

International Financial Reporting Standard IFRS 12

Disclosure of Interests in Other Entities

January 2022

BASIS FOR CONCLUSIONS

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Basis for Conclusions on IFRS 12 *Disclosure of Interests in Other Entities*

This Basis for Conclusions accompanies, but is not part of, IFRS 12.

Introduction

- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in developing IFRS 12 *Disclosure of Interests in Other Entities*. Individual Board members gave greater weight to some factors than to others.
- BC2 Users of financial statements have consistently requested improvements to the disclosure of a reporting entity's interests in other entities to help identify the profit or loss and cash flows available to the reporting entity and determine the value of a current or future investment in the reporting entity.
- BC3 They highlighted the need for better information about the subsidiaries that are consolidated, as well as an entity's interests in joint arrangements and associates that are not consolidated but with which the entity has a special relationship.
- BC4 The global financial crisis that started in 2007 also highlighted a lack of transparency about the risks to which a reporting entity was exposed from its involvement with structured entities, including those that it had sponsored.
- BC5 IFRS 12 addresses the disclosure of a reporting entity's interests in other entities when the reporting entity has a special relationship with those other entities, ie it controls another entity, has joint control of or significant influence over another entity or has an interest in an unconsolidated structured entity.
- BC6 In developing IFRS 12, the Board considered the responses to its exposure drafts, ED 9 *Joint Arrangements* and ED 10 *Consolidated Financial Statements*. ED 9 proposed amendments to the disclosure requirements for joint ventures and associates to align more closely the disclosure requirements for those two types of investments. ED 10 proposed amendments to the disclosure requirements for subsidiaries and new disclosure requirements for unconsolidated structured entities.
- BC7 During its consideration of the responses to ED 9 and ED 10, the Board identified an opportunity to integrate and make consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in a single IFRS. The Board observed that the disclosure requirements of IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* overlapped in many areas. In addition, many respondents to ED 10 commented that the disclosure requirements for interests in unconsolidated structured entities should not be located in a consolidation standard. Therefore, the Board concluded that a combined disclosure standard for interests in other entities would make it easier to

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understand and apply the disclosure requirements for subsidiaries, joint ventures, associates and unconsolidated structured entities.

- BC8 The Board decided to extend the scope of IFRS 12 to interests in joint operations. A joint operation is a joint arrangement that is not necessarily structured through an entity that is separate from the parties to the joint arrangement. Therefore, an interest in a joint operation does not necessarily represent an interest in another entity. The Board decided to include disclosure requirements for joint operations in IFRS 12 because it believes that the benefits of having all disclosure requirements for joint arrangements in one place outweighs the disadvantages of including disclosure requirements about interests in joint operations in a standard that otherwise deals with an entity's interests in other entities.

Clarification of the scope of the Standard (amendments issued in December 2016)

- BC8A The Board was asked to clarify the scope of IFRS 12 with respect to interests in entities within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Paragraph B17 states that an entity is not required to disclose summarised financial information in accordance with paragraphs B10–B16 for interests classified as held for sale. However, the requirements in paragraph 5B of IFRS 5 made it unclear whether all other requirements in IFRS 12 apply to interests in entities classified as held for sale or discontinued operations in accordance with IFRS 5.
- BC8B The Board noted that it had not intended to exempt an entity from all of the disclosure requirements in IFRS 12 with respect to interests in entities classified as held for sale or discontinued operations. The objective of IFRS 12 (ie to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities, and the effects of those interests on financial statements) is relevant to interests in other entities, regardless of whether they are within the scope of IFRS 5.
- BC8C Accordingly, in *Annual Improvements to IFRS Standards 2014–2016 Cycle*, the Board added paragraph 5A to clarify that, except as described in paragraph B17, the requirements in IFRS 12 apply to interests in entities within the scope of IFRS 5—ie interests that are classified (or included in a disposal group that is classified) as held for sale, held for distribution to owners in their capacity as owners, or discontinued operations. Paragraph 5A refers only to interests that are classified as held for sale or discontinued operations because the clarification was needed only for interests referred to in paragraph 5B of IFRS 5.
- BC8D A few respondents to the Board's proposals suggested that the Board consider which requirements in IFRS 12 are particularly relevant for interests in entities within the scope of IFRS 5, and specify that an entity applies only those relevant requirements.

- BC8E The Board decided not to change the proposals in this respect. Although acknowledging that some requirements in IFRS 12 might be more relevant to interests within the scope of IFRS 5 than others, the Board noted that this is also true for interests not within the scope of IFRS 5. This is because the relevance of each disclosure requirement for particular interests depends on the specific facts and circumstances relating to such interests. This is implicit in the requirements in paragraph 4, which require an entity to apply judgement in determining the amount of information to disclose about its interests in other entities to satisfy the disclosure objective.
- BC8F In response to the Board's proposal to apply the amendments retrospectively, a few respondents asked the Board to consider whether to provide transition relief for interests in entities disposed of before or during the first year of application.
- BC8G The Board decided not to provide such transition relief because: (a) the incremental costs of collecting data and preparing information are not expected to be significant—this is because such information is needed for disclosure before the interests are classified as held for sale or discontinued operations; and (b) it would be inconsistent with IFRS 12, which requires disclosure even when an entity no longer has any contractual involvement with another entity.
- BC8H The Board decided on an effective date of 1 January 2017 for the amendments. Because the requirements in IFRS 12 generally apply only to annual financial statements, an effective date of 1 January 2017 would typically mean that the earliest an entity would be required to apply the amendments would be within financial statements for the year ended 31 December 2017. Accordingly, an effective date of 1 January 2017 provides an entity with more than a year to prepare to implement the amendments. In addition, the Board noted that the amendments are clarifying in nature.
- BC8I The Board decided that an option to apply the amendments early is not necessary. This is because an entity is not prohibited from disclosing additional information.

The structure of IFRS 12 and the Board's deliberations

- BC9 IFRS 12 replaces the disclosure requirements in IAS 27, IAS 28 and IAS 31, except for the disclosure requirements that apply only when preparing separate financial statements, which are included in IAS 27 *Separate Financial Statements*.
- BC10 Unless otherwise stated, any references in this Basis for Conclusions to:
- (a) IAS 27 are to IAS 27 *Consolidated and Separate Financial Statements*.
 - (b) IAS 28 are to IAS 28 *Investments in Associates*.
 - (c) IAS 31 are to IAS 31 *Interests in Joint Ventures*.

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- BC11 In developing IFRS 12, the Board did not reconsider all the requirements that are included in the IFRS. The requirements in paragraphs 11, 18 and 19 relate to disclosures about some of the accounting requirements in IFRS 10 *Consolidated Financial Statements*, which were carried forward from IAS 27 to IFRS 10 without being reconsidered by the Board. Consequently, the Board did not reconsider the requirements in those paragraphs. In addition, the requirements in paragraph 22 relate to disclosures about the application of the equity method and restrictions on the ability of joint ventures and associates to transfer funds to the reporting entity. The Board did not reconsider the equity method as part of its joint ventures project. Consequently, and with the exception of its decision to align the requirements for joint ventures and associates as stated in paragraph BC6, the requirements in paragraph 22 were carried forward from IAS 28 without being reconsidered by the Board. Accordingly, when the Board approved IFRS 12 for issue, it brought forward from IAS 27 and IAS 28 without reconsideration the requirements now in paragraphs 11, 18, 19 and 22 of IFRS 12.
- BC12 When revised in 2003, IAS 27 was accompanied by a Basis for Conclusions summarising the considerations of the Board, as constituted at the time, in reaching some of its conclusions in that standard. The Basis for Conclusions was subsequently updated to reflect amendments to the standard. For convenience, the Board has incorporated into its Basis for Conclusions on IFRS 12 material from the Basis for Conclusions on IAS 27 that discusses the requirements in paragraphs 18 and 19 that the Board has not reconsidered. That material is contained in paragraphs BC37–BC41. In those paragraphs cross-references to the IFRS have been updated accordingly and minor necessary editorial changes have been made.
- BC13 As part of its consolidation project, the Board is examining how an investment entity accounts for its interests in subsidiaries, joint ventures and associates and what, if any, additional disclosures might be made about those interests. The Board expects to publish later in 2011 an exposure draft on investment entities.¹

Significant judgements and assumptions

- BC14 The assessment of whether an entity controls another entity sometimes requires judgement. Paragraph 122 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

¹ *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating those subsidiaries. In addition, the amendments introduce new disclosure requirements related to investment entities in IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*. The amendments are discussed in paragraphs BC215–BC317 of IFRS 10 *Consolidated Financial Statements*, and the disclosure requirements are discussed in paragraphs BC61A–BC61H of this IFRS.

