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Price: EUR 8

⁽¹⁾ Text with EEA relevance

EN

Acts whose titles are printed in light type are those relating to day-to-day management of agricultural matters, and are generally valid for a limited period.

The titles of all other acts are printed in bold type and preceded by an asterisk.

II

(Non-legislative acts)

REGULATIONS

COMMISSION REGULATION (EU) No 1254/2012

of 11 December 2012

amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 10, International Financial Reporting Standard 11, International Financial Reporting Standard 12, International Accounting Standard 27 (2011), and International Accounting Standard 28 (2011)

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards⁽¹⁾, and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1126/2008⁽²⁾ certain international standards and interpretations that were in existence at 15 October 2008 were adopted.

(2) On 12 May 2011, the International Accounting Standards Board (IASB) published International Financial Reporting Standard (IFRS) 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, as well the amended International Accounting Standard (IAS) 27 *Separate Financial Statements* and IAS 28 *Investment in Associates and Joint Ventures*. The objective of IFRS 10 is to provide a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and Interpretation 12 of the Standing Interpretations Committee (SIC) *Consolidation—Special Purpose Entities* (SIC-12). IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement,

and replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued the amended IAS 27 and IAS 28.

(3) This Regulation endorses IFRS 10, IFRS 11, IFRS 12, and the amended IAS 27 and IAS 28, as well as the resulting amendments to other standards and interpretations. Those standards and amendments to existing standards or interpretations contain some references to IFRS 9 that at present cannot be applied as IFRS 9 has not been adopted by the Union yet. Therefore, any reference to IFRS 9 as laid down in the Annex to this Regulation should be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, any consequential amendment to IFRS 9 resulting from the Annex to this Regulation cannot be applied.

(4) The consultation with the Technical Expert Group (TEG) of the European Financial Reporting Advisory Group (EFRAG) confirms that IFRS 10, IFRS 11, IFRS 12, and the amended IAS 27 and IAS 28 meet the technical criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(5) Regulation (EC) No 1126/2008 should therefore be amended accordingly.

(6) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

⁽¹⁾ OJ L 243, 11.9.2002, p. 1.

⁽²⁾ OJ L 320, 29.11.2008, p. 1.

HAS ADOPTED THIS REGULATION:

Article 1

1. The Annex to Regulation (EC) No 1126/2008 is amended as follows:

- (a) International Financial Reporting Standard (IFRS) 10 *Consolidated Financial Statements* is inserted as set out in the Annex to this Regulation;
- (b) IFRS 1, IFRS 2, IFRS 3, IFRS 7, International Accounting Standard (IAS) 1, IAS 7, IAS 21, IAS 24, IAS 27, IAS 32, IAS 33, IAS 36, IAS 38, IAS 39, and Interpretation 5 of the International Financial Reporting Interpretations Committee (IFRIC 5) are amended, and Interpretation 12 of the Standing Interpretations Committee (SIC-12) is replaced in accordance with IFRS 10 as set out in the Annex to this Regulation;
- (c) IFRS 11 *Joint Arrangements* is inserted as set out in the Annex to this Regulation;
- (d) IFRS 1, IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 12, IAS 18, IAS 21, IAS 24, IAS 32, IAS 33, IAS 36, IAS 38, IAS 39, IFRIC 5, IFRIC 9, and IFRIC 16 are amended, and IAS 31 and SIC-13 are replaced in accordance with IFRS 11 as set out in the Annex to this Regulation;
- (e) IFRS 12 *Disclosure of Interests in Other Entities* is inserted as set out in the Annex to this Regulation;

(f) IAS 1, and IAS 24 are amended in accordance with IFRS 12 as set out in the Annex to this Regulation;

(g) The amended IAS 27 *Separate Financial Statements* is inserted as set out in the Annex to this Regulation;

(h) The amended IAS 28 *Investment in Associates and Joint Ventures* is inserted as set out in the Annex to this Regulation.

2. Any reference to IFRS 9 as laid down in the Annex to this Regulation shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

3. Any consequential amendment to IFRS 9 resulting from the Annex to this Regulation shall not be applied.

Article 2

Each company shall apply IFRS 10, IFRS 11, IFRS 12, the amended IAS 27, the amended IAS 28, and the consequential amendments referred to in points (b), (d) and (f) of Article 1(1), at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

Article 3

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 11 December 2012.

For the Commission
The President

José Manuel BARROSO

ANNEX

INTERNATIONAL ACCOUNTING STANDARDS

IFRS 10	IFRS 10 Consolidated Financial Statements
IFRS 11	IFRS 11 Joint Arrangements
IFRS 12	IFRS 12 Disclosure of Interests in Other Entities
IAS 27	IAS 27 Separate Financial Statements
IAS 28	IAS 28 Investment in Associates and Joint Ventures

INTERNATIONAL FINANCIAL REPORTING STANDARD 10***Consolidated Financial Statements*****OBJECTIVE**

- 1 The objective of this IFRS is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Meeting the objective

- 2 To meet the objective in paragraph 1, this IFRS:
- (a) requires an entity (the *parent*) that controls one or more other entities (*subsidiaries*) to present consolidated financial statements;
 - (b) defines the principle of *control*, and establishes control as the basis for consolidation;
 - (c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and
 - (d) sets out the accounting requirements for the preparation of consolidated financial statements.
- 3 This IFRS does not deal with the accounting requirements for business combinations and their effect on consolidation, including goodwill arising on a business combination (see IFRS 3 *Business Combinations*).

SCOPE

- 4 An entity that is a parent shall present consolidated financial statements. This IFRS applies to all entities, except as follows:
- (a) a parent need not present consolidated financial statements if it meets all the following conditions:
 - (i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
 - (ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
 - (iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
 - (iv) its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with IFRSs.
 - (b) post-employment benefit plans or other long-term employee benefit plans to which IAS 19 *Employee Benefits* applies.

Control

- 5 An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.
- 6 An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
- 7 Thus, an investor controls an investee if and only if the investor has all the following:
- (a) power over the investee (see paragraphs 10–14);
 - (b) exposure, or rights, to variable returns from its involvement with the investee (see paragraphs 15 and 16); and

(c) **the ability to use its power over the investee to affect the amount of the investor's returns** (see paragraphs 17 and 18).

- 8 An investor shall consider all facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7 (see paragraphs B80–B85).
- 9 Two or more investors collectively control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the co-operation of the others, no investor individually controls the investee. Each investor would account for its interest in the investee in accordance with the relevant IFRSs, such as IFRS 11 *Joint Arrangements*, IAS 28 *Investments in Associates and Joint Ventures* or IFRS 9 *Financial Instruments*.

Power

- 10 An investor has power over an investee when the investor has existing rights that give it the current ability to direct the *relevant activities*, ie the activities that significantly affect the investee's returns.
- 11 Power arises from rights. Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements.
- 12 An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee.
- 13 If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee.
- 14 An investor can have power over an investee even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has *significant influence*. However, an investor that holds only protective rights does not have power over an investee (see paragraphs B26–B28), and consequently does not control the investee.

Returns

- 15 An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or wholly positive and negative.
- 16 Although only one investor can control an investee, more than one party can share in the returns of an investee. For example, holders of non-controlling interests can share in the profits or distributions of an investee.

Link between power and returns

- 17 An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.
- 18 Thus, an investor with decision-making rights shall determine whether it is a principal or an agent. An investor that is an agent in accordance with paragraphs B58–B72 does not control an investee when it exercises decision-making rights delegated to it.

ACCOUNTING REQUIREMENTS

- 19 **A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.**
- 20 Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

21 Paragraphs B86–B93 set out guidance for the preparation of consolidated financial statements.

Non-controlling interests

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

23 Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (ie transactions with owners in their capacity as owners).

24 Paragraphs B94–B96 set out guidance for the accounting for non-controlling interests in consolidated financial statements.

Loss of control

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

- (a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.
- (b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.
- (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

26 Paragraphs B97–B99 set out guidance for the accounting for the loss of control.

Appendix A

Defined terms

This appendix is an integral part of the IFRS.

consolidated financial statements	The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
control of an investee	An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
decision maker	An entity with decision-making rights that is either a principal or an agent for other parties.
group	A parent and its subsidiaries .
non-controlling interest	Equity in a subsidiary not attributable, directly or indirectly, to a parent .
parent	An entity that controls one or more entities.
power	Existing rights that give the current ability to direct the relevant activities .
protective rights	Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.
relevant activities	For the purpose of this IFRS, relevant activities are activities of the investee that significantly affect the investee's returns.
removal rights	Rights to deprive the decision maker of its decision-making authority.
subsidiary	An entity that is controlled by another entity.

The following terms are defined in IFRS 11, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 (as amended in 2011) or IAS 24 *Related Party Disclosures* and are used in this IFRS with the meanings specified in those IFRSs:

- associate
- interest in another entity
- joint venture
- key management personnel
- related party
- significant influence.

Appendix B

Application guidance

This appendix is an integral part of the IFRS. It describes the application of paragraphs 1–26 and has the same authority as the other parts of the IFRS.

- B1 The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IFRS 10.

ASSESSING CONTROL

- B2 To determine whether it controls an investee an investor shall assess whether it has all the following:

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

- B3 Consideration of the following factors may assist in making that determination:

- (a) the purpose and design of the investee (see paragraphs B5–B8);
- (b) what the relevant activities are and how decisions about those activities are made (see paragraphs B11–B13);
- (c) whether the rights of the investor give it the current ability to direct the relevant activities (see paragraphs B14–B54);
- (d) whether the investor is exposed, or has rights, to variable returns from its involvement with the investee (see paragraphs B55–B57); and
- (e) whether the investor has the ability to use its power over the investee to affect the amount of the investor's returns (see paragraphs B58–B72).

