the issue against the Interpretations Committee's agenda criteria;

(e) make a recommendation to issue a tentative agenda decision (refer to **Appendix B**); and

(f) ask the Interpretations Committee whether it agrees with the staff recommendation.

12. The submission is reproduced in full in **Appendix C** to this paper; illustrative examples of the views proposed by the submitter are shown in **Appendix D.**

Staff analysis

13. We have split our analysis into the following questions:

(a) **Issue 1:** From what perspective 'materiality' should be addressed? This question was not explicitly asked by the submitter, however it is a question that we are aware has been raised by some and that we think is helpful to consider in the resolution of the issue raised by the submitter.

(b) **Issue 2:** what is the basis for preparing the disclosures required by paragraphs 12 (e)–(g) of IFRS 12?

(c) **Issue 3: Additional issue**—what is the basis for preparing the disclosures required by paragraph 21(b)(ii) for joint ventures or associates?

Issue 1: From what perspective 'materiality' should be assessed?

14. We observe that paragraph 12 of IFRS 12 requires an entity to disclose the information required in paragraphs 12(e)–(g) of IFRS 12 (emphasis added): "for each of its subsidiaries that have non-controlling interests **that are material** to the reporting entity".

Who should assess materiality?

15. We observe that within the context of paragraph 12 of IFRS 12, materiality should be assessed from the perspective of the reporting entity, to identify those subsidiaries for which the non-controlling interest is material from a group perspective.

16. We reached this conclusion on the basis of the guidance in paragraphs 10(a) and12 of IFRS 12 and on the basis of the explanations in paragraphs BC28 –BC29 of IFRS 12.. We are reproducing some extracts of these paragraphs below (emphasis added):

> 10 An entity shall disclose information that enables users of its consolidated financial statements
>
> **(a) to understand:**
>
> **(i) the composition of the group; and**
>
> **(ii) the interest that non-controlling interests have in the group's activities and cash flows** (paragraph 12)
>
> 12 An entity shall disclose for each of its subsidiaries that have non-controlling interests **that are material to the reporting entity**.
>
> (a)…
>
> (g)…
>
> **BC28** In reaching its decision, the Board noted that **users have consistently requested additional financial information about consolidated entities for many years.** Although users have requested financial information about all subsidiaries that are material to the group, **the Board decided to require financial information only for those**

> **subsidiaries with material non-controlling interests.** A requirement to disclose information about subsidiaries with immaterial or no non-controlling interests might prove to be onerous to prepare without any significant benefit for users, who are expected to benefit most from having financial information about subsidiaries with material non-controlling interests. **Summarised financial information about subsidiaries with material non-controlling interests helps users predict how future cash flows will be distributed among those with claims against the entity including the non-controlling interests**.
>
> **BC29** In addition, the Board **does not think that this requirement** to provide information about subsidiaries with material non-controlling interests **will be particularly onerous to prepare. This is because an entity should have the information available in preparing its consolidated financial statements**.

How should the reporting entity identify subsidiaries that have material non-controlling interests?

17. We observe that the concept of 'materiality' is defined in paragraph QC11 of the *Conceptual Framework for Financial Reporting*. This paragraph states that (emphasis added):

> QC11 **Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity**. In other words, **materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report**. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

18. Furthermore we observe that in accordance with paragraph 5 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*:

> 5 *Material* Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

19. On the basis of paragraph QC11 and paragraph 5 of IAS 8, we think that, in assessing which of its subsidiaries have non-controlling interests that are material, a reporting entity would consider both quantitative considerations (ie size of the subsidiary) and qualitative considerations (ie nature of the subsidiary). We think that some of the 'quantitative' and 'qualitative' considerations that could be made as part of the 'materiality' assessment could include, among others:

    (a) whether the subsidiary plays a significant role in the group's profitability;

    (b) whether the subsidiary holds a significant portion of the group's net assets (ie cash balances, particular assets, liabilities, etc); or

    (c) the significance of a particular subsidiary within the group (for example, a subsidiary running a significant production process or holding key intellectual property).

Issue 2: what is the basis for preparing the disclosures required by paragraph 12(e)–(g) of IFRS 12?

20. Paragraphs 12 (e)–(g) require an entity to disclose information about subsidiaries that have non-controlling interests that are material to the reporting entity. The guidance in this paragraph is reproduced below (emphasis added):

> **12 An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:**
>
> (a) the name of the subsidiary.

(b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.

(c) the proportion of ownership interests held by non-controlling interests.

(d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.

(e) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.

(f) accumulated non-controlling interests of the subsidiary at the end of the reporting period.

(g) summarised financial information about the subsidiary (see paragraph B10).

21. Paragraph B10(b) provides additional guidance for the disclosure required in paragraph 12(g). This paragraph is reproduced below (emphasis added):

B10 For each subsidiary that has non-controlling interests that are material to the reporting entity, an entity shall disclose:

(a) dividends paid to non-controlling interests.

(b) **summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group's activities and cash flows.** That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income

22. We observe that the information required by paragraphs 12(e) and (f) differs from the summarised information required by paragraph 12(g), because:

(a) paragraphs 12(e) and (f) relate to specific information of the subsidiary that is *allocated* to the non-controlling interest; whereas paragraph 12(g) requires the presentation of summarised information about assets, liabilities, profit or loss and cash flows of each subsidiary that has non-controlling interests that are material; and

(b) paragraph B11 specifically requires the presentation of the summarised information in paragraph 12(g) and B10(b) to be the amounts *before* inter-company eliminations; whereas the information required by paragraph 12(e)–(f) would reflect the elimination of inter-company transactions, in conformity with paragraph B86(c) of IFRS 10[1]. Paragraph B11 is reproduced below (emphasis added):

> **B11** The summarised financial information required by paragraph B10(b) **shall be the amounts before inter-company eliminations**.