- BC15 IAS 27 and IAS 28 supplemented the general disclosure requirement in IAS 1 with more specific requirements relating to an entity's decision about whether it controls or has significant influence over another entity. Those standards required disclosure of information when an entity's control or significant influence assessment was different from the presumptions of control or significant influence in IAS 27 and IAS 28 (ie more than 50 per cent voting power for control and 20 per cent or more voting power for significant influence).
- BC16 The Board decided to replace the specific disclosure requirements in IAS 27 and IAS 28 with a principle that an entity must disclose all significant judgements and assumptions made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest. Moreover, the requirement for such disclosures should not be limited to particular scenarios. Instead, disclosure should be required for all situations in which an entity applies significant judgement in assessing the nature of its interest in another entity. The disclosure requirements formerly in IAS 27 and IAS 28 in this respect were included as examples of situations for which significant judgement might need to be applied.
- BC17 ED 10 proposed that, for two particular scenarios for which the control assessment was different, an entity should provide information, in aggregate, that would help users evaluate the accounting consequences of the decision to consolidate another entity.
- BC18 Most users supported the proposal. However, other respondents to ED 10 expressed the view that disclosing such quantitative information about the accounting consequences was a step too far. They were concerned that such a disclosure would encourage 'second-guessing' by users of financial statements and, therefore, replace the judgement made by management with that made by users of financial statements.
- BC19 The Board acknowledged those concerns, but observed that consideration of different scenarios is common practice when analysing financial statements and does not necessarily mean that the judgement of management is replaced with that of other parties. However, the Board noted that IFRS 3 *Business Combinations* requires an entity to disclose information that enables users of financial statements to evaluate the nature and financial effect of a business combination—ie when an entity obtains control of another business or businesses. Furthermore, if an entity's assessment that it does not control another entity requires significant judgement, the entity will often conclude that it has either joint control of or significant influence over that other entity. The Board observed that IFRS 12 will require an entity to disclose quantitative information about its interests in joint ventures and associates, and information about its exposure to risk from its interests in unconsolidated structured entities. Therefore, the Board concluded that there was no need for a separate requirement to disclose quantitative information to help assess the accounting consequences of an entity's decision to consolidate (or not to consolidate) another entity.

Interests in subsidiaries

- BC20 IFRS 12 requires an entity to disclose information that enables users of 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; and
 - (b) to evaluate:
 - (i) the nature and the effect of significant restrictions on its ability to access and use assets of the group, and settle liabilities of the group;
 - (ii) the nature of, and changes in, the risks associated with its interests in consolidated structured entities;
 - (iii) the consequences of changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
 - (iv) the consequences of losing control of a subsidiary during the reporting period.

Composition of the group and non-controlling interests

- 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.
- BC22 When the Board was developing IFRS 12, users informed the Board that, as part of their analysis of financial statements, they need to identify profit or loss and cash flows attributable to the shareholders of the parent and those attributable to non-controlling interests.
- BC23 IAS 1 provides some of the information necessary to perform the valuations by requiring an entity to present:
- (a) in the statement of financial position, the non-controlling interest within equity;
 - (b) in the statement of comprehensive income, profit or loss and total comprehensive income for the period attributable to the non-controlling interest; and
 - (c) in the statement of changes in equity, a reconciliation between the non-controlling interest at the beginning of the period and the end of the period.

- 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.
- BC25 Those users of financial statements also requested specific disclosure requirements in this respect, rather than simply a disclosure objective as was proposed in ED 10. In their view, only specific disclosure requirements would enhance their ability to estimate the profit or loss and cash flows attributable to the ordinary shareholders of the parent and provide comparable information for different entities. Users specifically requested additional financial information about consolidated entities.
- BC26 The Board was convinced by those comments and decided to require an entity to provide the following information for each subsidiary that has non-controlling interests that are material to the group:
- (a) *the name of the subsidiary*, because naming subsidiaries that have non-controlling interests that are material to the group helps users search for other information that might be useful for their analysis of the subsidiary.
 - (b) *the principal place of business (and country of incorporation, if different)*, because this helps users understand the political, economic and currency risks associated with those subsidiaries and the laws with which those subsidiaries must comply.
 - (c) *the proportion of ownership interests held by non-controlling interests; if different, the proportion of voting rights held by non-controlling interests; profit or loss allocated to non-controlling interests and accumulated non-controlling interests at the end of the reporting period*, because this information helps users understand the profit or loss and cash flows attributable to the shareholders of the parent and the amount attributable to non-controlling interests.
 - (d) *summarised financial information for the subsidiary*, because this information helps users understand the profit or loss and cash flows attributable to the shareholders of the parent and the amount attributable to non-controlling interests.
- BC27 The Board believes that the disclosures required will help users when estimating future profit or loss and cash flows by identifying, for example:
- (a) the assets and liabilities that are held by subsidiaries;
 - (b) risk exposures of particular group entities (eg by identifying which subsidiaries hold debt); and
 - (c) those subsidiaries that generate significant cash flows.

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- 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.

Restrictions on assets and liabilities

- BC30 IAS 27 required disclosures about the nature and extent of significant restrictions on the ability of subsidiaries to transfer funds to the parent. Users of financial statements noted that, in addition to legal requirements, the existence of non-controlling interests in a subsidiary might restrict the subsidiary's ability to transfer funds to the parent or any of its other subsidiaries. However, the disclosure requirement in IAS 27 regarding significant restrictions did not refer explicitly to non-controlling interests.
- BC31 Accordingly, the Board decided to amend the requirement in IAS 27 to disclose restrictions in order to clarify that the information disclosed should include the nature and extent to which protective rights of non-controlling interests can restrict the entity's ability to access and use the assets and settle the liabilities of a subsidiary.
- BC32 In response to concerns raised by respondents to ED 10 about the extent of the disclosure requirement, the Board decided to limit the disclosures to information about the nature and effect of *significant* restrictions on an entity's ability to access and use assets or settle liabilities of the group. In reaching that decision, the Board confirmed that the proposal was never intended to require an entity to disclose, for example, a list of all the protective rights held by non-controlling interests that are embedded in law and regulation.
- BC33 The Board also confirmed that the restrictions required to be disclosed by IFRS 12 are those that exist because of the legal boundaries within the group, such as restrictions on transferring cash between group entities. The requirement in IFRS 12 is not intended to replicate those in other IFRSs relating to restrictions, such as those in IAS 16 *Property, Plant and Equipment* or IAS 40 *Investment Property*.

