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Clearly IFRS

Moving ahead in an IFRS world
A practical guide to implementing

IFRS 10 – Consolidated Financial Statements

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Providing you with clarity and perspective

With the IFRS adoption process fairly recently completed, Canadian entities may be surprised by the number of significant new IFRSs that are effective in 2013. The key standards with a mandatory 2013 adoption date are IFRS 10 *Consolidated Financial Statements*; IFRS 11 *Joint Arrangements*; IFRS 12 *Disclosure of Interests in Other Entities*; IFRS 13 *Fair Value Measurement* and IAS 19 (2011) *Employee Benefits*. This list doesn't include some of the smaller amendments to pre-existing standards such as the consequential amendments to IAS 27 (2011) *Separate Financial Statements* and IAS 28 (2011) *Investments in Associates and Joint Ventures* arising from the issuance of IFRS 10, 11 and 12.

The impact of these new and amended standards may be significant for some entities. Fortunately for Canadian companies, you have your recent IFRS conversion experience to help you tackle these new standards.

A comprehensive listing of new and amended standards and the related effectives dates is available on our IAS Plus website (www.iasplus.com/en/standards/standard3). The same level of information is also available on interpretations (http://www.iasplus.com/en/standards/interpretations/interp1).

About IFRS 10

IFRS 10 is a new standard which supersedes IAS 27 Consolidated and Separate Financial Statements ("IAS 27") and SIC-12 Consolidation - Special Purpose Entities ("SIC- 12"). The primary goal behind the new standard was to come up with a single model for control which could be applied to all entities.

At the heart of IFRS 10 is the requirement that in order for an investor to have control over an investee, the investor must have all three of the following:

1) Power over the investee;
2) Exposure or rights to variable returns from its involvement with the investee; and
3) The ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 provides guidance on applying this new control model with a view to addressing some of the more complex areas that led to diversity in the past. This includes: when holding a significant but less than a majority of voting rights can give power (i.e. "de facto power"), when potential voting rights should be considered in the assessment of control, what factors should be considered in assessing control for entities not controlled by voting rights (i.e. special purpose entities or structured entities), when an entity is acting as an agent on behalf of others and how this impacts the assessment of control. Although not an exhaustive list, these are some of the areas that could lead preparers to reach a different conclusion under IFRS 10 than they had previously under IAS 27/SIC-12 as to whether an entity should be consolidated. The Deloitte team has assembled this guide to provide you with clarity and practical tips on the application of IFRS 10. We have dedicated a significant part of our guide to exploring the three elements of control. We have also focused on areas where the consolidation conclusion reached under IAS 27 and/or SIC-12 may be different under IFRS 10 as we anticipate that this will be an area of focus for your, our clients. I hope you that you find this guide helpful and encourage you to reach out to me or one of my colleagues for additional support as needed. Our contact information can be found at the end of this guide.

Karen

Karen Higgins, FCPA, FCA
National Director of Accounting Services

At a glance

IFRS 10 introduces a single consolidation model which is applicable to all investees.
IFRS 10 replaces the consolidation guidance formerly found in IAS 27 and SIC-12.

IFRS 10 introduces a *new definition of "control"* which requires an investor to consolidate an investee when it has all of the following attributes:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 provides additional *application guidance* regarding situations in which the assessment of control is difficult including those involving:

- Power without a majority of voting rights (i.e. de facto power);
- Potential voting rights (held by the investor or others);
- Agency relationships; and
- Relationships with entities designed so that voting rights are not the dominant factor in assessing control (referred to hereafter as "structured entities").

IFRS 12 introduces enhanced disclosure requirements for entities that are subject to an assessment of control under IFRS 10.

IFRS 10 is *effective* for annual periods beginning on or after January 1, 2013 and is applicable retrospectively.

The balance of this guide will focus on the following:

1. Scope
2. New control model
3. Areas where a change in the consolidation conclusion is possible
4. Disclosure
5. Transition

Scope

IFRS 10 provides a single model for assessing whether an investor controls an investee and provides more extensive guidance on applying this model. IFRS 10 applies to all investees and replaces the previous models for determining control found in IAS 27 and the interpretive guidance for special purpose entities found in SIC-12.

IFRS 10 retains the consolidation exemption for a parent that is itself a subsidiary and meets certain strict conditions. In addition, IFRS 10 provides an exemption from consolidation for an entity that meets the definition of an "investment entity" (such as certain investment or mutual funds).