- B4 When assessing control of an investee, an investor shall consider the nature of its relationship with other parties (see paragraphs B73–B75).

Purpose and design of an investee

- B5 When assessing control of an investee, an investor shall consider the purpose and design of the investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives returns from those activities.
- B6 When an investee's purpose and design are considered, it may be clear that an investee is controlled by means of equity instruments that give the holder proportionate voting rights, such as ordinary shares in the investee. In this case, in the absence of any additional arrangements that alter decision-making, the assessment of control focuses on which party, if any, is able to exercise voting rights sufficient to determine the investee's operating and financing policies (see paragraphs B34–B50). In the most straightforward case, the investor that holds a majority of those voting rights, in the absence of any other factors, controls the investee.

B7 To determine whether an investor controls an investee in more complex cases, it may be necessary to consider some or all of the other factors in paragraph B3.

B8 An investee may be designed so that voting rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. In such cases, an investor's consideration of the purpose and design of the investee shall also include consideration of the risks to which the investee was designed to be exposed, the risks it was designed to pass on to the parties involved with the investee and whether the investor is exposed to some or all of those risks. Consideration of the risks includes not only the downside risk, but also the potential for upside.

Power

B9 To have power over an investee, an investor must have existing rights that give it the current ability to direct the relevant activities. For the purpose of assessing power, only substantive rights and rights that are not protective shall be considered (see paragraphs B22–B28).

B10 The determination about whether an investor has power depends on the relevant activities, the way decisions about the relevant activities are made and the rights the investor and other parties have in relation to the investee.

Relevant activities and direction of relevant activities

B11 For many investees, a range of operating and financing activities significantly affect their returns. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

- (a) selling and purchasing of goods or services;
- (b) managing financial assets during their life (including upon default);
- (c) selecting, acquiring or disposing of assets;
- (d) researching and developing new products or processes; and
- (e) determining a funding structure or obtaining funding.

B12 Examples of decisions about relevant activities include but are not limited to:

- (a) establishing operating and capital decisions of the investee, including budgets; and
- (b) appointing and remunerating an investee's key management personnel or service providers and terminating their services or employment.

B13 In some situations, activities both before and after a particular set of circumstances arises or event occurs may be relevant activities. When two or more investors have the current ability to direct relevant activities and those activities occur at different times, the investors shall determine which investor is able to direct the activities that most significantly affect those returns consistently with the treatment of concurrent decision-making rights (see paragraph 13). The investors shall reconsider this assessment over time if relevant facts or circumstances change.

Application examples

Example 1

Two investors form an investee to develop and market a medical product. One investor is responsible for developing and obtaining regulatory approval of the medical product—that responsibility includes having the unilateral ability to make all decisions relating to the development of the product and to obtaining regulatory approval. Once the regulator has approved the product, the other investor will manufacture and market it—this investor has the unilateral ability to make all decisions about the manufacture and marketing of the project. If all the activities—developing and obtaining regulatory approval as well as manufacturing and marketing of the medical product—are relevant activities, each investor needs to determine whether it is able to direct the activities that *most* significantly affect the investee's returns. Accordingly, each investor needs to consider whether developing and obtaining regulatory approval or the manufacturing and marketing of the medical product is the activity that *most* significantly affects the investee's returns and whether it is able to direct that activity. In determining which investor has power, the investors would consider:

- (a) the purpose and design of the investee;

- (b) the factors that determine the profit margin, revenue and value of the investee as well as the value of the medical product;
- (c) the effect on the investee's returns resulting from each investor's decision-making authority with respect to the factors in (b); and
- (d) the investors' exposure to variability of returns.

In this particular example, the investors would also consider:

- (e) the uncertainty of, and effort required in, obtaining regulatory approval (considering the investor's record of successfully developing and obtaining regulatory approval of medical products); and
- (f) which investor controls the medical product once the development phase is successful.

Example 2

An investment vehicle (the investee) is created and financed with a debt instrument held by an investor (the debt investor) and equity instruments held by a number of other investors. The equity tranche is designed to absorb the first losses and to receive any residual return from the investee. One of the equity investors who holds 30 per cent of the equity is also the asset manager. The investee uses its proceeds to purchase a portfolio of financial assets, exposing the investee to the credit risk associated with the possible default of principal and interest payments of the assets. The transaction is marketed to the debt investor as an investment with minimal exposure to the credit risk associated with the possible default of the assets in the portfolio because of the nature of these assets and because the equity tranche is designed to absorb the first losses of the investee. The returns of the investee are significantly affected by the management of the investee's asset portfolio, which includes decisions about the selection, acquisition and disposal of the assets within portfolio guidelines and the management upon default of any portfolio assets. All those activities are managed by the asset manager until defaults reach a specified proportion of the portfolio value (ie when the value of the portfolio is such that the equity tranche of the investee has been consumed). From that time, a third-party trustee manages the assets according to the instructions of the debt investor. Managing the investee's asset portfolio is the relevant activity of the investee. The asset manager has the ability to direct the relevant activities until defaulted assets reach the specified proportion of the portfolio value; the debt investor has the ability to direct the relevant activities when the value of defaulted assets surpasses that specified proportion of the portfolio value. The asset manager and the debt investor each need to determine whether they are able to direct the activities that *most* significantly affect the investee's returns, including considering the purpose and design of the investee as well as each party's exposure to variability of returns.

Rights that give an investor power over an investee

- B14 Power arises from rights. To have power over an investee, an investor must have existing rights that give the investor the current ability to direct the relevant activities. The rights that may give an investor power can differ between investees.
- B15 Examples of rights that, either individually or in combination, can give an investor power include but are not limited to:
- (a) rights in the form of voting rights (or potential voting rights) of an investee (see paragraphs B34–B50);
 - (b) rights to appoint, reassign or remove members of an investee's key management personnel who have the ability to direct the relevant activities;
 - (c) rights to appoint or remove another entity that directs the relevant activities;
 - (d) rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor; and
 - (e) other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.
- B16 Generally, when an investee has a range of operating and financing activities that significantly affect the investee's returns and when substantive decision-making with respect to these activities is required continuously, it will be voting or similar rights that give an investor power, either individually or in combination with other arrangements.
- B17 When voting rights cannot have a significant effect on an investee's returns, such as when voting rights relate to administrative tasks only and contractual arrangements determine the direction of the relevant activities, the investor

needs to assess those contractual arrangements in order to determine whether it has rights sufficient to give it power over the investee. To determine whether an investor has rights sufficient to give it power, the investor shall consider the purpose and design of the investee (see paragraphs B5–B8) and the requirements in paragraphs B51–B54 together with paragraphs B18–B20.

B18 In some circumstances it may be difficult to determine whether an investor's rights are sufficient to give it power over an investee. In such cases, to enable the assessment of power to be made, the investor shall consider evidence of whether it has the practical ability to direct the relevant activities unilaterally. Consideration is given, but is not limited, to the following, which, when considered together with its rights and the indicators in paragraphs B19 and B20, may provide evidence that the investor's rights are sufficient to give it power over the investee:

- (a) The investor can, without having the contractual right to do so, appoint or approve the investee's key management personnel who have the ability to direct the relevant activities.
- (b) The investor can, without having the contractual right to do so, direct the investee to enter into, or can veto any changes to, significant transactions for the benefit of the investor.
- (c) The investor can dominate either the nominations process for electing members of the investee's governing body or the obtaining of proxies from other holders of voting rights.
- (d) The investee's key management personnel are related parties of the investor (for example, the chief executive officer of the investee and the chief executive officer of the investor are the same person).
- (e) The majority of the members of the investee's governing body are related parties of the investor.

B19 Sometimes there will be indications that the investor has a special relationship with the investee, which suggests that the investor has more than a passive interest in the investee. The existence of any individual indicator, or a particular combination of indicators, does not necessarily mean that the power criterion is met. However, having more than a passive interest in the investee may indicate that the investor has other related rights sufficient to give it power or provide evidence of existing power over an investee. For example, the following suggests that the investor has more than a passive interest in the investee and, in combination with other rights, may indicate power:

- (a) The investee's key management personnel who have the ability to direct the relevant activities are current or previous employees of the investor.
- (b) The investee's operations are dependent on the investor, such as in the following situations:
 - (i) The investee depends on the investor to fund a significant portion of its operations.
 - (ii) The investor guarantees a significant portion of the investee's obligations.
 - (iii) The investee depends on the investor for critical services, technology, supplies or raw materials.
 - (iv) The investor controls assets such as licences or trademarks that are critical to the investee's operations.
 - (v) The investee depends on the investor for key management personnel, such as when the investor's personnel have specialised knowledge of the investee's operations.
- (c) A significant portion of the investee's activities either involve or are conducted on behalf of the investor.
- (d) The investor's exposure, or rights, to returns from its involvement with the investee is disproportionately greater than its voting or other similar rights. For example, there may be a situation in which an investor is entitled, or exposed, to more than half of the returns of the investee but holds less than half of the voting rights of the investee.

B20 The greater an investor's exposure, or rights, to variability of returns from its involvement with an investee, the greater is the incentive for the investor to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of returns is an indicator that the investor may have power. However, the extent of the investor's exposure does not, in itself, determine whether an investor has power over the investee.

B21 When the factors set out in paragraph B18 and the indicators set out in paragraphs B19 and B20 are considered together with an investor's rights, greater weight shall be given to the evidence of power described in paragraph B18.

Substantive rights

B22 An investor, in assessing whether it has power, considers only substantive rights relating to an investee (held by the investor and others). For a right to be substantive, the holder must have the practical ability to exercise that right.