Risks associated with an entity's interests in consolidated structured entities

- BC34 An entity can be exposed to risks from both consolidated and unconsolidated structured entities. The Board concluded that it would help users of financial statements in understanding an entity's exposure to risks if the entity disclosed the terms of contractual arrangements that could require it to provide financial support to a consolidated structured entity, including events or circumstances that could expose the entity to a loss.
- BC35 The Board concluded for the same reason that an entity should disclose its risk exposure from non-contractual obligations to provide support to both consolidated and unconsolidated structured entities (see paragraphs BC102–BC106).
- BC36 The Board noted that US generally accepted accounting principles (GAAP) require similar disclosures, which have been well received by users of financial statements in the US.

Changes in ownership interests in subsidiaries

- BC37 In its deliberations in the second phase of the business combinations project, the US Financial Accounting Standards Board (FASB) decided to require entities with one or more partially-owned subsidiaries to disclose in the notes to the consolidated financial statements a schedule showing the effects on the controlling interest's equity of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control.
- BC38 In the exposure draft proposing amendments to IAS 27 published in 2005, the Board did not propose to require this disclosure. The Board noted that IFRSs require this information to be provided in the statement of changes in equity or in the notes to the financial statements. This is because IAS 1 requires an entity to present, within the statement of changes in equity, a reconciliation between the carrying amount of each component of equity at the beginning and end of the period, disclosing separately each change.
- BC39 Many respondents to the 2005 exposure draft requested more prominent disclosure of the effects of transactions with non-controlling interests on the equity of the owners of the parent. Therefore, the Board decided to converge with the FASB's disclosure requirement and to require that if a parent has equity transactions with non-controlling interests, it should disclose in a separate schedule the effects of those transactions on the equity of the owners of the parent.
- BC40 The Board understands that some users will be interested in information pertaining only to the owners of the parent. The Board expected that the presentation and disclosure requirements of IAS 27, as amended in 2008, would meet their information needs. (These presentation and disclosure requirements are now included in IFRS 12.)

Loss of control

- BC41 The Board decided that the amount of any gain or loss arising on the loss of control of a subsidiary, including the portion of the gain or loss attributable to recognising any investment retained in the former subsidiary at its fair value at the date when control is lost, and the line item in the statement of comprehensive income in which the gains or losses are recognised should be disclosed. This disclosure requirement, which took effect from 1 July 2009, provides information about the effect of the loss of control of a subsidiary on the financial position at the end of, and performance for, the reporting period.

Interests in joint arrangements and associates

- BC42 The Board proposed in ED 9 to align the disclosure requirements for joint ventures and associates by proposing consequential amendments to IAS 28 and by extending the application of some disclosure requirements in IAS 28 to investments in joint ventures.
- BC43 During its consideration of responses to ED 9, the Board questioned whether it was possible to achieve further alignment between the disclosure requirements for joint ventures and associates, to the extent that the nature of the particular type of interest does not justify different disclosure requirements. Although joint control is different from significant influence, the Board concluded that the disclosure requirements for joint arrangements and associates could share a common disclosure objective—to disclose information that enables users of financial statements to evaluate the nature, extent and financial effects of an entity's interests in joint arrangements and associates, and the nature of the risks associated with those interests.

Nature, extent and financial effects of interests in joint arrangements and associates

- BC44 In response to requests from users of financial statements, the Board proposed in ED 9 that an entity should disclose a list and description of investments in significant joint ventures and associates. Respondents to ED 9 generally welcomed the proposal. The Board decided to carry the proposals forward into IFRS 12 with some modifications as described in paragraphs BC45 and BC46.
- BC45 The Board decided to require the information for joint arrangements and associates that are material to the reporting entity rather than for significant joint arrangements and associates. The *Conceptual Framework for Financial Reporting (Conceptual Framework)*² defines materiality whereas the term 'significant' is undefined and can be interpreted differently. Consequently, the Board decided to replace 'significant' with 'material', which is also used in IFRS 3. The Board noted that materiality should be assessed in relation to an entity's consolidated financial statements or other primary financial statements in which joint ventures and associates are accounted for using the equity method.

² References to the *Conceptual Framework* in this Basis for Conclusions are to the *Conceptual Framework for Financial Reporting*, issued in 2010 and in effect when the Standard was developed.

- BC46 In addition, the Board noted that ED 9 unintentionally changed the application of the requirement in IAS 31 to provide a description of interests in all joint arrangements to interests in joint ventures only. As such, the Board modified the requirement so that it would continue to be required for all joint arrangements that are material to an entity.

Summarised financial information

- BC47 IAS 28 and IAS 31 required disclosure of aggregated summarised financial information relating to joint ventures and associates. In response to requests from users of financial statements, ED 9 proposed to expand the requirements so that summarised financial information would be provided for each joint venture that is material to an entity.
- BC48 Respondents to ED 9 generally agreed that summarised financial information should be provided. Some had concerns about confidentiality when providing summarised financial information on an individual basis for some joint ventures that were established to implement a single project. Others, including users of financial statements, were concerned that the elimination of proportionate consolidation would result in a loss of information. They therefore requested more detailed disclosures so that the effect of joint ventures on the activities of an entity could be better understood. They stated that there was a need for a detailed breakdown of current assets and current and non-current liabilities (in particular, cash and financial liabilities excluding trade payables and provisions), which would help users understand the net debt position of joint ventures. These users also highlighted the need for a more detailed breakdown of amounts presented in the statement of comprehensive income (such as depreciation and amortisation) that would help when valuing an entity's investment in a joint venture.
- BC49 ED 9 proposed that an entity should present summarised financial information for each material joint venture on the basis of its proportionate interest in the joint venture. The Board reconsidered the proposal, noting that it would be confusing to present the entity's share of the assets, liabilities and revenue of a joint venture or associate when the entity has neither rights to, nor obligations for, the assets and liabilities of the joint venture or associate. Rather, the entity has an interest in the net assets of the joint ventures or associates. Consequently, the Board concluded that an entity should present the summarised financial information for each material joint venture on a '100 per cent' basis, and reconcile that to the carrying amount of its investment in the joint venture or associate.
- BC50 The Board observed that the requirement to present the amounts on a '100 per cent' basis would be appropriate only when the information is disclosed for individual joint ventures and associates. This is because presenting the financial information on a '100 per cent' basis when aggregating that information for all joint ventures or associates would not result in useful information when the entity holds different percentage ownership interests in its joint ventures or associates. In addition, some users and respondents to ED 9 recommended that the disclosures for associates should be aligned with those for joint ventures because investments in

associates can be material and are often strategic to an investor with significant influence. Accordingly, the Board decided that summarised financial information should also be provided for each material associate.

BC51 Nonetheless, the minimum line item disclosures required for each material associate would be less than those required for each material joint venture. The Board noted that an entity is generally more involved with joint ventures than with associates because joint control means that the entity has a right of veto over decisions relating to the relevant activities of the joint venture. Accordingly, the different nature of the relationship between a joint venturer and its joint ventures from that between an investor and its associates warrants a different level of detail in the disclosures of summarised financial information.

BC52 The Board also considered the views of some users who suggested that summarised financial information should be required for joint operations. Assets and liabilities arising from joint operations are an entity's assets and liabilities and consequently are recognised in the entity's financial statements. Those assets and liabilities would be accounted for in accordance with the requirements of applicable IFRSs, and would be subject to the relevant disclosure requirements of those IFRSs. Therefore the Board concluded that entities should not be required to provide summarised financial information separately for joint operations.

Commitments

BC53 ED 9 proposed that an entity should disclose any capital commitments that it has relating to its interests in joint arrangements. IAS 31 had similar requirements.

BC54 When discussing responses to ED 9, the Board examined two aspects of the proposals. The first was whether an entity should separately disclose commitments relating to all types of joint arrangements. The second was the need to maintain the adjective 'capital' when referring to commitments.