23. Because we have observed that the basis for preparing the disclosures required in paragraph 12 is different, we will analyse in subsequent paragraphs the disclosures required in paragraph 12(e)–(f) separately from the disclosure required by paragraph 12(g).

24. But before doing this, we will describe the views that have been identified in practice in disclosing the information required by paragraph 12(e)–(g). We have used as a starting point the views and sub-views identified by the submitter, which we have expanded to include some of the guidance in IFRS 12, which we understand is used by some to support each view. We have also linked each view with the examples provided by the submitter.

Views identified in practice

View 1—disclose information of the subsidiary that has a material non-controlling interest on an individual basis

25. Proponents of this view think that the information required in paragraphs 12(e)–(g) of IFRS 12 should be:

(a) provided at a the subsidiary level (ie legal entity) on an individual basis; and

[1] Paragraph B86(c) of IFRS 10 *Consolidated Financial Statements* states that consolidated financial statements (emphasis added): "**eliminate in full intragroup** assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group..".

(b) be based on the separate financial statements of the subsidiary.

26. Proponents of this view think that providing information about each subsidiary on an individual basis meets the requirements in paragraph 12, because they observe that in IFRS 12:

(a) paragraph 12 specifies that an entity shall disclose information (emphasis added): "for *each of its subsidiaries* that have non-controlling interests that are material to the reporting entity";

(b) paragraphs 12 (a)-(b) require information that is entity-specific in nature (eg name and principal place of business of the subsidiary);

(c) the requirement in paragraph B10(b) (which provides guidance on the application of paragraph 12(g) is to provide summarised information (emphasis added) "about the assets, liabilities profit or loss and cash flows *of the subsidiary"*; and

(d) paragraph B11 specifically requires that the summarised financial information required in paragraph 12(g) of IFRS 12 must be provided before inter-company eliminations. This implies that the information required by paragraph 12 must be provided only for the individual subsidiary, without taking the subsidiary's investees into consideration.

27. Alternative 1 in **Appendix D** illustrates this view. In this example, the reporting entity provides information only for the subsidiary that has a material non-controlling interest (Subsidiary A) on an individual basis. Consequently, the reporting entity recognises revenue for a total amount of CU400[2].

View 2—disclose information of the subgroup of the subsidiary that has a material non-controlling interest together with its investees

28. Proponents of this view think that the information required in paragraphs 12(e)-(g) of IFRS 12 should be:

[2] In this paper, currency amounts are denominated in 'currency units' (CU).

(a) provided at a subgroup level for the subgroup of the subsidiary that has a material non-controlling interest together with those of its investees; and

(b) be based on the amounts included in the consolidated financial statements of the subsidiary and its investees as a subgroup.

29. Proponents of this view observe that disclosing the information required by IFRS 12 in paragraphs 12(e)–(g) for the subgroup of the subsidiary that has a material non-controlling interest together with those of its investees meets the 'disclosure objective' in paragraph 10(a) of IFRS 12. This paragraph is reproduced below (emphasis added):

> 10 An entity shall disclose information **that enables users of its consolidated financial statements**
>
> (a) **to understand**:
>
> (i) the **composition of the group**; and
>
> (ii) the interest that non-controlling interests have in the group's activities and cash flows (paragraph 12)

30. This is because they think that disclosing information on a consolidated basis would enable users to better understand the interaction between the material subgroup and the rest of the group.

31. Furthermore, they note that consolidated financial statements ignore the legal boundaries of the parent and its subsidiaries, which they think reaffirms the position that the information required in paragraphs 12(e)–(g) should be provided from a 'single entity' perspective to reflect the information of the subgroup of the subsidiary and its investees. In this respect BC21 of IFRS 12 states that (emphasis added):

> BC21 **Consolidated financial statements present the** financial position, comprehensive income and cash flows of **the group as a single entity. They ignore the legal boundaries of the parent and its subsidiaries.** However, those legal boundaries could affect the parent's access to and use of assets and other resources of its subsidiaries and,

therefore, affect the cash flows that can be distributed to the shareholders of the parent.

Summarised information in paragraph 12(g)

32. The submitter identified two further sub-views regarding the basis for preparing the disclosures in paragraph 12(g) in a way that complies with the requirement in paragraph B11 to show summarised financial information before inter-company eliminations. After we received the submission we asked the submitter to provide us with some examples to illustrate these views. Using the examples 2(a) and 2(b) that were provided by the submitter (refer to **Appendix D**) we noted that the main difference between these two views is the level of inter-company eliminations that would be applied in presenting the information for the subgroup of the subsidiary and its investees. We explain these differences in the paragraphs below.

View 2A

33. The summarised information for the subgroup of the subsidiary and its investees would reflect consolidated amounts for the subgroup. The consolidated amounts of the subgroup would include the *full* elimination of inter-company transactions between:

(a) the subsidiary and its investees (the 'subgroup'); and

(b) the subgroup and other investees that are not part of the subgroup but that are other parts of the reporting entity's group.

34. Alternative 2(a) in **Appendix D** illustrates this view. In this example, the reporting entity eliminates in full the inter-company transactions between:

(a) Subsidiary B and Subsidiary A (CU250);

(b) Subsidiary A and Subsidiary B (CU100); and

(c) Subsidiary A and Subsidiary C (CU50).

35. Consequently, the reporting entity recognises revenue for a total amount of CU300.

View 2B

36. The summarised information for the subgroup of the subsidiary and its investees would reflect consolidated amounts. Transactions and balances between the subgroup and entities outside the subgroup will be presented on a gross (non-eliminated) basis. Consequently, when applying this view:

    (a) only the inter-company transactions within the subgroup of the subsidiary and its investees would be eliminated; and

    (b) the inter-company transactions between the subgroup and other entities outside the subgroup would not be eliminated.