B23 Determining whether rights are substantive requires judgement, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:

- (a) Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights. Examples of such barriers include but are not limited to:
 - (i) financial penalties and incentives that would prevent (or deter) the holder from exercising its rights.
 - (ii) an exercise or conversion price that creates a financial barrier that would prevent (or deter) the holder from exercising its rights.
 - (iii) terms and conditions that make it unlikely that the rights would be exercised, for example, conditions that narrowly limit the timing of their exercise.
 - (iv) the absence of an explicit, reasonable mechanism in the founding documents of an investee or in applicable laws or regulations that would allow the holder to exercise its rights.
 - (v) the inability of the holder of the rights to obtain the information necessary to exercise its rights.
 - (vi) operational barriers or incentives that would prevent (or deter) the holder from exercising its rights (eg the absence of other managers willing or able to provide specialised services or provide the services and take on other interests held by the incumbent manager).
 - (vii) legal or regulatory requirements that prevent the holder from exercising its rights (eg where a foreign investor is prohibited from exercising its rights).
- (b) When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so. The lack of such a mechanism is an indicator that the rights may not be substantive. The more parties that are required to agree to exercise the rights, the less likely it is that those rights are substantive. However, a board of directors whose members are independent of the decision maker may serve as a mechanism for numerous investors to act collectively in exercising their rights. Therefore, removal rights exercisable by an independent board of directors are more likely to be substantive than if the same rights were exercisable individually by a large number of investors.
- (c) Whether the party or parties that hold the rights would benefit from the exercise of those rights. For example, the holder of potential voting rights in an investee (see paragraphs B47–B50) shall consider the exercise or conversion price of the instrument. The terms and conditions of potential voting rights are more likely to be substantive when the instrument is in the money or the investor would benefit for other reasons (eg by realising synergies between the investor and the investee) from the exercise or conversion of the instrument.

B24 To be substantive, rights also need to 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.

Application examples

Example 3

The investee has annual shareholder meetings at which decisions to direct the relevant activities are made. The next scheduled shareholders' meeting is in eight months. However, shareholders that individually or collectively hold at least 5 per cent of the voting rights can call a special meeting to change the existing policies over the relevant activities, but a requirement to give notice to the other shareholders means that such a meeting cannot be held for at least 30 days. Policies over the relevant activities can be changed only at special or scheduled shareholders' meetings. This includes the approval of material sales of assets as well as the making or disposing of significant investments.

The above fact pattern applies to examples 3A–3D described below. Each example is considered in isolation.

Example 3A

An investor holds a majority of the voting rights in the investee. The investor's voting rights are substantive because the investor is able to make decisions about the direction of the relevant activities when they need to be made. The fact that it takes 30 days before the investor can exercise its voting rights does not stop the investor from having the current ability to direct the relevant activities from the moment the investor acquires the shareholding.

Example 3B

An investor is party to a forward contract to acquire the majority of shares in the investee. The forward contract's settlement date is in 25 days. The existing shareholders are unable to change the existing policies over the relevant activities because a special meeting cannot be held for at least 30 days, at which point the forward contract will have been settled. Thus, the investor has rights that are essentially equivalent to the majority shareholder in example 3A above (ie the investor holding the forward contract can make decisions about the direction of the relevant activities when they need to be made). The investor's forward contract is a substantive right that gives the investor the current ability to direct the relevant activities even before the forward contract is settled.

Example 3C

An investor holds a substantive option to acquire the majority of shares in the investee that is exercisable in 25 days and is deeply in the money. The same conclusion would be reached as in example 3B.

Example 3D

An investor is party to a forward contract to acquire the majority of shares in the investee, with no other related rights over the investee. The forward contract's settlement date is in six months. In contrast to the examples above, 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 the existing policies over the relevant activities before the forward contract is settled.

- B25 Substantive rights exercisable by other parties can prevent an investor from controlling the investee to which those rights relate. Such substantive rights do not require the holders to have the ability to initiate decisions. As long as the rights are not merely protective (see paragraphs B26–B28), substantive rights held by other parties may prevent the investor from controlling the investee even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities.

Protective rights

- B26 In evaluating whether rights give an investor power over an investee, the investor shall assess whether its rights, and rights held by others, are protective rights. Protective rights relate to fundamental changes to the activities of an investee or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective (see paragraphs B13 and B53).

- B27 Because protective rights are designed to protect the interests of their holder without giving that party power over the investee to which those rights relate, an investor that holds only protective rights cannot have power or prevent another party from having power over an investee (see paragraph 14).

- B28 Examples of protective rights include but are not limited to:

- (a) a lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.
- (b) the right of a party holding a non-controlling interest in an investee to approve capital expenditure greater than that required in the ordinary course of business, or to approve the issue of equity or debt instruments.
- (c) the right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.

Franchises

- B29 A franchise agreement for which the investee is the franchisee often gives the franchisor rights that are designed to protect the franchise brand. Franchise agreements typically give franchisors some decision-making rights with respect to the operations of the franchisee.

- B30 Generally, franchisors' rights do not restrict the ability of parties other than the franchisor to make decisions that have a significant effect on the franchisee's returns. Nor do the rights of the franchisor in franchise agreements necessarily give the franchisor the current ability to direct the activities that significantly affect the franchisee's returns.
- B31 It is necessary to distinguish between having the current ability to make decisions that significantly affect the franchisee's returns and having the ability to make decisions that protect the franchise brand. The franchisor does not have power over the franchisee if other parties have existing rights that give them the current ability to direct the relevant activities of the franchisee.
- B32 By entering into the franchise agreement the franchisee has made a unilateral decision to operate its business in accordance with the terms of the franchise agreement, but for its own account.
- B33 Control over such fundamental decisions as the legal form of the franchisee and its funding structure may be determined by parties other than the franchisor and may significantly affect the returns of the franchisee. The lower the level of financial support provided by the franchisor and the lower the franchisor's exposure to variability of returns from the franchisee the more likely it is that the franchisor has only protective rights.

Voting rights

- B34 Often an investor has the current ability, through voting or similar rights, to direct the relevant activities. An investor considers the requirements in this section (paragraphs B35–B50) if the relevant activities of an investee are directed through voting rights.

Power with a majority of the voting rights

- B35 An investor that holds more than half of the voting rights of an investee has power in the following situations, unless paragraph B36 or paragraph B37 applies:

- (a) the relevant activities are directed by a vote of the holder of the majority of the voting rights, or
- (b) a majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority of the voting rights.

Majority of the voting rights but no power

- B36 For an investor that holds more than half of the voting rights of an investee, to have power over an investee, the investor's voting rights must be substantive, in accordance with paragraphs B22–B25, and must provide the investor with the current ability to direct the relevant activities, which often will be through determining operating and financing policies. If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the investor, the investor does not have power over the investee.

- B37 An investor does not have power over an investee, even though the investor holds the majority of the voting rights in the investee, when those voting rights are not substantive. For example, an investor that has more than half of the voting rights in an investee cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator.

Power without a majority of the voting rights

- B38 An investor can have power even if it holds less than a majority of the voting rights of an investee. An investor can have power with less than a majority of the voting rights of an investee, for example, through:

- (a) a contractual arrangement between the investor and other vote holders (see paragraph B39);
- (b) rights arising from other contractual arrangements (see paragraph B40);
- (c) the investor's voting rights (see paragraphs B41–B45);
- (d) potential voting rights (see paragraphs B47–B50); or
- (e) a combination of (a)–(d).

Contractual arrangement with other vote holders

- B39 A contractual arrangement between an investor and other vote holders can give the investor the right to exercise voting rights sufficient to give the investor power, even if the investor does not have voting rights sufficient to give it power without the contractual arrangement. However, a contractual arrangement might ensure that the investor can direct enough other vote holders on how to vote to enable the investor to make decisions about the relevant activities.

Rights from other contractual arrangements

- B40 Other decision-making rights, in combination with voting rights, can give an investor the current ability to direct the relevant activities. For example, the rights specified in a contractual arrangement in combination with voting rights may be sufficient to give an investor the current ability to direct the manufacturing processes of an investee or to direct other operating or financing activities of an investee that significantly affect the investee's returns. However, in the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee.

The investor's voting rights

- B41 An investor with less than a majority of the voting rights has rights that are sufficient to give it power when the investor has the practical ability to direct the relevant activities unilaterally.
- B42 When assessing whether an investor's voting rights are sufficient to give it power, an investor considers all facts and circumstances, including:
- (a) the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that:
 - (i) the more voting rights an investor holds, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;
 - (ii) the more voting rights an investor holds relative to other vote holders, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;
 - (iii) the more parties that would need to act together to outvote the investor, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;
 - (b) potential voting rights held by the investor, other vote holders or other parties (see paragraphs B47–B50);
 - (c) rights arising from other contractual arrangements (see paragraph B40); and
 - (d) any additional facts and circumstances that indicate the investor has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.
- B43 When the direction of relevant activities is determined by majority vote and an investor holds significantly more voting rights than any other vote holder or organised group of vote holders, and the other shareholdings are widely dispersed, it may be clear, after considering the factors listed in paragraph 42(a)–(c) alone, that the investor has power over the investee.

*Application examples***Example 4**

An investor acquires 48 per cent of the voting rights of an investee. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the investor determined that a 48 per cent interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the investor concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

Example 5

Investor A holds 40 per cent of the voting rights of an investee and twelve other investors each hold 5 per cent of the voting rights of the investee. A shareholder agreement grants investor A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. In this case, investor A concludes that the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power. However, investor A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the investee. The fact that investor A might not have exercised this right or the likelihood of investor A exercising its right to select, appoint or remove management shall not be considered when assessing whether investor A has power.

- B44 In other situations, it may be clear after considering the factors listed in paragraph B42(a)–(c) alone that an investor does not have power.