BC55 In response to concerns raised by respondents to ED 9, the Board reconsidered the proposals to disclose commitments for all types of joint arrangements. Respondents said that disclosure of commitments relating to joint operations would be of limited value because such commitments would be included within the disclosures of the entity itself. The Board was convinced by those reasons and decided not to require separate disclosure of commitments relating to an entity's interests in joint operations.

BC56 Regarding the nature of the commitments to be disclosed, the Board noted that 'capital commitment' is not a defined term in IFRSs. Consequently, 'capital' could potentially be interpreted to restrict the disclosures only to those commitments that would result in the capitalisation of assets. Instead, the Board concluded that the objective of the disclosure requirement was to provide information about all unrecognised commitments that could result in future operating, investing or financing cash outflows, or in any other type of outflow of resources from the entity in relation to its interests in joint

ventures. Consequently, the Board decided to remove 'capital' from the requirement to disclose commitments.

Contingent liabilities

- BC57 ED 9 carried forward the requirement in IAS 31 regarding contingent liabilities and proposed that an entity should separately disclose contingent liabilities relating to its interests in joint arrangements. The Board reconsidered that proposal in response to concerns raised by respondents to ED 9 who stated that separate disclosure of contingent liabilities relating to joint operations would be of limited value for the reasons noted in paragraph BC55.
- BC58 The Board was again convinced by those reasons and, accordingly, decided not to require separate disclosure of contingent liabilities relating to an entity's interests in joint operations.

Disclosure requirements for venture capital organisations, mutual funds, unit trusts or similar entities that have an interest in a joint venture or associate

- BC59 IAS 28 and IAS 31 established specific disclosure requirements for an entity that had investments in joint ventures or associates when the entity is a venture capital organisation, mutual fund, unit trust or similar entity, including investment-linked insurance funds. The Board discussed whether IFRS 12 should retain the specific disclosure requirements for those types of entities, or whether the disclosure requirements should be the same for all types of entities with interests in joint ventures or associates.
- BC60 With the exception of those disclosures that are required only when using the equity method, the Board concluded that the disclosure requirements for interests in joint ventures and associates should be the same for all entities, regardless of whether those entities are venture capital organisations, mutual funds, unit trusts or similar entities. This decision is consistent with the Board's decision to remove the scope exclusion in IAS 28 and IAS 31 for those entities. The Board decided that such entities that hold interests in joint ventures and associates should not be excluded from the relevant standards. Rather, they are simply permitted to use a different measurement basis (ie fair value) for their investments.

Fair value of investments in joint ventures for which there are published price quotations

- BC61 IAS 28 required an entity to disclose the fair value of investments in associates for which published price quotations were available. Such quotations might also be available for joint ventures. Consequently, the Board decided to align this disclosure requirement by requiring an entity to disclose the fair value of investments in joint ventures for which there are published price quotations.

Investment entities

- BC61A *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) introduced a requirement for investment entities to measure their investments in particular subsidiaries at fair value through profit or loss instead of consolidating them. The Board also decided on specific disclosure requirements for investment entities.
- BC61B In deciding on the appropriate disclosure requirements for investment entities, the Board noted that investment entities would be required to make the disclosures already contained in other Standards. In particular, the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*, IFRS 13 *Fair Value Measurement* and IAS 24 *Related Party Disclosures* are likely to be relevant for users of investment entity financial statements.
- BC61C Users told the Board that disclosures relating to the valuation methodology used for measuring fair value and the underlying inputs are essential to their analyses. This information is already required by IFRS 7 and by IFRS 13 when reporting investments at fair value through profit or loss or other comprehensive income in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*.³ Accordingly, the Board decided that it was not necessary to propose any additional disclosure requirements relating to the fair value measurements made by investment entities.
- BC61D In the Exposure Draft *Investment Entities* (the *Investment Entities* ED), the Board proposed that an investment entity would be required to meet a disclosure objective that addressed all of an investment entity's investing activities. The *Investment Entities* ED also gave a number of examples of ways in which an investment entity could meet that disclosure objective. Respondents generally supported the disclosure guidance. However, the Board noted that it was outside the scope of the *Investment Entities* project to require all investment entities to provide disclosures about their investing activities. Consequently, the Board decided to remove the disclosure objective and the examples on how to meet the objective from the final requirements. Because the *Investment Entities* project focuses on providing an exception to consolidation, the Board decided to limit additional disclosures to information about unconsolidated subsidiaries.
- BC61E The Board also decided to require an investment entity to disclose the fact that it has applied the exception to consolidation, noting that such a disclosure would represent useful information. Moreover, the Board decided to require an investment entity to disclose when it does not display one or more of the typical characteristics of an investment entity, along with a justification of why it still meets the definition of an investment entity.

³ IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

- BC61F The Board considered whether all of the disclosures in this IFRS should apply to the investments in unconsolidated subsidiaries, associates and joint ventures of investment entities. The Board decided that some (eg summarised financial information and information about non-controlling interests) are not applicable to investment entities and are inconsistent with the assertion that fair value information is the most relevant information for investment entities. Consequently, the Board decided to specify the IFRS 12 requirements applicable to the unconsolidated subsidiaries, associates and joint ventures held by investment entities.
- BC61G Consistently with the principles in this IFRS, the Board decided to require an investment entity to disclose when any explicit or implicit financial support has been provided to entities that it controls. The Board concluded that it would help users of financial statements to understand an investment entity's exposure to risk.
- BC61H The Board decided that an investment entity should disclose the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of investees to transfer funds to the investment entity in the form of cash dividends, or repayment of loans or advances. The Board considered this requirement to be useful for investors because such restrictions could potentially affect distributions to investors of the investment entity's returns from investments.
- BC61I In December 2014, the Board issued *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28). This amended paragraph 6(b) of IFRS 12 to clarify the applicability of IFRS 12 to the financial statements of an investment entity. In June 2014, the Board published the Exposure Draft *Investment Entities: Applying the Consolidation Exception* (Proposed amendments to IFRS 10 and IAS 28) (the '*Consolidation Exception* ED'). The comments received in response to the *Consolidation Exception* ED highlighted a lack of clarity about the applicability of IFRS 12 to the financial statements of an investment entity. In particular, the respondents to the *Consolidation Exception* ED pointed out that paragraph 6 of IFRS 12 stated that the Standard did not apply to an entity's separate financial statements without stating the applicability of IFRS 12 to an investment entity. The Board noted that, in contrast, paragraph 16A of IAS 27 *Separate Financial Statements* requires that an investment entity shall present the disclosures relating to investment entities required by IFRS 12. Accordingly, in response to the feedback received, the Board decided to clarify that the scope exclusion in paragraph 6(b) does not apply to the financial statements of a parent that is an investment entity and has measured all of its subsidiaries at fair value through profit or loss in accordance with paragraph 31 of IFRS 10. In such a case, the investment entity shall present the disclosures relating to investment entities required by IFRS 12. The Board also noted that if an investment entity has a subsidiary that it consolidates in accordance with paragraph 32 of IFRS 10, the disclosure requirements in IFRS 12 apply to the financial statements in which the investment entity consolidates that subsidiary.