37. Alternative 2(b) in **Appendix D** illustrates this view. In this example, the reporting entity eliminates the inter-company transactions between:

    (a) Subsidiary B and Subsidiary A (CU250); and

    (b) Subsidiary A and Subsidiary B (CU100).

38. The reporting entity does not eliminate the inter-company transactions between:

    (a) Subsidiary A and Subsidiary C (CU50); and

    (b) the entities in the subgroup (Subsidiaries A and B) with entities outside the group (CU300).

39. Consequently, the reporting entity recognises revenue for a total amount of CU350.

Staff analysis: What should be the basis for disclosing the information required in paragraphs 12(e)-(f)?

40. We observe that paragraphs 12(e)-(f) of IFRS 12 requires the disclosure of the:

    (a) "profit or loss allocated to non-controlling interests of the subsidiary during the reporting period" (paragraph 12(e)); and

    (b) "accumulated non-controlling interests of the subsidiary at the end of the reporting period" (paragraph 12(f)).

41. We observe that IAS 1 *Presentation of Financial Statements* requires the presentation:

(a) in the statement of comprehensive income, of the profit or loss and total comprehensive income for the period attributable to the non-controlling interest (paragraph 81B); and

(b) in the statement of financial position, of the non-controlling interest within equity (paragraph 54 of IAS 1).

42. Furthermore, we note that paragraph BC24 of IFRS 12 states that (emphasis added):

> BC24 Although confirming that the presentation requirements in IAS 1 provide important information, **users of financial statements requested additional information** to enable them to make better estimates of future profit or loss and cash flows attributable to the shareholders of the parent. The Board was advised that, in particular, **an analyst requires information about the non-controlling interests' share of the profit or loss, cash flows and net assets of subsidiaries with material non-controlling interests.**

43. In our view, the disclosures in paragraphs 12(e)-(f) of IFRS 12 for material subsidiaries disaggregate further the information that IAS 1 requires about an entity's non-controlling interests in paragraphs 54 and 81B.

44. Moreover, we observe that the requirement in paragraph 12(e) to disclose the "allocated" profit or loss generated by each subsidiary that has material non-controlling interests suggests that this disclosure is derived from an allocation of the reporting entity's consolidated figures. This is because an entity is required by paragraph 12(e) to determine which portion of the profit or loss reported at a group level is attributed to the subsidiary's non-controlling interest. In this respect we observe that paragraph 106(a) of IAS 1 includes a similar 'attribution' requirement to show the amount from total comprehensive income that is attributable to the non-controlling interest. This paragraph is reproduced below:

> 106 An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:

(a) **total comprehensive income for the period, showing separately the total amounts attributable to** owners of the parent and to **non-controlling interests;**

45. On the basis of the above, we are of the view that a reporting entity should disclose the information required in paragraphs 54 and 81B of IAS 1 and in paragraph 12(e)-(f) on a consistent basis.

46. We observe that because the information required in paragraphs 12 (e) and (f) is based on amounts allocated from the consolidated financial statements, then the information to be disclosed for the subsidiary that has a material non-controlling interest should be derived from the consolidated financial statements of the reporting entity.

47. We think that providing the information required in paragraphs 12 (e) and (f) requires an entity to disaggregate the financial information included in the reporting entity's consolidated financial statements. We think that a reporting entity should apply its judgement in determining the level of disaggregation of this information; this is whether an entity disaggregates this information:

    (a) to the subgroup level for the subsidiary that has a material non-controlling interest (ie present the information required on the basis of the subsidiary together with that of its investees); or

    (b) to the subsidiary level on an individual basis (ie excluding the information of its own subsidiaries).

48. We think that the decision of which approach is selected (ie disaggregated to the sub-group level or disaggregated to the individual subsidiary level) should be based on the one that best meets the disclosure objective of paragraph 10(a) of IFRS 12 (which is to understand the composition of the group and the interest that non-controlling interests have in the group's activities and cash flows). Accordingly, we think that this judgement should be made on a subsidiary-by-subsidiary basis.

Staff analysis: What should be the basis for disclosing the information required in paragraph 12(g)?

49. Paragraph 12(g) requires a reporting entity to provide summarised information about the subsidiary that has a material non-controlling interest. Paragraph B11 of IFRS 12 further requires an entity to present the summarised financial information about the subsidiary *before* inter-company eliminations.

50. In our view a reporting entity could meet the 'the requirement in paragraph B11 to present summarised information before intercompany eliminations, by either:

    (a) disclosing information of the individual subsidiary (ie the legal entity), based on the separate financial statements of the subsidiary (refer to **View 1** in paragraphs 25-27 above); or

    (b) disclosing information of the subgroup of the subsidiary together with its investees. The summarised information would be based on the consolidated amounts for the subgroup. Transactions and balances between the subgroup and other entities outside the subgroup would be presented on a gross (non-eliminated) basis (refer to **View 2B** in paragraphs 36–39 above).

51. Furthermore, we observe that when paragraph 12(g) requires "summarised financial information" the term 'financial information' is not circumscribed to mean a particular type of information. In our view 'financial information' could mean information taken from the amounts reflected in consolidated statements of the subgroup of the subsidiary that has a material non-controlling interest together with its investees, or taken from the amounts reflected in the separate financial statements of the subsidiary that has a material non-controlling interest.

52. We think that a reporting entity would select the most appropriate approach for a subsidiary with a material non-controlling interest that would best meet the disclosure objective in paragraph 10(a). Accordingly, we think that this judgement should be made on a subsidiary-by-subsidiary basis.

