



# IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS

## FACT SHEET

This fact sheet is based on existing requirements as at 31 December 2015 and does not take into account recent standards and interpretations that have been issued but are not yet effective.

### **IMPORTANT NOTE**

**This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.**

## IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IFRS 10 is applicable for annual reporting periods commencing on or after 1 January 2013. Earlier application is permitted. If an entity applies this IFRS earlier, it shall disclose that fact and apply IFRS 11, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011) at the same time.

## OBJECTIVE

IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

## SCOPE

A parent need not present consolidated financial statements if and only if:

- a. the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
- b. the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- c. the parent did not file nor is in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and
- d. the ultimate or any intermediate parent of the parent produces financial statements available for public use that comply with IFRSs in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this standard.

IFRS 10 does not apply to post-employment benefit plans or other long-term employee benefit plans to which IAS 19 *Employee Benefits* applies. Furthermore, an investment entity shall not present consolidated financial statements if it is required to measure all of its subsidiaries at fair value through profit or loss in accordance with paragraphs 31-33 of this Standard.

## CONTROL

An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

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. Accordingly, an investor controls an investee if and only if the investor has all the following:

- a. power over the investee;
- b. exposure, or rights, to variable returns from its involvement with the investee; and
- c. the ability to use its power over the investee to affect the amount of the investor's returns.

Summary table of the three elements needed to achieve control:-

Power	Variable returns	Ability to use power to affect returns
<ul style="list-style-type: none"> <li>arises from existing rights that give the current ability to direct the 'relevant activities'</li> </ul>	<ul style="list-style-type: none"> <li>retains concept that control conveys the rights to returns from an investee</li> </ul>	<ul style="list-style-type: none"> <li>an investor with decision making rights needs to determine whether it is a principal or an agent</li> </ul>
<ul style="list-style-type: none"> <li>in straightforward cases this will be where an investor has &gt; 50% of an investee's voting rights</li> </ul>	<ul style="list-style-type: none"> <li>uses term 'returns' rather than 'benefits' because 'benefits' are often interpreted to imply only positive returns</li> </ul>	<ul style="list-style-type: none"> <li>an investor that is an agent does not control an investee when it exercises decision making rights delegated to it</li> </ul>
<ul style="list-style-type: none"> <li>rights must be substantive</li> </ul>	<ul style="list-style-type: none"> <li>encompasses synergistic returns as well as more direct returns such as dividends or changes in the value of an investment</li> </ul>	
<ul style="list-style-type: none"> <li>protective rights are ignored</li> </ul>	<ul style="list-style-type: none"> <li>it is the potential to receive returns that is important.</li> </ul>	
<ul style="list-style-type: none"> <li>'relevant activities' are activities of the investee that significantly affect the investee's returns.</li> </ul>		

### Power

An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. For the purpose of assessing power, only substantive rights and rights that are not protective shall be considered.

IFRS 10 sets out requirements on how to apply the control principle in circumstances:

- When voting rights or similar rights give an investor power, including situations where the investor holds less than a majority of voting rights and in circumstances involving potential voting rights.
- When an investee is designed so that voting rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.
- Involving agency relationships.
- When the investor has control only over specified assets of an investee.

**Circumstances when voting rights or similar rights give an investor power**

IFRS 10 envisages a number of different ways in which an entity can have power over another entity. In the most straightforward cases control arises by owning over 50% of the voting rights. However, an entity may still have sufficient power with less than half the voting rights. The following table lists some examples:

Examples	Explanation
a. a contractual arrangement between the investor and other vote holders	<ul style="list-style-type: none"> <li>A contractual agreement may, for example, enable an investor to direct enough other vote holders on how to vote to enable the investor to have control</li> </ul>
b. rights arising from other contractual arrangement	<ul style="list-style-type: none"> <li>Other decision-making rights, in combination with voting rights, can give an investor the current ability to direct the relevant activities of an entity.</li> </ul>
c. the investor's voting rights	<ul style="list-style-type: none"> <li>The investor's voting rights might be sufficient to enable it to direct the relevant activities of the investee even though it has less than 50% of the votes</li> <li>An example could be where the direction of relevant activities is determined by majority vote and an investor holds significantly more voting rights than any other vote holder or organised group of vote holders, and the other shareholdings are widely dispersed</li> <li>If it is still unclear whether control exists or not, additional facts and circumstances are considered.</li> </ul>
d. potential voting rights	<ul style="list-style-type: none"> <li>Potential voting rights are considered only if they are substantive</li> </ul>
e. a combination of a–d.	<ul style="list-style-type: none"> <li>For a right to be substantive, it must give the holder the current ability to direct the relevant activities when decisions about those activities need to be made, and the holder must have the practical ability to exercise the right</li> </ul>

**Circumstances where voting rights are not the dominant factor in deciding control**

An investee may be designed so that voting rights are not the dominant factor in deciding who controls the investee. For example, in some entities voting rights relate to administrative tasks and relevant activities are directed by contractual arrangement. In such cases, factors to be considered in assessing control include:

- The purpose and design of the investee:
  - the risks to which the investee was designed to be exposed
  - the risks it was designed to pass on to the parties involved with the investee and whether the investor is exposed to some or all of those risks
  - consideration of the risks includes not only the downside risk, but also the potential for upside.
- The involvement and decisions made at the investee's inception as part of its design:
  - whether contractual arrangements such as call rights, put rights and liquidation rights are sufficient to give the investor power
  - explicit or implicit commitments of the investor to ensure the investee continues to operate as designed.
- Indicators that the investor has the practical ability to direct the relevant activities unilaterally
  - the ability to appoint or approve the investee's key management personnel
  - the ability to enter into, or veto any changes to, significant transactions for the benefit of the investor
  - the ability to dominate the nominations process for electing members of the investee's governing body
  - the investee's key management personnel being related parties of the investor
  - the majority of the members of the investee's governing body being related parties.
- Dependency on the investor for funding or for the provision of critical assets, technology or employees.