Interests in unconsolidated structured entities

The need for the disclosure requirements

- BC62 IAS 27 did not require disclosures relating to interests in unconsolidated entities. The Board was asked by users of financial statements, regulators and others (such as the G20 leaders and the Financial Stability Board) to improve the disclosure requirements for what are often described as ‘off balance sheet’ activities. Unconsolidated structured entities, particularly securitisation vehicles and asset-backed financings, were identified as forming part of such activities.
- BC63 The Board concluded that when an entity has an interest in an unconsolidated structured entity, users of financial statements would benefit from information about the risks to which the entity is exposed from that interest. Such information is relevant in assessing the amount, timing and uncertainty of the entity’s future cash flows.
- BC64 As proposed in ED 10, IFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, the entity’s interest in unconsolidated structured entities.
- BC65 Virtually all respondents to ED 10 agreed that there is a need for improved disclosures about an entity’s exposure to risk from ‘off balance sheet’ activities. However, respondents expressed differing views on the nature and amount of information that should be disclosed. Some, including users of financial statements, supported the approach proposed in ED 10 to require disclosure of risks arising from interests in unconsolidated structured entities.
- BC66 Other respondents pointed out that an entity can be exposed to the same risks from having interests in all types of entities. Therefore, they questioned why an entity should be required to provide particular information about its exposure to risk from its interests in unconsolidated structured entities, but not with other unconsolidated entities.
- BC67 Some respondents were also concerned that the proposals would duplicate the risk disclosures in IFRS 7 *Financial Instruments: Disclosures*. IFRS 7 requires an entity to disclose qualitative and quantitative information about risks arising from financial instruments that the entity holds. Those respondents expressed the view that ED 10 proposed disclosures about the counterparties of financial instruments to which the disclosure requirements in IFRS 7 already apply.
- BC68 In addition, some respondents disagreed with the proposals because they suspected that the Board had included the proposed disclosures as a ‘safety net’ because it was concerned that some structured entities might fail the consolidation criteria in ED 10, even though, in their view, consolidation would be appropriate.
- BC69 When deliberating the responses to ED 10, the Board agreed with those respondents who emphasised that disclosures about unconsolidated structured entities cannot replace robust consolidation requirements. The disclosures proposed were never intended to compensate for weaknesses in

the control definition. IFRS 10 documents the Board's determination to develop appropriate and robust consolidation criteria. Rather, the disclosure proposals were intended to complement the consolidation criteria, focusing on an entity's exposure to risk from interests in structured entities that the entity rightly does not consolidate because it does not control them.

- BC70 The Board acknowledged that the same types of risks that the disclosure proposals in ED 10 were intended to capture can arise from an entity's interests in other types of entities and that it may be appropriate to develop risk disclosures that apply to an entity's interests in all types of unconsolidated entities. However, the Board noted that when it proposed the disclosure requirements in ED 10, it intended to provide a timely response to particular information needs identified during the global financial crisis that started in 2007. More specifically, users and regulators had expressed concerns about the lack of disclosure relating to investment and securitisation activities that an entity conducts through structured entities. They asked the Board to introduce specific risk disclosures for an entity's interests in unconsolidated structured entities because those particular interests had exposed entities to significant risks in the past. The proposed disclosure requirements in ED 10 were intended to meet those requests. To go beyond structured entities would delay addressing the concerns raised, which would not be beneficial to users.
- BC71 The Board also noted that addressing disclosures for interests in unconsolidated structured entities would be an opportunity to align the disclosure requirements in IFRSs and US GAAP in this respect.
- BC72 Regarding IFRS 7, the Board agreed with respondents that both requirements will often result in disclosure of the same underlying risks. What is different is how the disclosure requirements describe an entity's risk exposure. IFRS 7 requires qualitative and quantitative disclosures about the credit, liquidity, market and other risks associated with financial instruments. IFRS 12 adopts a different perspective and requires an entity to disclose its exposure to risk from its interest in a structured entity.
- BC73 The Board believes that information from both perspectives assists users of financial statements in their analysis of an entity's exposure to risk—the disclosures in IFRS 7 by identifying those financial instruments that create risk, and the disclosures in IFRS 12 by providing, when relevant, information about:
- (a) the extent of an entity's transactions with structured entities;
 - (b) concentrations of risk that arise from the nature of the entities with which the entity has transactions; and
 - (c) particular transactions that expose the entity to risk.
- BC74 Accordingly, the Board concluded that although the disclosures in IFRS 7 and IFRS 12 regarding unconsolidated structured entities might overlap to some extent, they complement each other.

IFRS 12 BC

- BC75 The Board was also persuaded by information received from users of financial statements in the US, who had been using the disclosures required by US GAAP for variable interest entities in their analysis. Those users confirmed that the new disclosures provided them with information that was not previously available to them, but which they regarded as important for a thorough understanding of an entity's exposure to risk.
- BC76 Many of those users referred also to the global financial crisis and emphasised that a better understanding of an entity's interests in unconsolidated structured entities might have helped to identify earlier the extent of risks to which entities were exposed. Accordingly, those users stated that the new disclosures had significantly improved the quality of financial reporting and strongly encouraged the Board to require similar disclosures for IFRS preparers.
- BC77 The Board considered whether an entity should be required to disclose the information for interests in unconsolidated structured entities as well as for interests in joint ventures or associates if a joint venture or an associate meets the definition of a structured entity. The Board concluded that an entity should provide information that meets both sets of disclosure requirements if it has interests in joint ventures or associates that are structured entities. In reaching this conclusion, the Board noted that an entity should capture most, and in some cases all, of the disclosures required for interests in unconsolidated structured entities by providing the disclosures for interests in joint ventures and associates. Accordingly, the Board does not think that this conclusion should significantly increase the amount of information that an entity would be required to provide.

The scope of the risk disclosures

Interests in unconsolidated structured entities

- BC78 In response to concerns raised by respondents to ED 10 about the scope of the risk disclosures, the Board considered whether it should try to define 'interests in' more narrowly, for example, by stating that an entity would be required to disclose information only about interests that give rise to exposure to loss beyond amounts recognised in its financial statements. However, the Board concluded that any such attempt to narrow the definition of 'interests in' would complicate the guidance and would probably exclude disclosure of information that users would find useful.
- BC79 The Board also considered whether to require disclosure of significant interests in structured entities—some respondents to ED 10 had suggested clarifying that an entity would not be required to disclose information about insignificant interests with structured entities. The Board decided against adding 'significant' for a number of reasons. First, the Board noted that because the concept of materiality underpins the disclosure requirements in IFRS 12 as it does in all other IFRSs, an entity would be required to disclose only information that is material as defined and described in the *Conceptual Framework*. The Board also noted that the term 'significant' is not defined in IFRSs. Comments received on other projects suggest that 'significant' is

interpreted in different ways. The Board concluded that, without defining the term, adding 'significant' would be of no benefit to those using IFRS 12 to prepare or audit financial statements.

BC80 The Board decided to retain the wider definition of 'interest in' (ie an entity's involvement with another entity, whether contractual or non-contractual, that exposes the entity to variability of returns from the performance of the other entity). The Board was convinced by comments received from US preparers, auditors and users about their experience with the US GAAP requirements to disclose information about involvement with variable interest entities. Involvement is not defined by US GAAP but is interpreted in a way similar to how 'interest in' is defined in IFRS 12. US preparers and users generally agreed with the scope of the disclosure requirements—US users of financial statements thought that the revised disclosure requirements provided them with an appropriate degree of detail; US preparers and accountants thought that the disclosure requirements allow entities to focus on presenting information that is considered relevant for users of financial statements. US preparers and accountants also noted that both the aggregation guidance and the requirement that an entity should determine, in the light of facts and circumstances, how much detail it must give to satisfy the disclosure requirements provide sufficient flexibility for preparers.

BC81 Consequently, the Board decided to include in IFRS 12 the requirement to consider the level of detail necessary to meet the disclosure objectives and to include aggregation principles and guidance to assist preparers when determining what level of detail is appropriate.

The definition of a structured entity

BC82 IFRS 12 introduces the term 'structured entity'. The type of entity the Board envisages being characterised as a structured entity is unlikely to differ significantly from an entity that SIC-12 *Consolidation—Special Purpose Entities* described as a special purpose entity (SPE). SIC-12 described an SPE as an entity created to accomplish a narrow and well-defined objective, listing as examples entities established to effect a lease, research and development activities or a securitisation of financial assets.