The guidance in IFRS 10 is focused on when to prepare consolidated financial statements and how to prepare consolidated financial statements. In terms of geography, IFRS 10 carries forward much of the previous guidance in IAS 27 relating to the mechanics of preparing consolidated financial statements. The guidance for the preparation of separate financial statements has been retained in IAS 27R. The disclosure requirements relating to consolidated (and unconsolidated) entities are addressed separately in IFRS 12.

"These improvements tighten up the reporting requirements for the consolidation of subsidiaries and special purpose vehicles... The comprehensive disclosure requirements will help investors to understand better risks associated with the creation or management of special purpose vehicles."

Sir David Tweedie May 12 2011

New control model

The new control model under IFRS 10 is based on the existence of three elements of control. When all of these three elements of control are present then an investor is considered to control an investee and consolidation is required. When one or more of the elements is not present, an investor will not consolidate but instead be required to determine the nature of its relationship with the investee (e.g. significant influence, joint control) and the appropriate accounting underthe requisite IFRS.

The three elements of control which are the basis for consolidation under IFRS 10 are depicted below:

In order to apply the control model, several initial steps are necessary before the assessment of whether each of the three elements of control are present. These steps are:

- Identify the investee
- Understand the purpose and design of the investee
- Identify the relevant activities of the investee and how decisions about these relevant activities are made

More detail on each of these initial steps is provided on page 5. After this discussion, a review in more depth of the three elements of control (and how to assess whether these are present) is provided.

Like IAS 27 and SIC-12, the consolidation model in IFRS 10 is based on control. A reporting entity is required to consolidate an investee when that entity controls the investee. However, IFRS 10 more clearly articulates the principle of control so that it can be applied to all investees.

IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities - Effect Analysis September 2011 (updated July 2013)

Identify the investee

The assessment of control is made at the level of each investee. However, in some circumstances, the assessment is made for a portion of an entity (i.e. a silo). That is the case if, and only if, all the assets, liabilities and equity of that part of the investee are ring-fenced from the rest of the entity. The existence of silos is not confined to structured entities but is more likely to arise there.

Understand the purpose and design of the investee

Understanding the purpose and design of the investee is necessary to:

- Identify what the relevant activities of the investee are (see next page);
- Understand how decisions about the relevant activities are made;
- Determine who has the current ability to direct those activities; and
- Determine who receives returns from the activities.

Identify the relevant activities and how decisions about these relevant activities are made

Relevant activities are the activities of the investee that significantly affect the investee’s returns.

Examples of activities that, depending on the circumstances, can be relevant activities include:

- Selling and purchasing of goods or services;
- Managing financial assets during their life (including on default);
- Selecting, acquiring or disposing of assets;
- Researching and developing new products or processes; and
- Determining a funding structure or obtaining funding.

Examples of decisions made about relevant activities include:

- Establishing operating and capital budgets;
- Appointing, remunerating and terminating an investee’s key management (e.g., CEO, COO, CFO) or service providers.