Application example**Example 6**

Investor A holds 45 per cent of the voting rights of an investee. Two other investors each hold 26 per cent of the voting rights of the investee. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision-making. In this case, the size of investor A's voting interest and its size relative to the other shareholdings are sufficient to conclude that investor A does not have power. Only two other investors would need to co-operate to be able to prevent investor A from directing the relevant activities of the investee.

- B45 However, the factors listed in paragraph B42(a)–(c) alone may not be conclusive. If an investor, having considered those factors, is unclear whether it has power, it shall consider additional facts and circumstances, such as whether other shareholders are passive in nature as demonstrated by voting patterns at previous shareholders' meetings. This includes the assessment of the factors set out in paragraph B18 and the indicators in paragraphs B19 and B20. The fewer voting rights the investor holds, and the fewer parties that would need to act together to outvote the investor, the more reliance would be placed on the additional facts and circumstances to assess whether the investor's rights are sufficient to give it power. When the facts and circumstances in paragraphs B18–B20 are considered together with the investor's rights, greater weight shall be given to the evidence of power in paragraph B18 than to the indicators of power in paragraphs B19 and B20.

Application examples**Example 7**

An investor holds 45 per cent of the voting rights of an investee. Eleven other shareholders each hold 5 per cent of the voting rights of the investee. None of the shareholders has contractual arrangements to consult any of the others or make collective decisions. In this case, the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power over the investee. Additional facts and circumstances that may provide evidence that the investor has, or does not have, power shall be considered.

Example 8

An investor holds 35 per cent of the voting rights of an investee. Three other shareholders each hold 5 per cent of the voting rights of the investee. The remaining voting rights are held by numerous other shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has arrangements to consult any of the others or make collective decisions. Decisions about the relevant activities of the investee require the approval of a majority of votes cast at relevant shareholders' meetings—75 per cent of the voting rights of the investee have been cast at recent relevant shareholders' meetings. In this case, the active participation of the other shareholders at recent shareholders' meetings indicates that the investor would not have the practical ability to direct the relevant activities unilaterally, regardless of whether the investor has directed the relevant activities because a sufficient number of other shareholders voted in the same way as the investor.

- B46 If it is not clear, having considered the factors listed in paragraph B42(a)–(d), that the investor has power, the investor does not control the investee.

Potential voting rights

- B47 When assessing control, an investor considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are rights to obtain voting rights of an investee, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the rights are substantive (see paragraphs B22–B25).
- B48 When considering potential voting rights, an investor shall consider the purpose and design of the instrument, as well as the purpose and design of any other involvement the investor has with the investee. This includes an assessment of the various terms and conditions of the instrument as well as the investor's apparent expectations, motives and reasons for agreeing to those terms and conditions.
- B49 If the investor also has voting or other decision-making rights relating to the investee's activities, the investor assesses whether those rights, in combination with potential voting rights, give the investor power.
- B50 Substantive potential voting rights alone, or in combination with other rights, can give an investor the current ability to direct the relevant activities. For example, this is likely to be the case when an investor holds 40 per cent of the voting rights of an investee and, in accordance with paragraph B23, holds substantive rights arising from options to acquire a further 20 per cent of the voting rights.

*Application examples***Example 9**

Investor A holds 70 per cent of the voting rights of an investee. Investor B has 30 per cent of the voting rights of the investee as well as an option to acquire half of investor A's voting rights. The option is exercisable for the next two years at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period). Investor A has been exercising its votes and is actively directing the relevant activities of the investee. In such a case, investor A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities. Although investor B has currently exercisable options to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the investee), the terms and conditions associated with those options are such that the options are not considered substantive.

Example 10

Investor A and two other investors each hold a third of the voting rights of an investee. The investee's business activity is closely related to investor A. In addition to its equity instruments, investor A also holds debt instruments that are convertible into ordinary shares of the investee at any time for a fixed price that is out of the money (but not deeply out of the money). If the debt were converted, investor A would hold 60 per cent of the voting rights of the investee. Investor A would benefit from realising synergies if the debt instruments were converted into ordinary shares. Investor A has power over the investee because it holds voting rights of the investee together with substantive potential voting rights that give it the current ability to direct the relevant activities.

Power when voting or similar rights do not have a significant effect on the investee's returns

- B51 In assessing the purpose and design of an investee (see paragraphs B5–B8), an investor shall consider the involvement and decisions made at the investee's inception as part of its design and evaluate whether the transaction terms and features of the involvement provide the investor with rights that are sufficient to give it power. Being involved in the design of an investee alone is not sufficient to give an investor control. However, involvement in the design may indicate that the investor had the opportunity to obtain rights that are sufficient to give it power over the investee.
- B52 In addition, an investor shall consider contractual arrangements such as call rights, put rights and liquidation rights established at the investee's inception. When these contractual arrangements involve activities that are closely related to the investee, then these activities are, in substance, an integral part of the investee's overall activities, even though they may occur outside the legal boundaries of the investee. Therefore, explicit or implicit decision-making rights embedded in contractual arrangements that are closely related to the investee need to be considered as relevant activities when determining power over the investee.
- B53 For some investees, relevant activities occur only when particular circumstances arise or events occur. The investee may be designed so that the direction of its activities and its returns are predetermined unless and until those particular circumstances arise or events occur. In this case, only the decisions about the investee's activities when

those circumstances or events occur can significantly affect its returns and thus be relevant activities. The circumstances or events need not have occurred for an investor with the ability to make those decisions to have power. The fact that the right to make decisions is contingent on circumstances arising or an event occurring does not, in itself, make those rights protective.

Application examples

Example 11

An investee's only business activity, as specified in its founding documents, is to purchase receivables and service them on a day-to-day basis for its investors. The servicing on a day-to-day basis includes the collection and passing on of principal and interest payments as they fall due. Upon default of a receivable the investee automatically puts the receivable to an investor as agreed separately in a put agreement between the investor and the investee. The only relevant activity is managing the receivables upon default because it is the only activity that can significantly affect the investee's returns. Managing the receivables before default is not a relevant activity because it does not require substantive decisions to be made that could significantly affect the investee's returns—the activities before default are predetermined and amount only to collecting cash flows as they fall due and passing them on to investors. Therefore, only the investor's right to manage the assets upon default should be considered when assessing the overall activities of the investee that significantly affect the investee's returns. In this example, the design of the investee ensures that the investor has decision-making authority over the activities that significantly affect the returns at the only time that such decision-making authority is required. The terms of the put agreement are integral to the overall transaction and the establishment of the investee. Therefore, the terms of the put agreement together with the founding documents of the investee lead to the conclusion that the investor has power over the investee even though the investor takes ownership of the receivables only upon default and manages the defaulted receivables outside the legal boundaries of the investee.

Example 12

The only assets of an investee are receivables. When the purpose and design of the investee are considered, it is determined that the only relevant activity is managing the receivables upon default. The party that has the ability to manage the defaulting receivables has power over the investee, irrespective of whether any of the borrowers have defaulted.

- B54 An investor may have an explicit or implicit commitment to ensure that an investee continues to operate as designed. Such a commitment may increase the investor's exposure to variability of returns and thus increase the incentive for the investor to obtain rights sufficient to give it power. Therefore a commitment to ensure that an investee operates as designed may be an indicator that the investor has power, but does not, by itself, give an investor power, nor does it prevent another party from having power.

Exposure, or rights, to variable returns from an investee

- B55 When assessing whether an investor has control of an investee, the investor determines whether it is exposed, or has rights, to variable returns from its involvement with the investee.
- B56 Variable returns are returns that are not fixed and have the potential to vary as a result of the performance of an investee. Variable returns can be only positive, only negative or both positive and negative (see paragraph 15). An investor assesses whether returns from an investee are variable and how variable those returns are on the basis of the substance of the arrangement and regardless of the legal form of the returns. For example, an investor can hold a bond with fixed interest payments. The fixed interest payments are variable returns for the purpose of this IFRS because they are subject to default risk and they expose the investor to the credit risk of the issuer of the bond. The amount of variability (ie how variable those returns are) depends on the credit risk of the bond. Similarly, fixed performance fees for managing an investee's assets are variable returns because they expose the investor to the performance risk of the investee. The amount of variability depends on the investee's ability to generate sufficient income to pay the fee.

- B57 Examples of returns include:

- (a) dividends, other distributions of economic benefits from an investee (eg interest from debt securities issued by the investee) and changes in the value of the investor's investment in that investee.

- (b) remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee.
- (c) returns that are not available to other interest holders. For example, an investor might use its assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the investor's other assets.

Link between power and returns

Delegated power

- B58 When an investor with decision-making rights (a decision maker) assesses whether it controls an investee, it shall determine whether it is a principal or an agent. An investor shall also determine whether another entity with decision-making rights is acting as an agent for the investor. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority (see paragraphs 17 and 18). Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal. A decision maker is not an agent simply because other parties can benefit from the decisions that it makes.
- B59 An investor may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls an investee, the investor shall treat the decision-making rights delegated to its agent as held by the investor directly. In situations where there is more than one principal, each of the principals shall assess whether it has power over the investee by considering the requirements in paragraphs B5–B54. Paragraphs B60–B72 provide guidance on determining whether a decision maker is an agent or a principal.
- B60 A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:
- (a) the scope of its decision-making authority over the investee (paragraphs B62 and B63).
 - (b) the rights held by other parties (paragraphs B64–B67).
 - (c) the remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs B68–B70).
 - (d) the decision maker's exposure to variability of returns from other interests that it holds in the investee (paragraphs B71 and B72).

Different weightings shall be applied to each of the factors on the basis of particular facts and circumstances.

- B61 Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph B60 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph B65).