BC83 The Board considered whether to define a structured entity in a way similar to a variable interest entity (VIE) in US GAAP. US GAAP defines a VIE, in essence, as an entity whose activities are not directed through voting or similar rights. In addition, the total equity at risk in a VIE is not sufficient to permit the entity to finance its activities without additional subordinated financial support. US GAAP contains extensive application guidance to help determine the sufficiency of the equity, including a 10 per cent equity threshold that is generally used to determine whether an entity's equity is sufficient. The Board decided against this approach because it would introduce complicated guidance solely for disclosure purposes that was not previously in IFRSs.

BC84 The Board therefore decided to define a structured entity as an entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity. The Board also decided to include guidance similar to that included in SIC-12 to reflect the Board's intention that the term

'structured entity' should capture a set of entities similar to SPEs in SIC-12. The Board also decided to incorporate some of the attributes of a VIE included in US GAAP. In particular, a structured entity is an entity whose equity is often not sufficient to permit the entity to finance its activities without additional subordinated financial support. The Board reasoned that users had requested risk disclosures relating to structured entities because being involved with such entities inherently exposes an entity to more risk than being involved with traditional operating entities. The increased risk exposure arises because, for example, the entity has restricted activities, is created to pass risks and returns arising from specified assets to investors, or there is insufficient equity to fund losses on the assets, if they arise.

- BC85 The definition does not state that if an entity has insufficient equity at risk, it would always be deemed to be a structured entity. There are two reasons for this. The first is that such a definition would require extensive application guidance to help determine the sufficiency of the equity, similar to US GAAP, to which the Board was opposed for the reasons noted in paragraph BC83. The second is that the Board feared that some traditional operating entities might be caught by such a definition when it had no intention of doing so. For example, a traditional operating entity whose financing had been restructured following a downturn in activities might be deemed to be a structured entity, which was not what the Board intended.

Nature of interest

- BC86 IFRS 12 requires an entity to disclose information that enables users of financial statements to understand the nature of, and changes in, the risks associated with its interests in structured entities (see paragraphs BC92–BC114). As a consequence, an entity would be required to provide disclosures about its exposure to risk when it has sponsored an unconsolidated structured entity and has retained an interest in the structured entity, for example by holding debt or equity instruments of the structured entity.
- BC87 However, that decision would not require an entity to provide disclosures if the entity does not retain any interest in the structured entity through explicit or implicit involvement. The Board received views from many constituents who reasoned that sponsoring a structured entity can create risks for an entity, even though the entity might not retain any interest in the structured entity. If the structured entity encounters difficulties, it is possible that the sponsor could be challenged on its advice or actions, or might choose to act to protect its reputation.
- BC88 IFRS 12 also requires disclosure regarding the provision of financial and other support to a structured entity when there is no contractual obligation to do so and about any current intentions to provide financial support or other assistance in the future (see paragraphs BC102–BC106). Although helpful, the disclosure provides an incomplete picture of an entity's exposure to risk from its sponsoring activities because:

- (a) the disclosure requirement applies only when the entity has provided, or intends to provide, financial support to a structured entity.
- (b) an entity's exposure to risk from its sponsoring activities is broader than the risk to provide implicit support to the structured entity. For example, an entity that does not intend to provide any implicit support might be exposed to litigation risk from sponsoring a failed structured entity.
- (c) there is currently no other disclosure requirement that would inform users of financial statements about an entity's risk exposure from its sponsoring activities. For example, the disclosure requirements in IFRS 7 do not result in such information because there is usually no financial instrument associated with the sponsorship that would trigger the disclosures. The disclosure requirements relating to transfers of financial assets apply only if an entity has transferred its own financial assets to the structured entities that it sponsors. In addition, an unconsolidated structured entity is unlikely to meet the definition of a related party in IAS 24 *Related Party Disclosures*.

BC89 Users said that it would be useful to have information about the scale of an entity's operations that is derived from transactions with unconsolidated structured entities, ie to have more information about an entity's business model and the risks associated with that business model. This would be particularly useful to help understand the likely effect on the performance of an entity attributable to either a loss of income or a restriction on the entity's ability to carry out its usual business activities if there were a significant decrease in the use of structured entities for investing or financing purposes. They noted that during the global financial crisis that started in 2007 investors became concerned about the extent to which entities had been involved with structured investment vehicles. However, few entities disclosed information about the extent of their involvement in establishing such vehicles. It was, therefore, difficult to assess the potential exposure an entity might have. Those users also confirmed that their request for such information precedes the global financial crisis, and is not simply a reaction to it.

BC90 In response to requests from users and others, the Board decided to require an entity to disclose income derived from, and asset information about, structured entities that the entity has sponsored. The Board noted that the requirements are not intended to help assess the actual risk of failure or recourse to an entity. Rather, they would give a sense of the scale of the operations an entity had managed with these types of transactions and the extent of the entity's reliance on such entities to facilitate its business. For this reason, the Board concluded that the asset information disclosed should refer not only to assets transferred by the sponsor but to all assets transferred to the structured entity during the reporting period. The information provided would be a signpost that would enable users to identify when to ask for further information.

IFRS 12 BC

- BC91 Because an entity is required to disclose information about its exposure to risk when it retains an interest in an unconsolidated structured entity, the Board decided that the requirement to disclose income and asset information when acting as a sponsor should be required only when an entity has not provided disclosures about the nature of its risks from that interest in the unconsolidated structured entity.

Nature of risks

- BC92 ED 10 proposed that an entity should disclose information to help users of financial statements evaluate the nature and extent of the entity's risk from its interests in unconsolidated structured entities. To support that objective, the exposure draft proposed that an entity should disclose the carrying amounts of its assets and liabilities relating to its interests in structured entities, its maximum exposure to loss and the reported amount of assets of structured entities. ED 10 also listed other information (such as information about the assets and funding of structured entities) that might be useful to an assessment of the risks to which an entity is exposed.
- BC93 Users generally supported the disclosures proposed. However, other respondents to ED 10, although agreeing that risk disclosures were required, thought that the proposed disclosure requirements were too prescriptive. In their view, an entity should be allowed to disclose its risk exposure on the basis of the information generated by its internal risk reporting system rather than on the basis of the information proposed in ED 10.
- BC94 Although agreeing with respondents that an entity should generally be allowed to tailor its disclosures to meet the specific information needs of its users, the Board decided that the disclosure requirements should contain a minimum set of requirements that should be applied by all entities. The Board was convinced by comments from users who pointed out that without any specific disclosure requirements, comparability would be impaired and an entity might not disclose information that users find important.
- BC95 Users of financial statements confirmed that information about an entity's exposure to loss from its interests in unconsolidated structured entities and supplementary information about the financial position of both the entity and the structured entity is relevant to their analysis of financial statements.

The assets of structured entities

- BC96 The Board was persuaded by the views of respondents who argued that disclosure of assets held by structured entities without information about the funding of the assets is of limited use, and could be difficult to interpret. Therefore, the Board decided to require an entity to disclose information about the nature, purpose, size and activities of a structured entity and how the structured entity is financed. The Board concluded that this requirement should provide users with sufficient information about the assets held by structured entities and the funding of those assets, without requiring specific disclosure of the assets of unconsolidated structured entities in which the entity has an interest in all circumstances. If relevant to an assessment of its

exposure to risk, an entity would be required to provide additional information about the assets and funding of structured entities.