**Circumstances involving agency relationships**

IFRS 10 stresses that, for an investor to control an investee, it must not only have power over the investee and exposure or rights to variable returns from its involvement with the investee, but also the ability to use its power to affect the returns from its involvement with that investee. This means that an investor with decision-making rights needs to determine whether it is acting as a principal or as an agent. An investor that is an agent does not control an investee when it exercises its decision making rights, and so does not consolidate it. An investor should also determine whether another entity is acting as an agent for the investor, in which case the decision-making rights delegated to its agent are treated as if held by the investor directly.

In situations where a decision maker is uncertain as to whether it is acting as a principal or as an agent, it should consider:

- the scope of its decision-making authority over the investee
- rights held by other parties
- the remuneration to which it is entitled in accordance with the remuneration agreement(s)
- its exposure to variability of returns from other interests that it holds in the investee

**Control of specified assets**

IFRS 10 does contain guidance on the specific circumstances in which it is appropriate to consolidate a portion of an investee as a deemed separate entity. An investor shall treat a portion of an investee as a deemed separate entity if and only if the following condition is satisfied:

“Specified assets of the investee (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the investee. Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. In substance, none of the returns from the specified assets can be used by the remaining investee and none of the liabilities of the deemed separate entity are payable from the assets of the remaining investee. Thus, in substance, all the assets, liabilities and equity of that deemed separate entity are ring-fenced from the overall investee. Such a deemed separate entity is often called a ‘silo’. (IFRS 10 Appendix B para B77)”

**Continuous assessment**

The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

**ACCOUNTING REQUIREMENTS****Consolidation procedures**

Consolidated financial statements:

- a. combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries;
- b. eliminate the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (IFRS 3 *Business Combinations* explains how to account for any related goodwill); and
- c. eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. IAS 12 *Income Taxes* applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

**Uniform Accounting Policies**

A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners).

**Non-Controlling Interests**

A parent shall present non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

**Loss of Control**

If a parent loses control of a subsidiary, the parent:

- a. derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position;
- b. recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs; and
- c. recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

### Investment entities

An investment entity is defined as “an entity that:

- a. obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- b. commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- c. measures and evaluates the performance of substantially all of its investments on a fair value basis.
- d. In assessing whether the above definition is met, an entity is required to consider whether it has the following characteristics which are typical of an investment entity:
  - multiple investments
  - multiple investors
  - investors that are not related parties of the entity
  - ownership interests in the form of equity or similar interests

The absence of any of these characteristics does not necessarily preclude an entity from being classified as an investment entity, however additional disclosure would be required to justify how its activities are consistent with an investment entity.

An entity that meets the definition of an investment entity is required to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*, rather than consolidate them.

### Parent and subsidiary reporting periods

IFRS 10 requires the financial statements of the parent and its subsidiaries to have the same reporting period.

If the reporting periods of the parent and subsidiaries differ, the subsidiary must prepare additional financial statements for consolidation purposes with the same reporting period as the parent. If it is impracticable to prepare additional financial statements, the subsidiary's financial statements used for consolidation purposes with a different reporting period are acceptable, provided:

- its financial statements are adjusted for the effects of significant transactions or events that occur between the subsidiary's reporting period and that of its parent
- the difference between the reporting periods is no more than three months

## DISCLOSURES

All disclosure requirements are contained within IFRS 12 *Disclosure of Interests in Other Entities*.

## DEFINITIONS

<b>Consolidated financial statements</b>	The financial statements of a <b>group</b> in which the assets, liabilities, equity, income, expenses and cash flows of the <b>parent</b> and its <b>subsidiaries</b> are presented as those of a single economic entity.
<b>Control of an investee</b>	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.
<b>Group</b>	A <b>parent</b> and its <b>subsidiaries</b> .
<b>Non-controlling interest</b>	Equity in a <b>subsidiary</b> not attributable, directly or indirectly, to a <b>parent</b> .
<b>Parent</b>	An entity that <b>controls</b> one or more entities.
<b>Power</b>	Existing rights that give the current ability to direct the <b>relevant activities</b>
<b>Protective rights</b>	Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.
<b>Relevant activities</b>	Activities of the investee that significantly affect the investee's returns.
<b>Subsidiary</b>	An entity that is controlled by another entity.



## AUSTRALIAN SPECIFIC REQUIREMENTS

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The equivalent Australian standard is AASB 10 *Consolidated Financial Statements* and is applicable for annual reporting periods commencing on or after 1 January 2013.

In accordance with AASB 10, the ultimate Australian parent is required to present consolidated financial statements that consolidate its investments in subsidiaries when either the parent or the group is a reporting entity or both the parent and the group are reporting entities (AASB 10.Aus4.2).

AASB 10 is applicable to for-profit entities for annual reporting periods beginning on or after 1 January 2013 and to not-for-profit entities for annual reporting periods beginning on or after 1 January 2014.

On 4 November 2013, the AASB issued AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities*. AASB 2013-8 added an appendix to AASB 10 to explain and illustrate how the principles in AASB 10 apply from the perspective of not-for-profit entities in the private and public sectors, particularly to address circumstances where a for-profit perspective does not readily translate to a not-for-profit perspective. Similarly, it added an appendix to AASB 12 *Disclosure of Interests in Other Entities*, in relation to structured entities. These appendices do not apply to for-profit entities or affect their application of AASB 10 and AASB 12.

AASB 2013-8 applies to annual reporting periods beginning on or after 1 January 2014.

## OTHER MATTERS

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