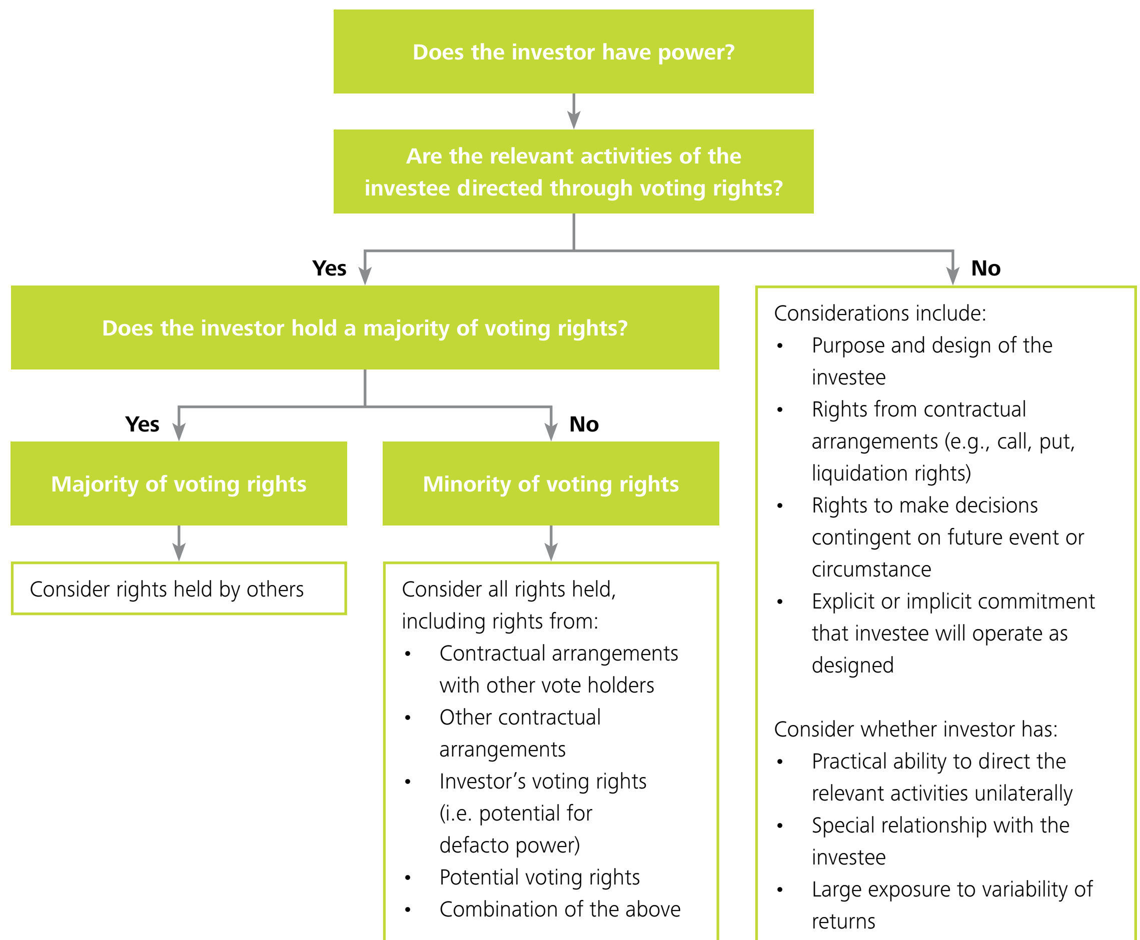
Determining what constitutes the relevant activities of the investee requires judgment. In some situations, two or more investors each have existing rights to unilaterally direct different relevant activities. In such cases, the investors are required to determine which activities most significantly affect the returns of the investee and which investor has the current ability to direct those activities.

In other situations, the relevant activities may not occur until a particular event or circumstance occurs.
For example, an investee that manages a portfolio of high quality receivables that provides a predictable level of return with little involvement from investors may have as its relevant activity the right to manage those receivables in the event of default (e.g. make decisions on how to pursue recovery).

Elements of control

Once the initial steps have been performed, the next step is determining whether the investor has all three elements of control. Each of these three elements is addressed at a high-level below and on the next page with supplementary guidance provided in the Appendix.

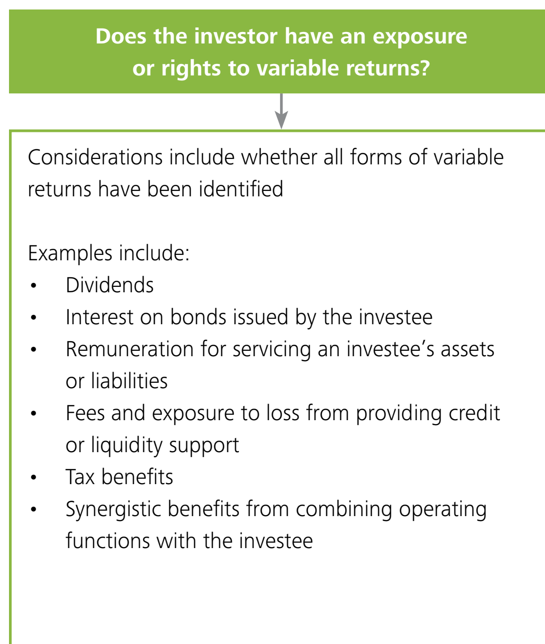
Power



Key items to address

- Whether rights are substantive or protective rights (see Appendix)
- When an investor holds a majority of votes, focus on rights that could take power away
- When an investor holds a minority of votes, focus on rights that could give it power
- When the investee is not directed by votes, place greater focus on the purpose and design of the investee and other factors to determine whether power exists