Exposure to loss

- BC97 The Board acknowledged that, sometimes, information about an entity's expected losses might be more relevant than information about its maximum exposure to loss and that the disclosure of either amount would require the application of judgement. However, if IFRS 12 required the disclosure of expected losses only, the Board was concerned that an entity might often identify a positive expected value of returns from its interests in unconsolidated structured entities and, as a consequence, would not disclose any loss exposure. Accordingly, the Board retained the requirement to disclose an entity's maximum exposure to loss from interests in unconsolidated structured entities.
- BC98 The Board decided not to provide a definition of what represents a loss but to leave it to an entity to identify what constitutes a loss in the particular context of that reporting entity. The entity should then disclose how it has determined its maximum loss exposure.
- BC99 The Board acknowledged that it may not always be possible to calculate the maximum exposure to loss, such as when a financial instrument exposes an entity to theoretically unlimited losses. The Board decided that when this is the case an entity should disclose the reasons why it is not possible to calculate its maximum exposure to loss.
- BC100 Lastly, the Board decided to require an entity to disclose a comparison of the carrying amounts of the assets and liabilities in its statement of financial position and its maximum exposure to loss. This is because the information will provide users with a better understanding of the differences between the maximum loss exposure and the expectation of whether it is likely that an entity will bear all or only some of those losses. In the past, maximum exposure to loss information (when it was provided) was often accompanied by a statement that the information did not in any way represent the losses to be incurred. The Board reasoned that this disclosure requirement should help an entity explain why the maximum exposure to loss is unrepresentative of its actual exposure if that is the case.
- BC101 The Board also noted that the disclosures required regarding an entity's exposure to loss mirror those required by US GAAP, which have been well received by users of financial statements in the US.

Providing financial support without having an obligation to do so

- BC102 ED 10 proposed requiring the disclosure of support that an entity has provided to unconsolidated structured entities without having a contractual obligation to do so.

IFRS 12 BC

- BC103 Most respondents to ED 10 agreed with the proposed disclosures, noting that an entity's past actions may be an important factor in considering the substance of its relationship with structured entities. Some, however, questioned the proposal to disclose any current intentions to provide support to a structured entity and questioned how to interpret 'support'.
- BC104 The Board agreed with those respondents who thought that it would be unreasonable to expect an entity to include forward-looking disclosures about a decision that might be made in the future. However, the Board concluded that IFRS 12 should retain the requirement to disclose any current intentions to provide non-contractual financial or other support because if an entity has decided that it will provide support (ie it has current intentions to do so), this should be disclosed.
- BC105 The Board decided not to define 'support' because a definition of support would either be so broad that it would be an ineffective definition or invite structuring so as to avoid the disclosure. The Board believes that financial support is widely understood as a provision of resources to another entity, either directly or indirectly. In the case of implicit arrangements, the support is provided without having the contractual obligation to do so. Nonetheless, the Board decided to include some examples of financial support in IFRS 12. In order to address respondents' concerns about distinguishing this provision of financial support from any other commercial transaction, the Board clarified that the disclosure is required when an entity has provided non-contractual support to an unconsolidated structured entity in which it previously had or currently has an interest.
- BC106 The Board also decided to extend the requirement to support provided to both consolidated and unconsolidated structured entities. US GAAP includes this requirement and users confirmed that they find the disclosure of such information useful.

Risks arising from previous involvement with unconsolidated structured entities

- BC107 The actions of some entities during the global financial crisis that started in 2007 demonstrated that an entity can have exposure to risk from involvement with a structured entity, even though it may not control or have any contractual involvement with that entity at the reporting date. For example, failure of a structured entity might damage an entity's reputation, compelling the entity to provide support to the structured entity in order to protect its reputation, even though the entity has no legal or contractual requirement to do so.
- BC108 The Board considered how best to address requests to improve the disclosure requirements in this area. The difficulty faced by the Board was to determine which disclosures might help assess an entity's exposure to reputational risk in advance of a financial crisis happening.

- BC109 The Board considered asking for five-year historical information about the assets transferred to unconsolidated structured entities that the reporting entity had sponsored. However, the Board concluded that historical information beyond that required by paragraph 27 of the IFRS would not necessarily provide any useful information about the risks to which a sponsor is currently exposed. Information at the reporting date about total assets of unconsolidated structured entities that an entity had sponsored might be useful. However, this information would be difficult, if not impossible, for entities to provide because the entity does not control, or have an interest in, the structured entity at the reporting date. The Board also considered whether to ask for additional information when a particular triggering event occurred (for example, when a structured entity holds troubled assets). However, again, the Board rejected such an approach. Requiring additional disclosures only when the triggering event happens would probably yield information that was too late to be useful.
- BC110 The Board decided that the objective in this respect is that an entity should provide information about its exposure to risk associated with its interests in structured entities, regardless of whether that risk arises from having an existing interest in the entity or from being involved with the entity in previous periods. Therefore the Board decided to define 'an interest in an entity' as contractual or non-contractual involvement that exposes the entity to variability of returns. In addition, the Board decided to state explicitly that the disclosures about an entity's exposure to risk should include risk that arises from previous involvement with a structured entity even if an entity no longer has any contractual involvement with the structured entity at the end of the reporting period.

Additional information that might be relevant to an assessment of risk

- BC111 When the Board included a list of other information that might be relevant to an assessment of risk in ED 10, it did not intend each item in the list of proposed supplemental disclosures to apply in all circumstances, ie no item was intended to be mandatory. Rather, the Board thought that all the proposed disclosures had the potential to provide important information. Depending on a particular set of facts and circumstances, some of the proposed disclosures would be very relevant whereas others would not. Therefore, an entity might be expected to provide some, but not all, of the disclosures included in the list.
- BC112 The difficulty facing the Board was that preparers and users generally have differing views about the level of prescriptive detail to include in disclosure requirements. Preparers generally propose having clear disclosure principles but with a limited number of prescriptive disclosure requirements. They believe that each reporting entity should be able to determine what information meets the disclosure principles on the basis of the particular facts and circumstances surrounding the entity. Users, on the other hand, prefer to have prescriptive disclosure requirements so that the information provided by preparers is comparable.

IFRS 12 BC

- BC113 The Board's intentions regarding the disclosure of exposure to risk is for an entity to disclose information that is important when assessing that exposure, but not to cloud the information with unnecessary detail that would be considered irrelevant. If an entity has a large exposure to risk because of transactions with a particular unconsolidated structured entity, then the Board would expect extensive disclosure about that exposure. In contrast, if the entity has very limited exposure to risk, little disclosure would be required.
- BC114 The Board decided to retain a list of examples of disclosures that might be relevant to emphasise the level of detail that would be required when an entity has a large exposure to risk from its interests in unconsolidated structured entities. However, the Board decided to make clear that the list of additional information that, depending on the circumstances, might be relevant is a list of examples of information that might be relevant and not a list of requirements that should be applied regardless of the circumstances.

Effective date and transition

- BC115 The Board decided to align the effective date for the IFRS with the effective date for IFRS 10, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. When making this decision, the Board noted that the five IFRSs all deal with the assessment of, and related accounting and disclosure requirements about, a reporting entity's special relationships with other entities (ie when the reporting entity has control or joint control of, or significant influence over, another entity). As a result, the Board concluded that applying IFRS 12 without also applying the other four IFRSs could cause unwarranted confusion.
- BC116 The Board usually sets an effective date of between twelve and eighteen months after issuing an IFRS. When deciding the effective date for those IFRSs, the Board considered the following factors:
- (a) the time that many countries require for translation and for introducing the mandatory requirements into law.
 - (b) the consolidation project was related to the global financial crisis that started in 2007 and was accelerated by the Board in response to urgent requests from the leaders of the G20, the Financial Stability Board, users of financial statements, regulators and others to improve the accounting and disclosure of an entity's 'off balance sheet' activities.
 - (c) the comments received from respondents to the Request for Views *Effective Date and Transition Methods* that was published in October 2010 regarding implementation costs, effective date and transition requirements of the IFRSs to be issued in 2011. Most respondents did not identify the consolidation and joint arrangements IFRSs as having a high impact in terms of the time and resources that their implementation would require. In addition, only a few respondents commented that the effective dates of those IFRSs should be aligned with those of the other IFRSs to be issued in 2011.