The scope of the decision-making authority

- B62 The scope of a decision maker's decision-making authority is evaluated by considering:

- (a) the activities that are permitted according to the decision-making agreement(s) and specified by law, and
- (b) the discretion that the decision maker has when making decisions about those activities.

- B63 A decision maker shall consider the purpose and design of the investee, the risks to which the investee was designed to be exposed, the risks that it was designed to pass on to the parties involved and the level of involvement the decision maker had in the design of an investee. For example, if a decision maker is significantly involved in the design of the investee (including in determining the scope of decision-making authority), that involvement may indicate that the decision maker had the opportunity and incentive to obtain rights that result in the decision maker having the ability to direct the relevant activities.

Rights held by other parties

- B64 Substantive rights held by other parties may affect the decision maker's ability to direct the relevant activities of an investee. Substantive removal or other rights may indicate that the decision maker is an agent.
- B65 When a single party holds substantive removal rights and can remove the decision maker without cause, this, in isolation, is sufficient to conclude that the decision maker is an agent. If more than one party holds such rights (and no individual party can remove the decision maker without the agreement of other parties) those rights are not, in isolation, conclusive in determining that a decision maker acts primarily on behalf and for the benefit of others. In addition, the greater the number of parties required to act together to exercise rights to remove a decision maker and the greater the magnitude of, and variability associated with, the decision maker's other economic interests (ie remuneration and other interests), the less the weighting that shall be placed on this factor.
- B66 Substantive rights held by other parties that restrict a decision maker's discretion shall be considered in a similar manner to removal rights when evaluating whether the decision maker is an agent. For example, a decision maker that is required to obtain approval from a small number of other parties for its actions is generally an agent. (See paragraphs B22–B25 for additional guidance on rights and whether they are substantive.)
- B67 Consideration of the rights held by other parties shall include an assessment of any rights exercisable by an investee's board of directors (or other governing body) and their effect on the decision-making authority (see paragraph B23(b)).

Remuneration

- B68 The greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the returns expected from the activities of the investee, the more likely the decision maker is a principal.
- B69 In determining whether it is a principal or an agent the decision maker shall also consider whether the following conditions exist:
- (a) The remuneration of the decision maker is commensurate with the services provided.
 - (b) The remuneration agreement includes only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis.
- B70 A decision maker cannot be an agent unless the conditions set out in paragraph B69(a) and (b) are present. However, meeting those conditions in isolation is not sufficient to conclude that a decision maker is an agent.

Exposure to variability of returns from other interests

- B71 A decision maker that holds other interests in an investee (eg investments in the investee or provides guarantees with respect to the performance of the investee), shall consider its exposure to variability of returns from those interests in assessing whether it is an agent. Holding other interests in an investee indicates that the decision maker may be a principal.
- B72 In evaluating its exposure to variability of returns from other interests in the investee a decision maker shall consider the following:
- (a) the greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision maker is a principal.
 - (b) whether its exposure to variability of returns is different from that of the other investors and, if so, whether this might influence its actions. For example, this might be the case when a decision maker holds subordinated interests in, or provides other forms of credit enhancement to, an investee.

The decision maker shall evaluate its exposure relative to the total variability of returns of the investee. This evaluation is made primarily on the basis of returns expected from the activities of the investee but shall not ignore the decision maker's maximum exposure to variability of returns of the investee through other interests that the decision maker holds.

Application examples

Example 13

A decision maker (fund manager) establishes, markets and manages a publicly traded, regulated fund according to narrowly defined parameters set out in the investment mandate as required by its local laws and regulations. The fund was marketed to investors as an investment in a diversified portfolio of equity securities of publicly traded entities. Within the defined parameters, the fund manager has discretion about the assets in which to invest. The fund manager has made a 10 per cent pro rata investment in the fund and receives a market-based fee for its services equal to 1 per cent of the net asset value of the fund. The fees are commensurate with the services provided. The fund manager does not have any obligation to fund losses beyond its 10 per cent investment. The fund is not required to establish, and has not established, an independent board of directors. The investors do not hold any substantive rights that would affect the decision-making authority of the fund manager, but can redeem their interests within particular limits set by the fund.

Although operating within the parameters set out in the investment mandate and in accordance with the regulatory requirements, the fund manager has decision-making rights that give it the current ability to direct the relevant activities of the fund—the investors do not hold substantive rights that could affect the fund manager's decision-making authority. The fund manager receives a market-based fee for its services that is commensurate with the services provided and has also made a pro rata investment in the fund. The remuneration and its investment expose the fund manager to variability of returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal.

In this example, consideration of the fund manager's exposure to variability of returns from the fund together with its decision-making authority within restricted parameters indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

Example 14

A decision maker establishes, markets and manages a fund that provides investment opportunities to a number of investors. The decision maker (fund manager) must make decisions in the best interests of all investors and in accordance with the fund's governing agreements. Nonetheless, the fund manager has wide decision-making discretion. The fund manager receives a market-based fee for its services equal to 1 per cent of assets under management and 20 per cent of all the fund's profits if a specified profit level is achieved. The fees are commensurate with the services provided.

Although it must make decisions in the best interests of all investors, the fund manager has extensive decision-making authority to direct the relevant activities of the fund. The fund manager is paid fixed and performance-related fees that are commensurate with the services provided. In addition, the remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund, without creating exposure to variability of returns from the activities of the fund that is of such significance that the remuneration, when considered in isolation, indicates that the fund manager is a principal.

The above fact pattern and analysis applies to examples 14A–14C described below. Each example is considered in isolation.

Example 14A

The fund manager also has a 2 per cent investment in the fund that aligns its interests with those of the other investors. The fund manager does not have any obligation to fund losses beyond its 2 per cent investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

The fund manager's 2 per cent investment increases its exposure to variability of returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal. The other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. In this example, although the fund manager has extensive decision-making authority and is exposed to variability of returns from its interest and remuneration, the fund manager's exposure indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

Example 14B

The fund manager has a more substantial pro rata investment in the fund, but does not have any obligation to fund losses beyond that investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

In this example, the other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's investment together with its remuneration could create exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The greater the magnitude of, and variability associated with, the fund manager's economic interests (considering its remuneration and other interests in aggregate), the more emphasis the fund manager would place on those economic interests in the analysis, and the more likely the fund manager is a principal.

For example, having considered its remuneration and the other factors, the fund manager might consider a 20 per cent investment to be sufficient to conclude that it controls the fund. However, in different circumstances (ie if the remuneration or other factors are different), control may arise when the level of investment is different.

Example 14C

The fund manager has a 20 per cent pro rata investment in the fund, but does not have any obligation to fund losses beyond its 20 per cent investment. The fund has a board of directors, all of whose members are independent of the fund manager and are appointed by the other investors. The board appoints the fund manager annually. If the board decided not to renew the fund manager's contract, the services performed by the fund manager could be performed by other managers in the industry.

Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's 20 per cent investment together with its remuneration creates exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. However, the investors have substantive rights to remove the fund manager—the board of directors provides a mechanism to ensure that the investors can remove the fund manager if they decide to do so.

In this example, the fund manager places greater emphasis on the substantive removal rights in the analysis. Thus, although the fund manager has extensive decision-making authority and is exposed to variability of returns of the fund from its remuneration and investment, the substantive rights held by the other investors indicate that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

Example 15

An investee is created to purchase a portfolio of fixed rate asset-backed securities, funded by fixed rate debt instruments and equity instruments. The equity instruments are designed to provide first loss protection to the debt investors and receive any residual returns of the investee. The transaction was marketed to potential debt investors as an investment in a portfolio of asset-backed securities with exposure to the credit risk associated with the possible default of the issuers of the asset-backed securities in the portfolio and to the interest rate risk associated with the management of the portfolio. On formation, the equity instruments represent 10 per cent of the value of the assets purchased. A decision maker (the asset manager) manages the active asset portfolio by making investment decisions within the parameters set out in the investee's prospectus. For those services, the asset manager receives a market-based fixed fee (ie 1 per cent of assets under management) and performance-related fees (ie 10 per cent of profits) if the investee's profits exceed a specified level. The fees are commensurate with the services provided. The asset manager holds 35 per cent of the equity in the investee.

The remaining 65 per cent of the equity, and all the debt instruments, are held by a large number of widely dispersed unrelated third party investors. The asset manager can be removed, without cause, by a simple majority decision of the other investors.

The asset manager is paid fixed and performance-related fees that are commensurate with the services provided. The remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund. The asset manager has exposure to variability of returns from the activities of the fund because it holds 35 per cent of the equity and from its remuneration.

Although operating within the parameters set out in the investee's prospectus, the asset manager has the current ability to make investment decisions that significantly affect the investee's returns—the removal rights held by the other investors receive little weighting in the analysis because those rights are held by a large number of widely dispersed investors. In this example, the asset manager places greater emphasis on its exposure to variability of returns of the fund from its equity interest, which is subordinate to the debt instruments. Holding 35 per cent of the equity creates subordinated exposure to losses and rights to returns of the investee, which are of such significance that it indicates that the asset manager is a principal. Thus, the asset manager concludes that it controls the investee.

Example 16

A decision maker (the sponsor) sponsors a multi-seller conduit, which issues short-term debt instruments to unrelated third party investors. The transaction was marketed to potential investors as an investment in a portfolio of highly rated medium-term assets with minimal exposure to the credit risk associated with the possible default by the issuers of the assets in the portfolio. Various transferors services sell high quality medium-term asset portfolios to the conduit. Each transferor the portfolio of assets that it sells to the conduit and manages receivables on default for a market-based servicing fee. Each transferor also provides first loss protection against credit losses from its asset portfolio through over-collateralisation of the assets transferred to the conduit. The sponsor establishes the terms of the conduit and manages the operations of the conduit for a market-based fee. The fee is commensurate with the services provided. The sponsor approves the sellers permitted to sell to the conduit, approves the assets to be purchased by the conduit and makes decisions about the funding of the conduit. The sponsor must act in the best interests of all investors.