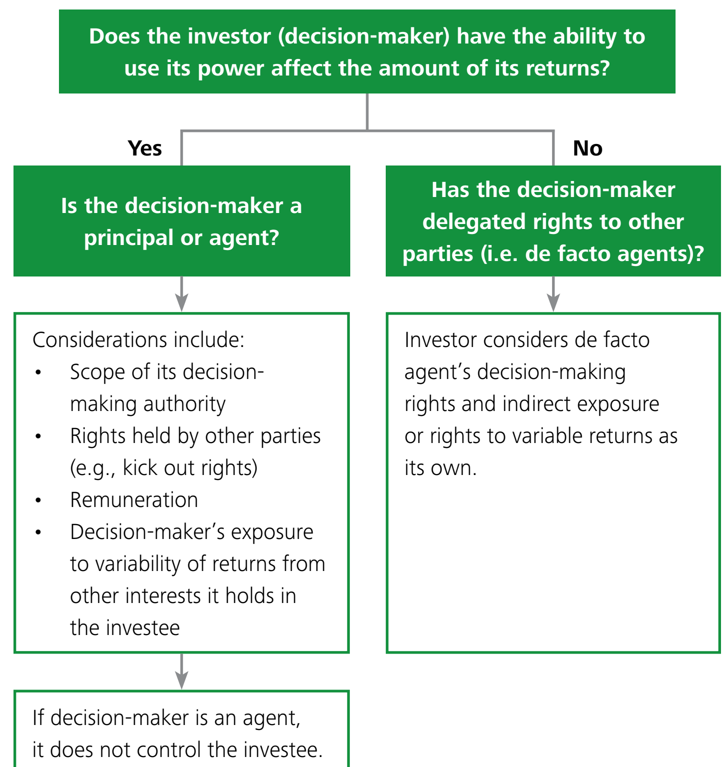
Variable returns



Key items to address

- Concept of variable returns is broad
- Determine if returns are variable and how variable they are based on substance of the return and not its legal form (e.g., fixed interest payments on a bond are variable as they won't be paid in the event of a credit default)
- If the reporting entity issues an instrument to another entity and in doing so transfers risk to another entity vs. absorbing risk from the other entity, it generally is not exposed to variability of returns from the other entity.

Agent vs. principal



Key items to address

- Whether rights are substantive or protective rights (see Appendix)
- An investor's own decision-making rights: Consider whether the investor is using its decision-making rights for its own benefit (i.e. as a principal) or for the benefit of others (i.e. as an agent)
- Rights delegated to others: Consider all of the investor's decision-making rights whether held by the investor directly or dispersed among parties under its influence

Areas where a change in the consolidation conclusion are possible

There are several areas where the consolidation conclusion reached under IFRS 10 could be different from that reached under IAS 27/SIC-12. This includes, but is not confined to, those arrangements with the following features:

- Power without a majority of voting rights (i.e. de facto power)
- Potential voting rights (held by the investor or others)
- Agency relationships
- Relationships with entities designed so that voting rights are not the dominant factor in assessing control ("structured entities")

Power without a majority of voting rights (i.e. de facto power)

Unlike IAS 27, IFRS 10 provides explicit guidance on when an investor with less than 50 percent of the voting rights has rights that are sufficient to give it power. These rights might arise from the investor's voting rights, contractual agreements with other vote holders, other contractual arrangements, potential voting rights or a combination of these.

What does this mean?

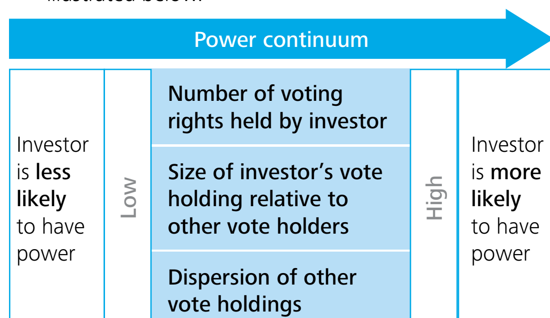
Plot yourself on the power continuum

- An investor with a significant minority interest should pay close attention to whether its voting rights (alone or in combination with other rights) are sufficient to give it power.

- When assessing whether an investor's voting rights are sufficient to give it power, an investor considers all facts and circumstances including:
  i. The size of its holding of voting rights relative to the size and dispersion of other vote holders
  ii. Potential voting rights held by the investor and others
  iii. Rights arising from other contractual arrangements
  iv. Any additional facts and circumstances that indicate that the investor has, or does not have, the current ability to direct the relevant activities when decisions need to be made

- When the investor holds significantly more voting rights than any other vote holder (or organized group of vote holders) and the other shareholdings are widely dispersed, it may be clear after considering the first three factors listed above that the investor has power over the investee. When the factors in i.-iii. are not clear in determining whether power exists, additional facts and circumstances are considered.