53. We illustrate our view with an example:

54. Entity A is a reporting entity that owns 70 per cent of two holding companies (Entity B and Entity C). Entities B and C do not have any operations or assets (other than shareholdings in other subsidiaries).

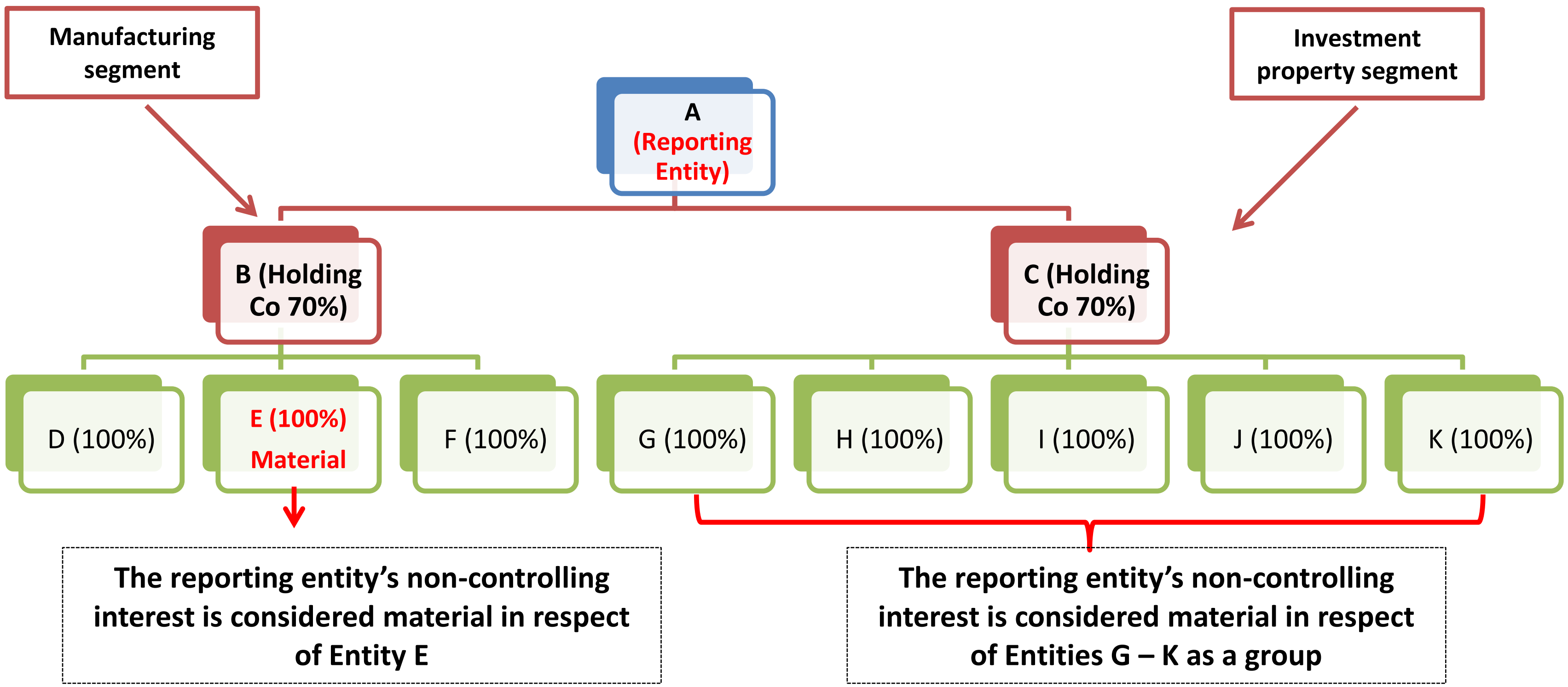
    (a) Entity B holds a group of manufacturing companies (Entities D, E and F). However, only Entity E is material to Entity A because it manufactures products that are strategic to Entity A's core business. Entity D and Entity F are not individually or collectively material to Entity A.

    (b) Entity C holds a group of companies, Entity G, Entity H, Entity I, Entity J, and Entity K. Each of these entities (G –K) owns and operates investment properties. These entities are collectively material to Entity A; however, none is individually material to Entity A.

55. In our view, the non-controlling interest would be considered material in respect of Entity E (as a separate entity), Entity B (as a consolidated entity) and Entity C (as a consolidated entity). We present a diagram of this example in the following page.

56. We think that Entity A would best meet the disclosure objective by providing summarised information about Entity E as a separate entity and Entity C as a consolidated entity. If summarised information about entity E is given as a separate entity, summarised information about Entity B (as a consolidated entity) would not need to also be given.

Illustrative Example



<u>Issue 3:</u> additional issue—what is the basis for preparing the disclosures required by paragraph 21(b)(ii) for joint ventures and associates?

57. We have been made aware of similar concerns to the ones raised by the submitter, on an issue relating to the disclosures required in IFRS 12 for material joint ventures and associates required by paragraph 21(b)(ii)[3].

58. Some think that IFRS 12 does not specify the basis on which an entity has to disclose the summarised financial information about the material joint venture or associate. Paragraph 21(b)(ii) is reproduced below (emphasis added):

> 21 An entity shall disclose:
>
> (a) (…)
>
> (i) – (iv) (…)
>
> (b) **for each joint venture and associate that is material** to the reporting entity:
>
> (i) (…)
>
> (ii) **summarised financial information about the joint venture or associate** as specified in paragraphs B12 and B13.

59. The question raised is whether the summarised information required by paragraph 21(b)(ii) should be disclosed:

    (a) for each material joint venture or associate on an individual basis, based on the separate financial statements of the joint venture or associate. (**View A**); or

    (b) for each subgroup of a joint venture or associate together with its subsidiaries, based on the consolidated financial statements for the joint venture or associate (if the joint venture or associate has only associates or joint ventures, the financial statements in which the entity accounts for its joint ventures and associates using the equity method) (**View B**).