The sponsor is entitled to any residual return of the conduit and also provides credit enhancement and liquidity facilities to the conduit. The credit enhancement provided by the sponsor absorbs losses of up to 5 per cent of all of the conduit's assets, after losses are absorbed by the transferors. The liquidity facilities are not advanced against defaulted assets. The investors do not hold substantive rights that could affect the decision-making authority of the sponsor.

Even though the sponsor is paid a market-based fee for its services that is commensurate with the services provided, the sponsor has exposure to variability of returns from the activities of the conduit because of its rights to any residual returns of the conduit and the provision of credit enhancement and liquidity facilities (ie the conduit is exposed to liquidity risk by using short-term debt instruments to fund medium-term assets). Even though each of the transferors has decision-making rights that affect the value of the assets of the conduit, the sponsor has extensive decision-making authority that gives it the current ability to direct the activities that *most* significantly affect the conduit's returns (ie the sponsor established the terms of the conduit, has the right to make decisions about the assets (approving the assets purchased and the transferors of those assets) and the funding of the conduit (for which new investment must be found on a regular basis)). The right to residual returns of the conduit and the provision of credit enhancement and liquidity facilities expose the sponsor to variability of returns from the activities of the conduit that is different from that of the other investors. Accordingly, that exposure indicates that the sponsor is a principal and thus the sponsor concludes that it controls the conduit. The sponsor's obligation to act in the best interest of all investors does not prevent the sponsor from being a principal.

Relationship with other parties

- B73 When assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf (ie they are 'de facto agents'). The determination of whether other parties are acting as de facto agents requires judgement, considering not only the nature of the relationship but also how those parties interact with each other and the investor.
- B74 Such a relationship need not involve a contractual arrangement. A party is a de facto agent when the investor has, or those that direct the activities of the investor have, the ability to direct that party to act on the investor's behalf. In these circumstances, the investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee.
- B75 The following are examples of such other parties that, by the nature of their relationship, might act as de facto agents for the investor:

- (a) the investor's related parties.

- (b) a party that received its interest in the investee as a contribution or loan from the investor.
- (c) a party that has agreed not to sell, transfer or encumber its interests in the investee without the investor's prior approval (except for situations in which the investor and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties).
- (d) a party that cannot finance its operations without subordinated financial support from the investor.
- (e) an investee for which the majority of the members of its governing body or for which its key management personnel are the same as those of the investor.
- (f) a party that has a close business relationship with the investor, such as the relationship between a professional service provider and one of its significant clients.

Control of specified assets

B76 An investor shall consider whether it treats a portion of an investee as a deemed separate entity and, if so, whether it controls the deemed separate entity.

B77 An investor shall treat a portion of an investee as a deemed separate entity if and only if the following condition is satisfied:

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

B78 When the condition in paragraph B77 is satisfied, an investor shall identify the activities that significantly affect the returns of the deemed separate entity and how those activities are directed in order to assess whether it has power over that portion of the investee. When assessing control of the deemed separate entity, the investor shall also consider whether it has exposure or rights to variable returns from its involvement with that deemed separate entity and the ability to use its power over that portion of the investee to affect the amount of the investor's returns.

B79 If the investor controls the deemed separate entity, the investor shall consolidate that portion of the investee. In that case, other parties exclude that portion of the investee when assessing control of, and in consolidating, the investee.

Continuous assessment

B80 An investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7.

B81 If there is a change in how power over an investee can be exercised, that change must be reflected in how an investor assesses its power over an investee. For example, changes to decision-making rights can mean that the relevant activities are no longer directed through voting rights, but instead other agreements, such as contracts, give another party or parties the current ability to direct the relevant activities.

B82 An event can cause an investor to gain or lose power over an investee without the investor being involved in that event. For example, an investor that has power over an investee because decision-making rights held by another party or parties that previously prevented the investor from controlling an investee have elapsed.

B83 An investor also considers changes affecting its exposure, or rights, to variable returns from its involvement with an investee. For example, an investor that has power over an investee can lose control of an investee if the investor ceases to be entitled to receive returns or to be exposed to obligations, because the investor would fail to satisfy paragraph 7(b) (eg if a contract to receive performance-related fees is terminated).

B84 An investor shall consider whether its assessment that it acts as an agent or a principal has changed. Changes in the overall relationship between the investor and other parties can mean that an investor no longer acts as an agent, even though it has previously acted as an agent, and vice versa. For example, if changes to the rights of the investor, or of other parties, occur, the investor shall reconsider its status as a principal or an agent.

B85 An investor's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (eg a change in the investee's returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in paragraph 7 or changes the overall relationship between a principal and an agent.

ACCOUNTING REQUIREMENTS

Consolidation procedures

B86 Consolidated financial statements:

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

Uniform accounting policies

B87 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Measurement

B88 An entity includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary. Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of comprehensive income after the acquisition date is based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.

Potential voting rights

B89 When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of profit or loss and changes in equity allocated to the parent and non-controlling interests in preparing consolidated financial statements is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivatives, unless paragraph B90 applies.

B90 In some circumstances an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives the entity access to the returns associated with an ownership interest. In such circumstances, the proportion allocated to the parent and non-controlling interests in preparing consolidated financial statements is determined by taking into account the eventual exercise of those potential voting rights and other derivatives that currently give the entity access to the returns.

B91 IFRS 9 does not apply to interests in subsidiaries that are consolidated. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in a subsidiary, the instruments are not subject to the requirements of IFRS 9. In all other cases, instruments containing potential voting rights in a subsidiary are accounted for in accordance with IFRS 9.

Reporting date

B92 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.

B93 If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.

Non-controlling interests

B94 An entity shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The entity shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

B95 If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the entity shall compute its share of profit or loss after adjusting for the dividends on such shares, whether or not such dividends have been declared.

Changes in the proportion held by non-controlling interests

B96 When the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

Loss of control

B97 A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the parent should account for the multiple arrangements as a single transaction:

- (a) They are entered into at the same time or in contemplation of each other.
- (b) They form a single transaction designed to achieve an overall commercial effect.
- (c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
- (d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market.

B98 If a parent loses control of a subsidiary, it shall:

- (a) derecognise:
 - (i) the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; and
 - (ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them).
- (b) recognise:
 - (i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;
 - (ii) if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and

- (iii) any investment retained in the former subsidiary at its fair value at the date when control is lost.
- (c) reclassify to profit or loss, or transfer directly to retained earnings if required by other IFRSs, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis described in paragraph B99.
- (d) recognise any resulting difference as a gain or loss in profit or loss attributable to the parent.

B99 If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

Appendix C

Effective date and transition

This appendix is an integral part of the IFRS and has the same authority as the other parts of the IFRS.

EFFECTIVE DATE

- C1 An entity shall apply this IFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this IFRS earlier, it shall disclose that fact and apply IFRS 11, IFRS 12, IAS 27 *Separate Financial Statements* and IAS 28 (as amended in 2011) at the same time.

TRANSITION

- C2 An entity shall apply this IFRS retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs C3–C6.
- C3 When applying this IFRS for the first time, an entity is not required to make adjustments to the accounting for its involvement with either:
- (a) entities that were previously consolidated in accordance with IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* and, in accordance with this IFRS, continue to be consolidated; or
 - (b) entities that were previously unconsolidated in accordance with IAS 27 and SIC-12 and, in accordance with this IFRS, continue not to be consolidated.
- C4 When application of this IFRS for the first time results in an investor consolidating an investee that was not consolidated in accordance with IAS 27 and SIC-12 the investor shall:
- (a) if the investee is a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee on the date of initial application as if that investee had been consolidated (and thus applied acquisition accounting in accordance with IFRS 3) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS.
 - (b) if the investee is not a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee on the date of initial application as if that investee had been consolidated (applying the acquisition method as described in IFRS 3 without recognising any goodwill for the investee) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS. Any difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the investor's involvement with the investee shall be recognised as a corresponding adjustment to the opening balance of equity.
 - (c) if measuring an investee's assets, liabilities and non-controlling interest in accordance with (a) or (b) is impracticable (as defined in IAS 8), the investor shall:

- (i) if the investee is a business, apply the requirements of IFRS 3. The deemed acquisition date shall be the beginning of the earliest period for which application of IFRS 3 is practicable, which may be the current period.
- (ii) if the investee is not a business, apply the acquisition method as described in IFRS 3 without recognising any goodwill for the investee as of the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which the application of this paragraph is practicable, which may be the current period.

The investor shall recognise any difference between the amount of assets, liabilities and non-controlling interests recognised at the deemed acquisition date and any previously recognised amounts from its involvement as an adjustment to equity for that period. In addition, the investor shall provide comparative information and disclosures in accordance with IAS 8.

