International Financial Reporting Standard IFRS 12

Disclosure of Interests in Other Entities

January 2016

INTRODUCTION

Introduction

IN1 IFRS 12 *Disclosure of Interests in Other Entities* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

IN2 The IFRS is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Reasons for issuing the IFRS

IN3 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.

IN4 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.

IN5 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.

IN6 In response to input received from users and others, including the G20 leaders and the Financial Stability Board, the Board decided to address in IFRS 12 the need for improved disclosure of a reporting entity's interests in other entities when the reporting entity has a special relationship with those other entities.

IN7 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 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 understand and apply the disclosure requirements for subsidiaries, joint ventures, associates and unconsolidated structured entities.

Main features of the IFRS

IN8 The IFRS requires an entity to disclose information that enables users of financial statements to evaluate:

(a) the nature of, and risks associated with, its interests in other entities; and

(b) the effects of those interests on its financial position, financial performance and cash flows.

General requirements

IN9 The IFRS establishes disclosure objectives according to which an entity discloses information that enables users of its financial statements

(a) to understand:

(i) the significant judgements and assumptions (and changes to those judgements and assumptions) made in determining the nature of its interest in another entity or arrangement (ie control, joint control or significant influence), and in determining the type of joint arrangement in which it has an interest; 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 extent of significant restrictions on its ability to access or use assets, 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 nature and extent of its interests in unconsolidated structured entities, and the nature of, and changes in, the risks associated with those interests;

(iv) the nature, extent and financial effects of its interests in joint arrangements and associates, and the nature of the risks associated with those interests;

(v) the consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control; and

(vi) the consequences of losing control of a subsidiary during the reporting period.

IN10 The IFRS specifies minimum disclosures that an entity must provide. If the minimum disclosures required by the IFRS are not sufficient to meet the disclosure objective, an entity discloses whatever additional information is necessary to meet that objective.

IN11 The IFRS requires an entity to consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements in the IFRS. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

IN12 *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle in IFRS 10 *Consolidated Financial Statements* that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investment 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, if IFRS 9 has not yet been adopted) instead of consolidating those subsidiaries in its consolidated and separate financial statements. Consequently, the amendments also introduced new disclosure requirements for investment entities in this IFRS and IAS 27 *Separate Financial Statements*.