[3] Paragraphs B12 –B15 of IFRS 12 provide further guidance on the information that should be disclosed for the material joint venture or associate in accordance with this paragraph.

Staff analysis

60. We observe that paragraph B14 of IFRS 12 provides guidance regarding the basis that should be used to present the summarised financial information about the joint venture or associate that is material to the reporting entity, as required by paragraph 21(b)(ii). The application guidance in paragraphs B12-B13 further specify which line items are required to be presented:

    (a) for each joint venture and associate that is material to the reporting entity (paragraph B12); and

    (b) in addition to the line items required by paragraph B12, for each joint venture that is material to the reporting entity (paragraph B13).

61. We reproduce paragraph B14(a) of IFRS 12 below (emphasis added):

> **B14** The summarised financial information presented in accordance with paragraphs B12 and B13 **shall be the amounts included in the IFRS financial statements of the joint venture or associate (and not the entity's share of those amounts).** If the entity accounts for its interest in the joint venture or associate using the equity method:
>
> (a) **the amounts included in the IFRS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method,** such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

62. We observe that paragraph B14(a) states that "the amounts included in the IFRS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method". We think that this guidance requires that the summarised information of joint ventures and associates should be the same as that used by the reporting entity for equity accounting purposes (ie consolidated information of the joint venture or associate if it has subsidiaries (the financial statements in which its own joint ventures or associates are equity accounted if it does not have subsidiaries)).

63. Consequently, in our view, a reporting entity should present the summarised financial information required by paragraph 21(b)(ii) about the joint venture or associate that is material to the reporting entity based on the consolidated financial statements for the joint venture or associate if it has subsidiaries (the financial statements in which its joint ventures or associates are equity accounted if it does not have subsidiaries) (**View B**).

Agenda criteria assessment

64. The staff's assessment of the agenda criteria is as follows[4]

Agenda criteria

We should address issues (5.16):	
that have widespread effect and have, or are expected to have, a material effect on those affected.	**Yes.** Some respondents are aware of the existence of diversity in practice in applying the requirements in paragraphs 12 (e)–(g) of IFRS 12 for the disclosures required for subsidiaries with a material non-controlling interest. Some pointed out that paragraphs 12 (e)–(g) do not provide guidance on the basis for presenting the information required by these paragraphs. No diversity in practice was reported by the respondents on the application of paragraph 21(b)(ii) of IFRS 12 for the disclosures required for joint ventures or associates.
where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods. that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	**No.** We do not think that financial reporting would be improved if paragraph 12(g) or paragraph 21(b)(ii) of IFRS 12 were further clarified. This is because we think that the guidance in IFRS 12 is sufficient to enable an entity to apply the most appropriate approach for disclosing the information required in paragraphs 12(g) and 21(b)(ii) to best meet the disclosure objective in paragraph 10 of IFRS 12.
In addition:	
Can the Interpretations Committee address this issue in an efficient manner	**Yes.** We think that the Interpretations Committee can address the issues raised

[4] These criteria can be found in the *IFRS Foundation Due Process Handbook* .

Agenda criteria

(5.17)	about the disclosures required for: (a) subsidiaries that have a material non-controlling interest; and (b) joint ventures or associates that are material to the reporting entity. This is because we observe that IFRS 12 contains a disclosure objective for the disclosures required in IFRS 12, which allows entities to reach an appropriate conclusion on the basis on which the information required in paragraphs 12 and 21(b)(ii) of IFRS 12 should be disclosed.
Will it be effective for a reasonable time period (5.21)? Only take on the topic of a forthcoming Standard if short-term improvements are justified.	Not applicable.

Staff recommendation

65. We observe that the disclosure objective in paragraph 10 of IFRS 12 allows entities to reach an appropriate conclusion on the basis on which the information required in paragraphs 12 and 21(b)(ii) of IFRS 12 should be disclosed.

66. We think that the materiality assessment in paragraph 12 of IFRS 12 should be made by the reporting entity on the basis of the consolidated financial statements of the reporting entity. In this assessment, a reporting entity would consider both quantitative considerations (ie the size of the subsidiary) and qualitative considerations (ie the nature of the subsidiary).

67. We think that a reporting entity would meet the requirements in paragraphs 12(e) and (f) by disclosing disaggregated information from the amounts included in the consolidated financial statements of the reporting entity. We think that the reporting entity should apply its judgement in determining the level of disaggregation of this information; this is whether an entity disaggregates this information:

    (a) to the subgroup level for the subsidiary together with those of its investees; or

(b) to the subsidiary level on an individual basis (ie excluding the information of its own subsidiaries).

68. We think that the reporting entity could providing the information required in paragraph 12(g) by either:

(a) disclosing information of the individual subsidiary (ie the legal entity), based on the subsidiary's separate financial statements **(View 1)**; or

(b) disclosing information of the subgroup of the subsidiary together with those of its investees. This information would be based on the consolidated amounts for the subgroup. Transactions and balances between the subgroup and other entities outside the subgroup will be presented on a gross (non-eliminated) basis. **(View 2B)**.

69. The decision of which approach is presented should reflect the one that best meets the disclosure objective of paragraph 10 of IFRS 12 in the circumstances. We think that this judgement would be made separately for each subsidiary that has a material non-controlling interest.

70. We think that a reporting entity should present the summarised financial information about a joint venture or associate that is material to the reporting entity required by paragraph 21(b)(ii) based on the consolidated financial statements for the joint venture or associate if it has subsidiaries (based on the financial statements in which its joint ventures or associates are equity accounted if it does not have subsidiaries) (**View B**).