- C5 When application of this IFRS for the first time results in an investor no longer consolidating an investee that was consolidated in accordance with IAS 27 (as amended in 2008) and SIC-12, the investor shall measure its retained interest in the investee on the date of initial application at the amount at which it would have been measured if the requirements of this IFRS had been effective when the investor became involved with, or lost control of, the investee. If measurement of the retained interest is impracticable (as defined in IAS 8), the investor shall apply the requirements of this IFRS for accounting for a loss of control at the beginning of the earliest period for which application of this IFRS is practicable, which may be the current period. The investor shall recognise any difference between the previously recognised amount of the assets, liabilities and non-controlling interest and the carrying amount of the investor's involvement with the investee as an adjustment to equity for that period. In addition, the investor shall provide comparative information and disclosures in accordance with IAS 8.
- C6 Paragraphs 23, 25, B94 and B96–B99 were amendments to IAS 27 made in 2008 that were carried forward into IFRS 10. Except when an entity applies paragraph C3, the entity shall apply the requirements in those paragraphs as follows:
- (a) An entity shall not restate any profit or loss attribution for reporting periods before it applied the amendment in paragraph B94 for the first time.
 - (b) The requirements in paragraphs 23 and B96 for accounting for changes in ownership interests in a subsidiary after control is obtained do not apply to changes that occurred before an entity applied these amendments for the first time.
 - (c) An entity shall not restate the carrying amount of an investment in a former subsidiary if control was lost before it applied the amendments in paragraphs 25 and B97–B99 for the first time. In addition, an entity shall not recalculate any gain or loss on the loss of control of a subsidiary that occurred before the amendments in paragraphs 25 and B97–B99 were applied for the first time.

References to IFRS 9

- C7 If an entity applies this IFRS but does not yet apply IFRS 9, any reference in this IFRS to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

WITHDRAWAL OF OTHER IFRSs

- C8 This IFRS supersedes the requirements relating to consolidated financial statements in IAS 27 (as amended in 2008).
- C9 This IFRS also supersedes SIC-12 *Consolidation—Special Purpose Entities*.

Appendix D

Amendments to other IFRSs

This appendix sets out the amendments to other IFRSs that are a consequence of the Board issuing this IFRS. An entity shall apply the amendments for annual periods beginning on or after 1 January 2013. If an entity applied this IFRS for an earlier period, it shall apply these amendments for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

D1 Paragraph 39I is added as follows:

- 39I IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 31, B7, C1, D1, D14 and D15 and added paragraph D31. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

D2 In Appendix B, paragraph B7 is amended as follows:

- B7 A first-time adopter shall apply the following requirements of IFRS 10 prospectively from the date of transition to IFRSs:

- (a) the requirement in paragraph B94 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- (b) the requirements in paragraphs 23 and B93 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
- (c) the requirements in paragraphs B97–B99 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

However, if a first-time adopter elects to apply IFRS 3 retrospectively to past business combinations, it shall also IFRS 10 in accordance with paragraph C1 of this IFRS.

D3 In Appendix C, paragraph C1 is amended as follows:

- C1 A first-time adopter may elect not to apply IFRS 3 retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs). However, if a first-time adopter restates any business combination to comply with IFRS 3, it shall restate all later business combinations and shall also apply IFRS 10 from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred on 30 June 20X6 and the date of transition to IFRSs, and it shall also apply IFRS 10 from 30 June 20X6.

IFRS 2 *Share-based Payment*

D4 Paragraph 63A is added as follows:

- 63A IFRS 10 *Consolidated Financial Statements* and IFRS 11, issued in May 2011, amended paragraph 5 and Appendix A. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

In Appendix A the footnote to the definition of 'share-based payment arrangement' is amended as follows:

- * A 'group' is defined in Appendix A of IFRS 10 *Consolidated Financial Statements* as 'a parent and its subsidiaries' from the perspective of the reporting entity's ultimate parent.

IFRS 3 *Business Combinations*

D5 Paragraph 7 is amended and paragraph 64E is added as follows:

- 7 The guidance in IFRS 10 *Consolidated Financial Statements* shall be used to identify the acquirer—the entity that obtains *control* of another entity, ie the acquiree. If a business combination has occurred but applying the guidance in IFRS 10 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs B14–B18 shall be considered in making that determination.

64E IFRS 10, issued in May 2011, amended paragraphs 7, B13, B63(e) and Appendix A. An entity shall apply those amendments when it applies IFRS 10.

D6 [Not applicable to requirements]

D7 In Appendix A the definition of 'control' is deleted.

D8 In Appendix B, paragraphs B13 and B63(e) are amended as follows:

B13 The guidance in IFRS 10 *Consolidated Financial Statements* shall be used to identify the acquirer—the entity that obtains control of the acquiree. If a business combination has occurred but applying the guidance in IFRS 10 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs B14–B18 shall be considered in making that determination.

B63 Examples of other IFRSs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:

(a) ...

(e) IFRS 10 provides guidance on accounting for changes in a parent's ownership interest in a subsidiary after control is obtained.

IFRS 7 *Financial Instruments: Disclosures*

D9 Paragraph 3(a) is amended and paragraph 44O is added as follows:

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*, or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27 or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, ...

44O IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph 3. An entity shall apply that amendment when it applies IFRS 10 and IFRS 11.

IFRS 9 *Financial Instruments* (as issued in November 2009)

D10 Paragraph 8.1.2 is added as follows:

8.1.2 IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph C8 and deleted the headings above paragraph C18 and paragraphs C18–C23. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

D11 In Appendix C, paragraphs C18 and C19 and the headings before paragraphs C18 and C19 are deleted and paragraph C8 is amended as follows:

C83 This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*, or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27 or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39 and IFRS 9; in those cases, ...

IFRS 9 *Financial Instruments* (as issued in October 2010)

D12 Paragraph 3.2.1 is amended and paragraph 7.1.2 is added as follows:

3.2.1 In consolidated financial statements, paragraphs 3.2.2–3.2.9, B3.1.1, B3.1.2 and B3.2.1–B3.2.17 are applied at a consolidated level. Hence, an entity first consolidates all subsidiaries in accordance with IFRS 10 *Consolidated Financial Statements* and then applies those paragraphs to the resulting group.

- 7.1.2 IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 3.2.1, B3.2.1–B3.2.3, B4.3.12(c), B5.7.15, C11 and C30 and deleted paragraphs C23–C28 and the related headings. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

D13 In Appendix B, paragraphs B3.2.1–B3.2.3 and B5.7.15 are amended as follows:

In paragraph B3.2.1, '(including any SPE)' in the first box of the flow chart is deleted.

B3.2.2 The situation described in paragraph 3.2.4(b) (when an entity retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients) occurs, for example, if the entity is a trust, and issues to investors beneficial interests in the underlying financial assets that it owns and provides servicing of those financial assets. In that case, the financial assets qualify for derecognition if the conditions in paragraphs 3.2.5 and 3.2.6 are met.

B3.2.3 In applying paragraph 3.2.5, the entity could be, for example, the originator of the financial asset, or it could be a group that includes a subsidiary that has acquired the financial asset and passes on cash flows to unrelated third party investors.

B5.7.15 The following are examples of asset-specific performance risk:

(a) ...

(b) a liability issued by a structured entity with the following characteristics. The entity is legally isolated so the assets in the entity are ring-fenced solely for the benefit of its investors, even in the event of bankruptcy. The entity enters into no other transactions and the assets in the entity cannot be hypothecated. Amounts are due to the entity's investors only if the ring-fenced assets generate cash flows. Thus, ...

D14 In Appendix C, paragraphs C23 and C24 and the heading before paragraph C23 are deleted and paragraphs C11 and C30 are amended as follows:

C11 3 This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27 or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, ...

C30 4 **This Standard shall be applied by all entities to all types of financial instruments except:**

(a) **those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*, or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27, or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, ...**

IAS 1 *Presentation of Financial Statements*

D15 Paragraphs 4 and 123 are amended and paragraph 139H is added as follows:

4 This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*. However, paragraphs 15–35 apply to such financial statements. This Standard applies equally to all entities, including those that present consolidated financial statements in accordance with IFRS 10 *Consolidated Financial Statements* and those that present separate financial statements in accordance with IAS 27 *Separate Financial Statements*.

123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

- (a) ...
- (b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities; and
- (c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue.
- (d) ~~{deleted}~~

139H IFRS 10 and IFRS 12, issued in May 2011, amended paragraphs 4, 119, 123 and 124. An entity shall apply those amendments when it applies IFRS 10 and IFRS 12.

IAS 7 *Statement of Cash Flows*

D16 Paragraph 42B is amended and paragraph 57 is added as follows:

- 42B Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see IFRS 10 *Consolidated Financial Statements*). Accordingly, ...
- 57 IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 37, 38 and 42B and deleted paragraph 50(b). An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

D17 [Not applicable to requirements]

D18 Paragraphs 19, 45 and 46 are amended and paragraph 60F is added as follows:

- 19 This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IAS 27 *Separate Financial Statements* to present its financial statements in any currency (or currencies). If the ...
- 45 The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see IFRS 10 *Consolidated Financial Statements*). However, ...
- 46 When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, IFRS 10 allows the use of a different date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates. In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period of the foreign operation. Adjustments are made for significant changes in exchange rates up to the end of the reporting period of the reporting entity in accordance with IFRS 10. The same ...
- 60F IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 3(b), 8, 11, 18, 19, 33, 44–46 and 48A. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 24 *Related Party Disclosures*

D19 Paragraph 3 is amended as follows:

- 3 **This Standard requires disclosure of related party transactions, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent or investors with joint control of, or significant influence over, an investee presented in accordance with IFRS 10 *Consolidated Financial Statements* or IAS 27 *Separate Financial Statements*. This Standard also applies to individual financial statements.**

In paragraph 9 the definitions of 'control', 'joint control' and 'significant influence' are deleted and a sentence is added as follows:

The terms 'control', 'joint control' and 'significant influence' are defined in IFRS 10, IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures* and are used in this Standard with the meanings specified in those IFRSs.

Paragraph 28A is added as follows:

28A IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12, issued in May 2011, amended paragraphs 3, 9, 11(b), 15, 19(b) and (e) and 25. An entity shall apply those amendments when it applies IFRS 10, IFRS 11 and IFRS 12.