- The effect of voting rights on the power continuum is illustrated below.



- Additional facts and circumstances to consider include:
  - Voting patterns at previous shareholders' meetings
  - Whether the investor has the practical ability to direct the relevant activities unilaterally (e.g., the investee and the investor have the same key management)
  - Whether the investor has a special relationship with the investee (e.g., the investee depends on the investor to fund a significant part of its operations)
  - Whether the investor has a large exposure to variable returns (which may be an indicator that the investor had an incentive to obtain rights sufficient to give it power)

- IFRS 10 provides an example (IFRS 10.B43, Example 4) of when the determination of power is clear without considering additional facts and circumstances – an investor acquires 48 percent of the voting rights in an investee, the remaining votes are held by 1000s of shareholders, none individually holding more than one percent of the voting rights and there are no arrangements to consult any of the others shareholders or make collective decisions. In this situation, it is concluded that the dominance of the investor's position relative to the size and dispersion of the other vote holdings was sufficient to conclude that the investor has power. In practice, it is unlikely that situations will be as clear cut and therefore more emphasis will be placed on the analysis of additional facts and circumstances.

- In general, the lower the level of voting rights held below 50 percent and the fewer the other vote holders, the higher the level of evidence would be required to demonstrate that the investor has power.

Potential voting rights (held by the investor or others)

IAS 27 required that potential voting rights be included in the assessment of control only if currently exercisable. In contrast, IFRS 10 requires that potential voting rights should be included in the assessment of control if they are substantive.

What does this mean?

Looking at the exercise price is not enough

- Determining whether potential voting rights such as options, warrants, convertible instruments and forward contracts are substantive rights requires careful judgment.

- It is not based solely on a comparison of the strike or conversion price of the instrument to the current market price of its underlying share. Determining whether potential voting rights are substantive rights requires a holistic approach considering a variety of factors including:
  - The purpose and design of the instrument including the investor's apparent expectations and motives for agreeing to the terms of the instrument
  - Whether there are any barriers (financial or otherwise) that would prevent the holder from exercising or converting those rights
  - Whether the investor can benefit for other reasons, such as by realizing synergies between the investor and the investee
  - Whether the instrument is exercisable when decisions about the direction of relevant activities needs to be made

Timing is everything

- In order for a potential voting right to be substantive, it must be exercisable when decisions about the direction of the relevant activities need to be made. Usually, to be substantive, the rights need to be currently exercisable. However, sometimes rights can be substantive, even though the rights are not currently exercisable.

- For example, an investor holds a forward contract to acquire a majority of shares in an investee that is exercisable in 30 days. The earliest that other shareholders can call a special meeting to change the investee's existing policies over relevant activities is 60 days. In this case, even though the right is not currently exercisable, it could still be substantive as it gives the holder the current ability to direct the relevant activities even before the forward contract is settled.

- In contrast, if the forward contract could not be settled for 6 months, it would not be substantive because the investor does not have the current ability to direct the relevant activities. The existing shareholders have the current ability to direct the relevant activities because they can change existing policies over the relevant activities before the forward is settled.

Out of the money doesn't mean out of the game!

- A potential voting right is more likely to be substantive when it is in the money or the investor would benefit for other reasons (e.g., the investor would realize synergies between the investor and investee).

- A potential voting right that is out of the money is less likely to be substantive – but may be so. For example, Investor A and two other investors each hold 1/3 of the voting shares in an investee. The business of the investee is closely related to Investor A. Investor A also holds debt instruments that are convertible into voting shares of the investee at any time for a fixed price that is out of the money (but not deeply). If the debt was converted, Investor A would hold 60 percent of the votes and would benefit by realizing synergies by combining its operations with those of the investee. Absent other factors, the convertible debt would be considered a substantive right because even though it is out of the money, the holder would benefit by being able to realize synergies on its exercise. This highlights the importance of understanding why an investor might have an incentive to hold potential voting rights and might be motivated to exercise them even though the price is out of the money.

Agency relationships

IAS 27 and SIC-12 did not contain requirements or guidance to assess whether an investor is a principal or an agent. In contrast, IFRS 10 specifically requires that in order for an investor with decision-making rights to have control, it must act as a principal and not an agent.

What does this mean?

Principal or agent

- An investor with decision making rights will need to determine whether they are acting as a principal or an agent.