71. On the basis of our analysis above and our assessment of the Interpretations Committee's agenda criteria, we think that no further clarification is needed.

72. Consequently, we do not recommend that the Interpretations Committee should take this issue onto its agenda.

73. We have set out proposed wording for the tentative agenda decision in **Appendix B**.

Questions to the Interpretations Committee

Questions to the Interpretations Committee
1. Does the IFRS Interpretations Committee agree with the staff recommendation? 2. Does the IFRS Interpretations Committee have any comments on the drafting of the tentative agenda decision?

Appendix A—Summary of outreach conducted

Summary of outreach conducted

A1. We asked the International Forum of Accounting Standard-Setters (IFASS), securities regulators and the global IFRS technical teams of the international networks of the large accounting firms to provide us with qualitative or quantitative information on the following aspects:

> Information requested
>
> We would appreciate your input to help us learn about the extent to which there is diversity in practice in respect of these requirements in IFRS 12 to disclose summarised financial information about: a) subsidiaries and b) joint ventures or associates.
>
> We are interested in learning about the approaches applied in your jurisdiction to the issues described above, and the extent of diversity that is observed in practice. It would be particularly helpful if you could provide quantitative information about the diversity you observe and the basis on which that quantitative information has been prepared. We would find it particularly helpful to receive examples from financial statements that illustrate your feedback.

Responses received

A2. We received twenty responses from the following respondents:

(a) the European Securities and Markets Authority (ESMA) and from the International Organization of Securities Commissions (IOSCO);

(b) twelve national standard-setters; and

(c) six global IFRS technical teams of the international networks of the large accounting firms.

A3. The views received represent informal opinions and do not reflect the formal views of those organisations.

A4. The geographical breakdown for the responses received from national standard-setters is as follows:

Geographical region	Number of respondents
Asia & Oceania	4
Europe	5
Americas	2
Africa	1
Total respondents	12

A5. We summarise the results of the outreach in the following paragraphs.

Summary of outreach responses

Subsidiaries with material non-controlling interest

A6. A quarter of the respondents are aware of the existence of diversity in practice in applying the requirements in paragraphs 12 (e)–(g) of IFRS 12.

A7. About a third of respondents observed that their experience in applying the requirements in paragraph 12 (e)–(g) IFRS 12 is limited, because this is a fairly recent Standard that entities in their jurisdictions have only just started to apply; a few pointed out that this might be the reason why significant diversity in practice is not readily apparent.

A8. About a quarter of respondents pointed out that the basis for presenting the information required in paragraph 12 (e)–(g) is not clear.

A9. Of the views described by the submitter in applying the requirements in paragraph 12 (e)–(g) of IFRS 12:

(a) the great majority (about two-thirds) of the respondents support View 2A (i.e. disclose information of the subgroup of the subsidiary that has a material non-controlling interest together with its investees based on the subgroup's consolidated financial statements);

(b) three respondents support View 2A but observe that in some limited circumstance View 1 (i.e. disclosing information of the individual subsidiary based on the separate financial statements of the subsidiary) could alternatively be applied when this information is more relevant or meaningful;

(c) less than a third of the respondents support View 1 (i.e. disclosing information of the individual subsidiary based on the separate financial statements of the subsidiary);

(d) two respondents support the application of View 2B (i.e. disclose information of the subgroup based on the subgroup's consolidated financial statements where the transactions and balances between the subgroup and entities outside the subgroup will not be eliminated).[5]

A10. Only two respondents note that in applying View 2A entities could face practical challenges because the information at the sub-consolidated level might not be easily available.

Joint ventures or associates

A11. A great majority of respondents are unaware of any concerns or questions raised on the application of the requirements in paragraph 21(b)(ii) regarding the disclosure of summarised information for a joint venture or associate that is material to the reporting entity.

A12. About a third of respondents expressed their views regarding the basis for presenting the information required by paragraph 21(b)(ii). These respondents support View 2 (i.e. based on the consolidated financial statements for the joint venture or associate).

[5] These respondents did not specify whether this view would be applicable only to the summarised information required by paragraph 12(g).

Appendix B—Tentative agenda decision

B1. We propose the following wording for the tentative agenda decision.

IFRS 12 *Disclosure of Interests in Other Entities*

The Interpretations Committee received a request for clarification in respect of the requirements in paragraphs 12(e)–(g) of IFRS 12 *Disclosure of Interests in Other Entities* to disclose information about a subsidiary that has non-controlling interests that are material to the reporting entity.

The submitter asked whether the information required by paragraphs 12(e)–(g):

(a) should be provided at the subsidiary level (ie the 'legal' entity) and be based on the separate financial statements of the individual subsidiary; or

(b) should be provided at a subgroup level for the subgroup of the subsidiary together with its investees and be based either on (i) the amounts of the subgroup included in the consolidated financial statements of the reporting entity (contribution view); or (ii) the amounts included in consolidated financial statements of the subgroup (stand-alone view).

The Interpretations Committee was made aware of similar concerns to the ones raised by the submitter, on an issue relating to the disclosures required by IFRS 12 for joint ventures and associates. Some think that IFRS 12 does not specify the basis on which an entity should prepare the required summarised financial information for joint ventures and associates in accordance with paragraphs 21(b)(ii) and paragraphs B12 and B13. The question raised is whether this information should be presented for each material joint venture and associate on an individual basis, or whether this information should be disclosed for the subgroup of the joint venture or associate together with its investees.

The Interpretations Committee determined that on the basis of the disclosure objective in paragraph 10 of IFRS 12 that materiality should be assessed by the reporting entity on the basis of the consolidated financial statements of the reporting entity. In this assessment, a reporting entity would consider both quantitative considerations (ie the size of the subsidiary) and qualitative considerations (ie the nature of the subsidiary).