- BC117 With those factors in mind, the Board decided to require entities to apply the five IFRSs for annual periods beginning on or after 1 January 2013.
- BC118 Most respondents to the Request for Views supported early application of the IFRSs to be issued in 2011. Respondents stressed that early application was especially important for first-time adopters in 2011 and 2012. The Board was persuaded by these arguments and decided to permit early application of the five IFRSs (ie IFRS 10, IFRS 11, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011)) but only if an entity applies all those IFRSs.
- BC119 Notwithstanding that decision, the Board noted that an entity should not be prevented from providing any information required by IFRS 12 early if by doing so users gained a better understanding of the entity's relationships with other entities. In reaching that decision, the Board observed that if an entity chooses to apply some, but not all, of the requirements of IFRS 12 early, the entity would be required to continue to apply the disclosure requirements of IAS 27, IAS 28 and IAS 31 until such time that it applies all the requirements of IFRS 12.
- BC119A In June 2012, the Board amended the transition guidance in Appendix C to IFRS 10 *Consolidated Financial Statements*. When making those amendments, the Board decided to limit the requirement to present adjusted comparatives to the annual period immediately preceding the date of initial application of IFRS 10. This is consistent with the minimum comparative disclosure requirements contained in IAS 1 *Presentation of Financial Statements* as amended by *Annual Improvements to IFRSs 2009–2011 Cycle* (issued May 2012). Those amendments confirmed that when an entity applies a changed accounting policy retrospectively, it shall present, as a minimum, three statements of financial position (ie 1 January 2012, 31 December 2012 and 31 December 2013 for a calendar-year entity, assuming no early application of this IFRS) and two of each of the other statements (IAS 1 paragraphs 40A–40B). The Board also decided to make similar amendments to the transition guidance in Appendix C to IFRS 11 *Joint Arrangements* and Appendix C to this IFRS to be consistent with this decision.
- BC119B IFRS 12 introduces new disclosures relating to unconsolidated structured entities. Feedback from interested parties informed the Board that the changes to their accounting and reporting systems that are needed to capture this information were more onerous than originally envisaged, particularly in respect of comparative periods prior to the effective date of IFRS 12. Consequently, the Board decided to provide additional transition relief by eliminating the requirement to present comparatives for this information for periods beginning before the first year that IFRS 12 is applied.
- BC119C The Board decided that no specific transition guidance was needed and, therefore, an entity should apply *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28) retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Summary of main changes from ED 9 and ED 10

BC120 The main changes from the exposure drafts ED 9 and ED 10 are:

- (a) The disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities are included in IFRS 12, separately from the accounting requirements relating to an entity's interests in those entities. ED 9 and ED 10 had proposed that the disclosure requirements would be located with the accounting requirements in IAS 28, IFRS 10 and IFRS 11. (paragraphs BC7 and BC8)
- (b) IFRS 12 includes application guidance dealing with the aggregation of information disclosed in accordance with the requirements of the IFRS.
- (c) IFRS 12 requires the disclosure of significant judgements and assumptions made in determining whether an entity has a special relationship (ie control, joint control or significant influence) with another entity. ED 10 had proposed disclosure of the basis of an entity's assessment of whether it controls another entity in particular scenarios. (paragraphs BC14–BC19)
- (d) IFRS 12 requires the disclosure of summarised financial information for subsidiaries that have non-controlling interests that are material to the entity. ED 9 had proposed disclosing a list of significant subsidiaries. (paragraphs BC21–BC29)
- (e) IFRS 12 requires disclosure of the nature of, and risks associated with, an entity's interests in consolidated structured entities. (paragraphs BC34–BC36)
- (f) IFRS 12 requires the disclosure of summarised financial information for each material joint venture and associate, and requires more detailed information for joint ventures than for associates. ED 9 had proposed less detailed summarised financial information for each material joint venture and summarised financial information in aggregate for associates. (paragraphs BC47–BC52)
- (g) IFRS 12 requires entities that are venture capital organisations, mutual funds, unit trusts and similar entities to provide all the disclosures relating to interests in joint ventures and associates. ED 9 proposed that such entities would be required to provide only some of the disclosures relating to interests in joint ventures and associates. (paragraphs BC59 and BC60)
- (h) IFRS 12 does not require the disclosure of the reported amount of assets held by structured entities in which an entity has an interest. ED 10 had proposed disclosing such information. (paragraph BC96)

Convergence with US GAAP

- BC121 Most of the disclosure requirements for consolidated and unconsolidated structured entities are similar to those for variable interest entities in Subtopic 810-10 in the *FASB Accounting Standards Codification*[®]. The Board developed many of those disclosure requirements in conjunction with the FASB, following the Financial Stability Board's recommendation to work with other accounting standard-setters to achieve international convergence in this area. However, IFRS 12 goes further than the disclosure requirements in Subtopic 810-10 because it requires an entity to disclose information about:
- (a) the interest that non-controlling interests have in the activities of a consolidated structured entity; and
 - (b) the risks from sponsoring an unconsolidated structured entity for which the entity does not provide other risk disclosures.
- BC122 IFRS 12 also includes more detailed disclosure requirements than US GAAP for subsidiaries, joint arrangements and associates (eg summarised financial information for subsidiaries with material non-controlling interests, and material joint ventures and associates).

Cost-benefit considerations

- BC123 The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. To attain this objective, the Board seeks to ensure that an IFRS will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. Although the costs to implement a new IFRS might not be borne evenly, users of financial statements benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.
- BC124 The evaluation of costs and benefits is necessarily subjective. In making its judgement, the Board considers the following:
- (a) the costs incurred by preparers of financial statements;
 - (b) the costs incurred by users of financial statements when information is not available;
 - (c) the comparative advantage that preparers have in developing information, compared with the costs that users would incur to develop surrogate information;
 - (d) the benefit of better economic decision-making as a result of improved financial reporting; and
 - (e) the costs of transition for users, preparers and others.

IFRS 12 BC

- BC125 The Board observed that IFRS 12 will improve the ability of users to understand consolidated financial statements by requiring disclosure of information about the interests that non-controlling interests have in the group's activities. IFRS 12 will also improve users' understanding of the special relationships that a reporting entity has with entities that are not consolidated (ie the relationships with joint arrangements, associates and unconsolidated structured entities).
- BC126 In particular, an entity was not previously required to provide information specifically about its exposure to risk from interests in structured entities. The requirements in IFRS 12 relating to interests in unconsolidated structured entities respond to the conclusions of the G20 leaders and the recommendations of international bodies such as the Financial Stability Board following the global financial crisis that started in 2007. The G20 leaders and the Financial Stability Board recommended that the IASB should accelerate its work on enhancing disclosure requirements for 'off balance sheet' vehicles (such as structured investment vehicles), in particular to ensure that entities are required to disclose their exposure to risk and potential losses associated with their involvement with such vehicles.
- BC127 During the development of IFRS 12, the Board consulted users of financial statements, who confirmed the benefit of having more information about:
- (a) an entity's exposure to risk from interests in structured entities;
 - (b) non-controlling interests within the group; and
 - (c) joint arrangements and associates.
- BC128 There are costs involved in the adoption and ongoing application of IFRS 12. Those costs will depend on the nature and complexity of the relationships that a reporting entity has with other entities. However, given the benefits for users noted in paragraphs BC125–BC127, the Board believes that the benefits of IFRS 12 outweigh the costs.