- An agent is a party primarily engaged to act on behalf of and for the benefit another party (the principal). An agent would fail the third element of control because it does not use its power for **its own benefit**, but rather it uses its power for **the benefit of others**. Therefore, when an agent exercises decision-making rights delegated to it, it does not control an investee.

- A principal may delegate decision-making rights to another party on some specific issues or on all relevant activities. However, those rights delegated to an agent are treated as though they are held by the principal directly in its assessment of control.

- The principal-agent guidance in IFRS 10 is complex and nuanced. At a high level, if a single party holds substantive rights to remove the decision-maker and can remove the decision-maker without cause, the decision-maker is conclusively an agent.

- Away from this extreme, the decision-maker is required to evaluate all facts and circumstances in assessing whether it acts as a principal or an agent. This includes considering the overall relationship between decision-maker, the investee being managed and other parties involved with the investee, in particular all of the factors below:
  - Scope of its decision-making authority over the investee
  - Rights held by other parties
  - Remuneration it is entitled to in accordance with the remuneration agreement
  - Decision-maker's exposure to variability of returns from other interests that it holds in the investee.

- There is significant judgment in evaluating each of the above factors. Areas of challenge seen in practice include:
  - How substantive are rights to kick-out the decision-maker when they are not held by a single party but held by a few parties?
  - When do withdrawal, redemption and liquidation rights held by other investors behave like substantive removal rights?
  - How is the decision-maker's remuneration evaluated when the nature of its duties are unique?
  - When the decision-maker evaluates its exposure to variability of returns, how does it deal with performance-related fees that may vary over the life of the investee?

Principal-Agent relationships are not confined to investment funds

- The examples in IFRS 10 are geared toward the asset management industry – in particular, determining whether a fund manager is a principal or agent in respect of an investment fund of which it is both a manager and investor. However, a principal-agent relationship may also arise where an investor has a management contract or similar arrangement with an investee and may be making decisions on behalf of other investors, as is often the case in the real-estate, construction and mining industries and in outsourcing arrangements.

- An investor also needs to pay close attention to whether other parties are acting on the investor's behalf (i.e. as a de facto agent). If the investor has a de facto agent, it considers the de facto agent's decision-making rights and its exposure to variable returns as its own when assessing control.

Relationships with entities designed so that voting rights are not the dominant factor in assessing control (structured entities)

SIC-12 provided guidance on when to consolidate special purpose entities. IFRS 10 applies the same control model to all investees with additional considerations for those investees where voting rights are not the dominant factor in assessing control. Such entities are defined as "structured entities" by IFRS 10.

What does this mean?

Identify those relationships

- Entities that are designed so voting rights are not the dominant factor in assessing control include, but are not limited to, those entities with restricted activities, entities with a narrow and well-defined objective (e.g., to carry out R&D activities), and entities with insufficient equity to finance their activities. Investors should ensure they canvass their business relationships to ensure all such entities have been identified.

Understand their purpose

- Understanding the purpose and design of such entities is key to determining which party controls the entity. This includes consideration of what risks the investee was designed to be exposed, what risks the investee was designed to pass onto parties involved with the investee and whether the investor is exposed to some or all of those risks. Risks can be the potential for upside and downside and include foreign exchange risk, interest rate risk, credit risk and equity price risk (among others).

Know your rights

- An investor should understand all rights which it holds as well as the rights held by other parties in the investee (e.g., note holders, holders of subordinated equity, service providers).

- An investor should evaluate whether its contractual and other rights are sufficient to give it power. This evaluation would consider all relevant factors including:
  - whether it was involved in the design of the investee (so it had the opportunity to obtain rights sufficient to give it power),
  - whether it holds rights that are closely related to the activities of the investee (e.g., put, call, liquidation rights) and
  - whether it holds rights over activities that significantly impact the returns of the investee even if those rights are contingent (e.g. managing receivables on default).

Risks and rewards

- If an investor previously consolidated a structured entity under SIC-12 because it was exposed to the majority of the risks and rewards from the entity, it may not qualify for consolidation under IFRS 10 if it lacks the decision-making rights, and therefore the power, over those activities that significantly affect the structured entity's returns.

- In contrast, if the investor has power through its decision-making rights and some significant financial interest in the structured entity it may now need to consolidate the entity even though it does not have a majority of the risks and rewards.