The Interpretations Committee observed that a reporting entity could meet the requirements in paragraphs 12(e) and (f) by disclosing disaggregated information from the amounts included in the consolidated financial statements of the reporting entity. The Interpretations Committee further observed that a reporting entity should apply its judgement in determining the level of disaggregation of this information; this is, whether the entity disaggregates this information:

(a) to the subgroup level for the subsidiary together with those of its investees; or

(b) to the subsidiary level on an individual basis (ie excluding information of its investees).

The Interpretations Committee observed that a reporting entity could meet the requirements in paragraph 12(g) by either:

(a) disclosing information of the individual subsidiary (ie the legal entity), based on the subsidiary's separate financial statements; or

(b) disclosing information of the subgroup of the subsidiary together with those of its investees. This information would be based on the consolidated amounts for the subgroup. Transactions and balances between the subgroup and other entities outside the subgroup will be presented on a gross (non-eliminated) basis.

The Interpretations Committee noted that the decision of which approach is presented in respect of the disclosures required by paragraph 12(e)-(g)should reflect the one that best meets the disclosure objective of paragraph 10 of IFRS 12 in the circumstances. Accordingly, it thinks that this judgement would be made separately for each subsidiary that has a material non-controlling interest.

The Interpretations Committee further observed that a reporting entity should present the summarised financial information about a joint venture or associate that is material to the reporting entity required by paragraph 21(b)(ii) based on the consolidated financial statements for the joint venture or associate if it has subsidiaries (based on the financial statements in which its joint ventures or associates are equity accounted if it does not have subsidiaries).

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

Appendix C—submission received

D1. We have copied the submission received without modification, but we have deleted details that would identify the submitter of that request to preserve its anonymity.

POTENTIAL AGENDA ITEM REQUEST

Clarification about IFRS 12 *Disclosure of Interests in Other Entities*

Dear Mr. Stewart,

IFRS 12 *Disclosure of Interests in Other Entities* requires reporting entities to disclose information that enables users to assess the nature and financial effects of the reporting entity's relationship with other entities. We would appreciate a clarification of a particular issue in respect of the disclosure of information on a subsidiary that has non-controlling interests that are material to the reporting entity.

Issue - Whether the required information in respect of subsidiaries with material non-controlling interests (IFRS 12.10(a)(ii), 12(e)–(g), B10(b), B11) should be disclosed on a single subsidiary (i.e. legal entity) or should take into account also investees of that subsidiary (subgroups, where the subsidiary is a group of undertakings, that is it has subsidiaries, joint ventures or associates of its own).

Based on our understanding IFRS 12 does not specify on which basis the required summarised financial information has to be prepared, other than state that it should be the amounts before inter-company eliminations (paragraph B11).

Current practice - We see currently no established practice. Although IFRS 12 has to be applied for annual periods beginning on or after 1 January 2013, within the EU the standard becomes mandatory for 2014 year ends (apart from single early applications).

We would appreciate if IFRS Interpretations Committee could clarify this particular issue as otherwise preparer might enter into a field of divergent interpretation alternatives for these disclosure requirements. Hereinafter we outline what we believe are the different alternatives that an entity may take.

Alternative 1: Disclosures for a single subsidiary (i.e. legal entity)

In this case, a reporting entity would present the summarised financial information in accordance with the amounts included in the standalone IFRS financial statements of the single subsidiary (i.e. legal entity) that have material non-controlling interests. Alternative 1 is supported on the premise that paragraph BC29 implies the required information should be disclosed on an individual basis: "(…) the Board does not think that this requirement to provide information about subsidiaries with material non-controlling interests will be particularly onerous to prepare. This is because an entity should have the information available in preparing its consolidated financial statements." Furthermore, this approach complies with paragraph B10 ("For each subsidiary") and paragraph B11 ("amounts before inter-company eliminations").

Alternative 2: Disclosures for a subsidiary including its investees (i.e. subgroups)

In contrast, alternative 2 takes into account the investees of a subsidiary that has material non-controlling interests (i.e. subgroup, where the subsidiary is a group of undertakings that is it has subsidiaries, joint ventures or associates of its own). In this case a reporting entity would provide the summarised financial information on a subgroup with material non-controlling interests rather on a single subsidiary. Applying this alternative, amounts presented in the summarised financial information could either (a) reflect the amounts of the subgroup included in the consolidated financial statements of the reporting entity (contribution view) or (b) reflect the amounts from additional consolidated financial statements of the subgroup (standalone view).

(a) Amounts of the reporting entities of the subgroup included in the consolidated financial statements of the reporting entity: From our view, this approach would be in conflict with the disclosure requirements in paragraph B11 as the disclosed financial information would include inter-company eliminations.

(b) Amounts of a subgroup consolidated financial statements: In this case a reporting entity would be forced to prepare additional consolidated financial statements of subgroups for meeting IFRS 12 disclosure requirements only. This requirement would be highly contrary to BC29 because the reporting entity does not obtain relevant information during preparation of its consolidated financial statements. An implementation of the necessary processes would be highly cost-intensive and time-consuming and we believe that the desired improvements in terms of comparability and transparency do not outweigh those costs.

Considering all arguments we see alternative 1 as the appropriate way as this approach complies with all disclosure requirements of IFRS 12, as stated above. Whereas alternative 2 (a) would not be in accordance with paragraph B11 and alternative 2 (b) would result in a disproportionate cost-benefit ratio contrary to BC29.

Reasons for the IFRS Interpretations Committee to address the issue

(a) Is the issue widespread and has, or is expected to have, a material effect on those affected?

We expect this issue to be very widespread, because IFRS 12 is relevant to all entities in different sectors with subsidiaries that have material non-controlling interests. In practice complex group structures, in particular subsidiaries as is a group of undertakings, are predominant.