Disclosure

IFRS 10 is the IFRS which determines whether an investor is required to consolidate an interest in an investee but the disclosure requirements are dealt with in a separate standard. IFRS 12 addresses the disclosure requirements for entities that have an interest in a subsidiary, a joint arrangement an associate or an unconsolidated structured entity. The following highlights several areas where the disclosure requirements have been enhanced relating to interests in subsidiaries and unconsolidated structured entities:

- Disclosure of **significant judgments and assumptions** made by an investor in determining that: it has control over another entity, it does not control another entity even though it holds greater than 50 percent of the voting rights, it controls another entity even though it holds less than 50 percent of the voting rights and it is an agent or a principal. These disclosures should convey to users how the investor determined whether or not it has control over another entity and what the key pressure points were in that analysis.
- **For subsidiaries with material non-controlling interests** an increase in the level of qualitative disclosures required for the subsidiary and summarized financial information relating to the subsidiary.
- **For all subsidiaries,** expanded disclosures on significant restrictions on a group's ability to use assets or settle liabilities of the group, including disclosure of restrictions arising from protective rights held by non-controlling interests which may not have been identified previously.
- **For entities with consolidated structured entities,** various new disclosures in respect of financial or other support provided by the parent or its subsidiaries to such entities.
- **For entities with interests in unconsolidated structured entities,** various new disclosures to explain to users the nature and extent of its interests in unconsolidated structured entities and the risks associated with those interests.

Key judgments – An entity needs to decide, in light of its circumstances:

- How much detail it provides to satisfy the information needs of users
- How much emphasis it places on different aspects of the requirements
- How it aggregates the information

Entities should pay close attention to the requirements for aggregation which are new and prescriptive.

For a comprehensive analysis of the disclosure requirements of IFRS 12 (as they relate to IFRS 10) and examples of application in practice, we recommend you review Deloitte's IFRS compliance, presentation and disclosure checklist and Deloitte's IFRS model financial statements at http://www.corpgov.deloitte.com/site/CanEng/self-assessments-tools-and-other-resources/financial-reporting-tools/

Transition

Since many entities have already adopted IFRS 10 at this stage, it may be useful to highlight some of the challenging aspects of the transitional guidance before the annual financial statements are finalized. These challenges include, but are not limited to:

- How to consolidate an investee that **is not a business** for the first time – 'IFRS 10 does not elaborate on how to apply the acquisition method as described in IFRS 3' to non-business acquisitions, in particular, the guidance on acquisitions costs, deferred taxes and contingent consideration. Judgment will need to be exercised in determining which aspects of the acquisition method in IFRS 3 are applicable to non-business acquisitions.

- How to address the impact of **other standards** – IFRS 10 does not explicitly address the impact of other standards, such as IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 23 Borrowing Costs, IAS 36 Impairment of Assets, IAS 39 Financial Instruments: Recognition and Measurement (Hedge Accounting) on the retrospective consolidation or de-consolidation of an investee. The application of these standards and their interaction with IFRS 10 would need to be evaluated to determine whether they give rise to additional adjustments on transition.

- How an entity has assessed whether it is **impracticable** (as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) for it to consolidate an investee from the date control was acquired under IFRS 10 or to de-consolidate an investee from the date control was lost, and how it identified the earliest period that it became **practicable**. This assessment requires significant judgment based on the characteristics of the investee, including its age and all available information.

Key challenges going forward

- Entities may have breathed a sigh of relief having implemented IFRS 10
- However, entities now need to be on watch for changes affecting any one of the 3 elements of control – this includes a change in an investor's decision-making rights, a lapse of rights held by other parties, or a change in whether the investor acts as a principal or an agent
- End result: The consolidation conclusion for an investee could change

Are you in control – Things to check before finalizing your annual financial statements

Step 1: Gather	Step 2: Evaluate	Step 3: Transition
Ensure you have gathered the information necessary to perform the control assessment	Apply the requirements of IFRS 10, identify the key pressure points in the analysis, evaluate evidence, and conclude on whether control exists	Determine the effects of a change in the consolidation conclusion on the financial statements

Key consideration points:

Step 1: Gather

- Gather the relevant agreements, contracts, information required from the investee or third parties
- Review prior position papers prepared under IAS 27/SIC-12
- Inventory investments by type – decisions over relevant activities decided by:
  a) Voting rights
    – Hold majority of votes
    – Hold minority of votes
  b) Not voting rights
- Prioritize investments at risk of reclassification including those involving:
  – Significant minority interest
  – Potential voting rights
  – Agency relationships
  – Relationships where voting rights are not the dominant factor in deciding control
- Layer on investments that involve:
  – Complex legal structures (e.g., partnerships, silos)
  – Multiple relationships (e.g., investor-investee, customer-supplier, lender-borrower)
  – Investees in foreign jurisdictions