(b) Would financial reporting be improved through the elimination, or reduction, of diverse reporting methods?

Financial reporting would be improved; specifically with respect to comparability between entities.

(c) Can the issue be resolved efficiently within the confines of IFRSs and the Conceptual Framework for Financial Reporting?

We consider that this issue could be resolved by additional guidance in IFRS 12 (e.g. illustrative examples or application guidance).

(d) Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process?

We expect the Interpretations Committee can address this issue in an efficient manner.

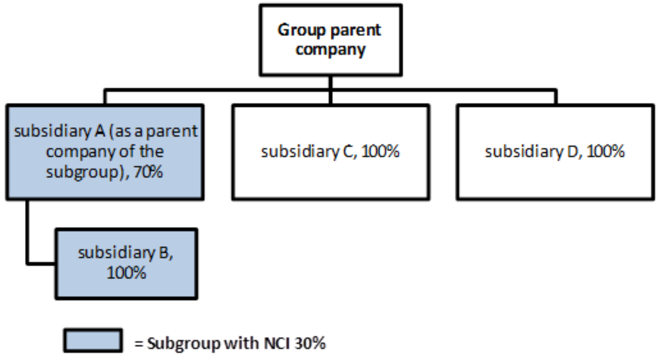
(e) Will the solution developed by the Interpretations Committee be effective for a reasonable time period?

The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified. We expect a solution would be effective for a reasonable time period as IFRS 12 has to be applied since annual periods beginning on or after 1 January 2013.

Appendix D—Illustration of the views raised by the submitter

Disclosures for subsidiaries with material NCI (IFRS 12.10(a)(ii), 12(e)–(g), B10(b), B11) | Example of view 1, 2(a) and 2(b) for revenues

Group structure



Overview of revenues by group companies

Group with subsidiaries with material NCI (30%)

Subgroup with NCI 30%

Subsidiary A
Revenues — €100 subsidiary B; €50 subsidiary C; €250 outside the group

Subsidiary B
Revenues — €250 subsidiary A; €50 outside the group

Subsidiary C
Revenues — €40 subsidiary D; €160 outside the group

Subsidiary D
Revenues — €100 outside the group

outside the group = third pary

	Subsidiary A	Subsidiary B	Subsidiary C	Subsidiary D	sum
Total revenues	**400**	**300**	**200**	**100**	1000
Intercompany revenue with subsidiary A		250			250
Intercompany revenue with subsidiary B	100				100
Intercompany revenue with subsidiary C	50				50
Intercompany revenue with subsidiary D			40		40
Outside the group	250	50	160	100	560

Consolidated Financial Statements of the Group parent company

Revenues 560

Revenues of 610 comprise the revenues against outside the group by subsidiaries A, B, C and D

	Subsidiary A	Subsidiary B	Subsidiary C	Subsidiary D	sum
Total revenues	**400**	**300**	**200**	**100**	**1000**
Intercompany revenue with subsidiary A		250			250
Intercompany revenue with subsidiary B	100				100
Intercompany revenue with subsidiary C	50				50
Intercompany revenue with subsidiary D			40		40
Outside the group	**250**	**50**	**160**	**100**	560

Alternative 1: **reflecting the amounts of the subsidiary A with material NCI as a legal entity**

Revenues 400

Revenues of 400 comprise all revenues by subsidiaries A

Disclosures in accordance with IFRS12 pB10 (among other):	
non-current assets	...
current assets	...
non-current liabilities	...
current liabilities	...
revenue	400
profit or loss	...
total comprehensive income	...

subsidiary with material NCI

	Subsidiary A	Subsidiary B	Subsidiary C	Subsidiary D	sum
Total revenues	**400**	**300**	**200**	**100**	**1000**
Intercompany revenue with subsidiary A		250			250
Intercompany revenue with subsidiary B	**100**				100
Intercompany revenue with subsidiary C	**50**				50
Intercompany revenue with subsidiary D			40		40
Outside the group	**250**	50	160	100	560

Alternative 2(a): **reflecting the amounts of the subgroup included in the consolidated financial statements of the group parent company (contribution view)**

Subgroup (including A and B):

Revenues 300

Revenues of 350 comprise the revenues against outside the whole group by subsidiaries A and B

Disclosures in accordance with IFRS12 pB10 (among other):	
non-current assets	...
current assets	...
non-current liabilities	...
current liabilities	...
revenue	300
profit or loss	...
total comprehensive income	...

subgroup with material NCI

	Subsidiary A	Subsidiary B	Subsidiary C	Subsidiary D	sum
Total revenues	**400**	**300**	**200**	**100**	**1000**
Intercompany revenue with subsidiary A		250			250
Intercompany revenue with subsidiary B	100				100
Intercompany revenue with subsidiary C	50				50
Intercompany revenue with subsidiary D			40		40
Outside the group	**250**	**50**	160	100	560

Alternative 2(b): **reflecting the amounts from additional consolidated financial statements of the subgroup (standalone view)**

Subgroup (including A and B):

Revenues 350

Revenues of 400 comprise the revenues against outside the subgroup (against C and ouside the group)

Disclosures in accordance with IFRS12 pB10 (among other):	
non-current assets	...
current assets	...
non-current liabilities	...
current liabilities	...
revenue	350
profit or loss	...
total comprehensive income	...

	subgroup with material NCI				
	Subsidiary A	Subsidiary B	Subsidiary C	Subsidiary D	sum
Total revenues	**400**	**300**	**200**	**100**	**1000**
Intercompany revenue with subsidiary A		250			250
Intercompany revenue with subsidiary B	100				100
Intercompany revenue with subsidiary C	50				50
Intercompany revenue with subsidiary D			40		40
Outside the group	**250**	**50**	160	100	560