Step 2: Evaluate

- Evaluate investments by type as identified in Step 1
- Focus on whether the 3 elements of control are present
- Identify investments where there are mixed indicators or evidence of control or where significant judgment is required
- Determine at date of initial application of IFRS 10, whether the control conclusion has changed
- Determine the accounting consequences of going from:
  a) Non-consolidation under IAS 27/SIC-12 to consolidation under IFRS 10
  b) Consolidation under IAS 27/SIC-12 to de-consolidation under IFRS 10
- Evaluate impacts of other related standards e.g., IAS 12, IAS 21, IAS 23, IAS 36, IAS 39
- Evaluate knock on effects of consolidation or de-consolidation on loan covenants, bonus arrangements, etc.

Step 3: Transition

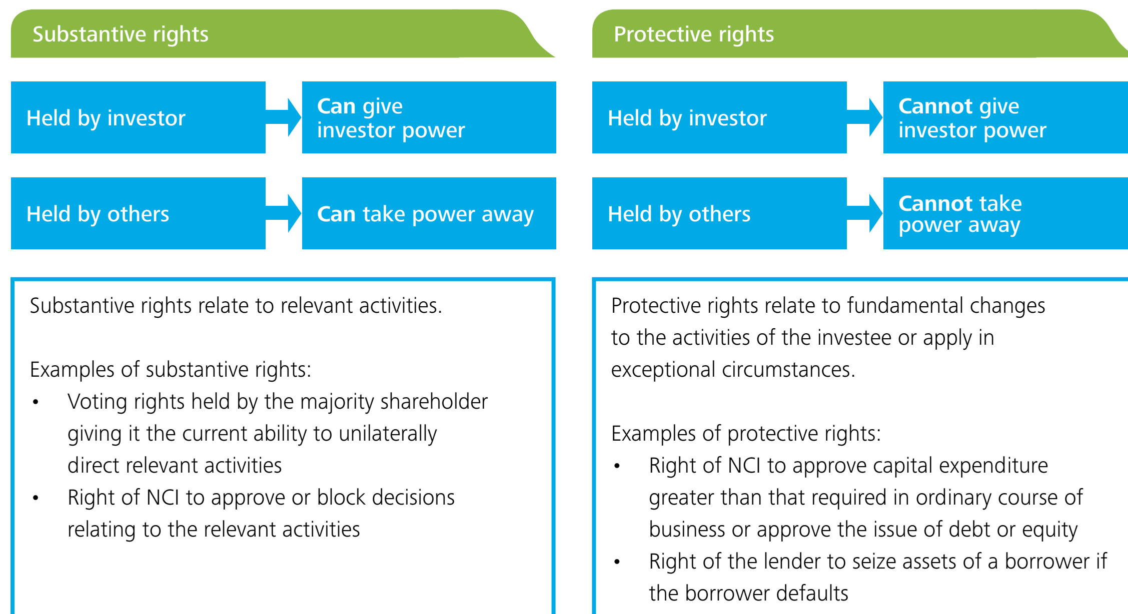
- Determine the transitional entry at the beginning of the immediately preceding period (including tax effects)
- Draft financial statement note disclosures in compliance with IFRS 12 and other IFRS standards
- Consider the requirement for a third statement of financial position
- Communicate major changes as required to stakeholders
- Implement processes and controls to facilitate ongoing compliance with IFRS 10 (including re-assessment of control)

Resources

- iGAAP 2014: A Guide to IFRS Reporting
- Internal: Accounting, Tax, Legal
- External: Auditors, Accountants
- IFRS in Focus

Appendix:
Substantive rights vs. Protective rights

When assessing whether an investor has power, the investor considers only substantive rights and not protective rights



Factors to consider in assessing whether rights are substantive:
In order for a right to be substantive, the holder must have the practical ability to exercise that right. Determining whether a right is substantive requires significant judgment – taking into account all facts and circumstances – including the following factors (list is not all inclusive):

- Are there barriers (economic or otherwise) to exercise?
- Is there a mechanism in place that provides parties with collective rights the practical ability to exercise those rights if they choose?
- Will the holder benefit from the exercise of those rights?
- Is the right exercisable when decisions about the direction of relevant activities need to be made?

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