IAS 27 *Consolidated and Separate Financial Statements*

D20 In IAS 27 *Consolidated and Separate Financial Statements*, the requirements relating to consolidated financial statements are deleted and moved to IFRS 10 where appropriate. The accounting and disclosure requirements for separate financial statements remain in IAS 27; the title is amended to *Separate Financial Statements*, the remaining paragraphs are renumbered sequentially, the scope is adjusted and other editorial changes are made. The accounting and disclosure requirements remaining in IAS 27 (as amended in 2011) are also updated to reflect the guidance in IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as amended in 2011). Details of the destination of paragraphs in IAS 27 (as amended in 2008) are contained in the table of concordance attached to IAS 27 (as amended in 2011).

IAS 32 *Financial Instruments: Presentation*

D21 Paragraph 4(a) is amended and paragraph 97I is added as follows:

4 This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*, or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27, or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39...

97I IFRS 10 and IFRS 11, issued in May 2011, amended paragraphs 4(a) and AG29. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

D22 In the Appendix, paragraph AG29 is amended as follows:

AG29 In consolidated financial statements, an entity presents non-controlling interests—ie the interests of other parties in the equity and income of its subsidiaries—in accordance with IAS 1 and IFRS 10. When ...

IAS 33 *Earnings per Share*

D23 Paragraph 4 is amended and paragraph 74B is added as follows:

4 When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*, respectively, the disclosures required by this Standard need be presented only on the basis of the consolidated information. An ...

74B IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 4, 40 and A11. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 36 *Impairment of Assets*

D24 Paragraph 4(a) is amended and paragraph 140H is added as follows:

4 This Standard applies to financial assets classified as:

(a) subsidiaries, as defined in IFRS 10 *Consolidated Financial Statements*;

(b) ...

- 140H IFRS 10 and IFRS 11, issued in May 2011, amended paragraph 4, the heading above paragraph 12(h) and paragraph 12(h). An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

D25 [Not applicable to requirements]

IAS 38 *Intangible Assets*

D26 Paragraph 3(e) is amended and paragraph 130F is added as follows:

- 3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:

(a) ...

(e) financial assets as defined in IAS 32. The recognition and measurement of some financial assets are covered by IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.

(f) ...

- 130F IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph 3(e). An entity shall apply that amendment when it applies IFRS 10 and IFRS 11.

IAS 39 *Financial Instruments: Recognition and Measurement* (as amended at October 2009)

D27 Paragraphs 2(a) and 15 are amended and paragraph 103P is added as follows:

- 2 **This Standard shall be applied by all entities to all types of financial instruments except:**

(a) **those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*, or IAS 28 *Investments in Associates and Joint Ventures*. However, entities shall apply this Standard to an interest in a subsidiary, associate or joint venture that according to IAS 27, or IAS 28 ~~or IAS 31~~ is accounted for under this Standard. ...**

- 15 In consolidated financial statements, paragraphs 16–23 and Appendix A paragraphs AG34–AG52 are applied at a consolidated level. Hence, an entity first consolidates all subsidiaries in accordance with IFRS 10 and then applies paragraphs 16–23 and Appendix A paragraphs AG34–AG52 to the resulting group.

- 103P IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 2(a), 15, AG3, AG36–AG38 and AG41(a). An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

D28 In Appendix A paragraphs AG36–AG38 are amended as follows:

In paragraph AG36, '(including any SPE)' in the first box of the flow chart is deleted.

AG37 The situation described in paragraph 18(b) (when an entity retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients) occurs, for example, if the entity is a trust, and issues to investors beneficial interests in the underlying financial assets that it owns and provides servicing of those financial assets. In that case, the financial assets qualify for derecognition if the conditions in paragraphs 19 and 20 are met.

AG38 In applying paragraph 19, the entity could be, for example, the originator of the financial asset, or it could be a group that includes a subsidiary that has acquired the financial asset and passes on cash flows to unrelated third party investors.

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

D29 In the 'references', the entries for IAS 27 and IAS 31 are deleted, the entry for IAS 28 is amended to 'IAS 28 *Investments in Associates and Joint Ventures*' and entries for IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* are added.

Paragraph 8 is amended and paragraph 14B is added as follows:

8 The contributor shall determine whether it has control or joint control of, or significant influence over the fund by reference to IFRS 10, IFRS 11 and IAS 28. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

14B IFRS 10 and IFRS 11, issued in May 2011, amended paragraphs 8 and 9. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IFRIC 17 *Distributions of Non-cash Assets to Owners*

D30 In the 'references', an entry for 'IFRS 10 *Consolidated Financial Statements*' is added.

Paragraph 7 is amended and paragraph 19 is added as follows:

7 In accordance with paragraph 5, this Interpretation does not apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary. The entity making a distribution that results in the entity recognising a non-controlling interest in its subsidiary accounts for the distribution in accordance with IFRS 10.

19 IFRS 10, issued in May 2011, amended paragraph 7. An entity shall apply that amendment when it applies IFRS 10.

INTERNATIONAL FINANCIAL REPORTING STANDARD 11

Joint Arrangements

OBJECTIVE

- 1 The objective of this IFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (ie *joint arrangements*).**

Meeting the objective

- 2 To meet the objective in paragraph 1, this IFRS defines *joint control* and requires an entity that is a *party to a joint arrangement* to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.**

SCOPE

- 3 This IFRS shall be applied by all entities that are a party to a joint arrangement.**

JOINT ARRANGEMENTS

- 4 A joint arrangement is an arrangement of which two or more parties have joint control.**
- 5 A joint arrangement has the following characteristics:**
- (a) **The parties are bound by a contractual arrangement (see paragraphs B2–B4).**
 - (b) **The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13).**
- 6 A joint arrangement is either a *joint operation* or a *joint venture*.**

Joint control

- 7 Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.**
- 8 An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (ie the relevant activities).**
- 9 Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.**
- 10 In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.**
- 11 An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This IFRS distinguishes between parties that have joint control of a joint arrangement (*joint operators* or *joint venturers*) and parties that participate in, but do not have joint control of, a joint arrangement.**
- 12 An entity will need to apply judgement when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances (see paragraphs B5–B11).**
- 13 If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.**

Types of joint arrangement

- 14 An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a *joint operation* or a *joint venture* depends upon the rights and obligations of the parties to the arrangement.**

- 15 A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.**
- 16 A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.**
- 17 An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances (see paragraphs B12–B33).
- 18 Sometimes the parties are bound by a framework agreement that sets up the general contractual terms for undertaking one or more activities. The framework agreement might set out that the parties establish different joint arrangements to deal with specific activities that form part of the agreement. Even though those joint arrangements are related to the same framework agreement, their type might be different if the parties' rights and obligations differ when undertaking the different activities dealt with in the framework agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.
- 19 If facts and circumstances change, an entity shall reassess whether the type of joint arrangement in which it is involved has changed.

FINANCIAL STATEMENTS OF PARTIES TO A JOINT ARRANGEMENT

Joint operations

- 20 A joint operator shall recognise in relation to its interest in a joint operation:**

- (a) **its assets, including its share of any assets held jointly;**
- (b) **its liabilities, including its share of any liabilities incurred jointly;**
- (c) **its revenue from the sale of its share of the output arising from the joint operation;**
- (d) **its share of the revenue from the sale of the output by the joint operation; and**
- (e) **its expenses, including its share of any expenses incurred jointly.**

- 21 A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.
- 22 The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in paragraphs B34–B37.
- 23 A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with paragraphs 20–22 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the IFRSs applicable to that interest.

Joint ventures

- 24 A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in that standard.**
- 25 A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with IFRS 9 *Financial Instruments*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with IAS 28 (as amended in 2011).

SEPARATE FINANCIAL STATEMENTS

26 In its separate financial statements, a joint operator or joint venturer shall account for its interest in:

- (a) a joint operation in accordance with paragraphs 20–22;
- (b) a joint venture in accordance with paragraph 10 of IAS 27 *Separate Financial Statements*.

27 In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:

- (a) a joint operation in accordance with paragraph 23;
- (b) a joint venture in accordance with IFRS 9, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 10 of IAS 27 (as amended in 2011).

Appendix A

Defined terms

This appendix is an integral part of the IFRS.

joint arrangement	An arrangement of which two or more parties have joint control .
joint control	The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
joint operation	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.
joint operator	A party to a joint operation that has joint control of that joint operation.
joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
joint venturer	A party to a joint venture that has joint control of that joint venture.
party to a joint arrangement	An entity that participates in a joint arrangement , regardless of whether that entity has joint control of the arrangement.
separate vehicle	A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

The following terms are defined in IAS 27 (as amended in 2011), IAS 28 (as amended in 2011) or IFRS 10 *Consolidated Financial Statements* and are used in this IFRS with the meanings specified in those IFRSs:

- control of an investee
- equity method
- power
- protective rights
- relevant activities
- separate financial statements
- significant influence.

Appendix B

Application guidance

This appendix is an integral part of the IFRS. It describes the application of paragraphs 1–27 and has the same authority as the other parts of the IFRS.

- B1 The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IFRS 11.

JOINT ARRANGEMENTS**Contractual arrangement (paragraph 5)**

- B2 Contractual arrangements can be evidenced in several ways. An enforceable contractual arrangement is often, but not always, in writing, usually in the form of a contract or documented discussions between the parties. Statutory mechanisms can also create enforceable arrangements, either on their own or in conjunction with contracts between the parties.
- B3 When joint arrangements are structured through a *separate vehicle* (see paragraphs B19–B33), the contractual arrangement, or some aspects of the contractual arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.
- B4 The contractual arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The contractual arrangement generally deals with such matters as:
- (a) the purpose, activity and duration of the joint arrangement.
 - (b) how the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.
 - (c) the decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the contractual arrangement establishes joint control of the arrangement (see paragraphs B5–B11).
 - (d) the capital or other contributions required of the parties.
 - (e) how the parties share assets, liabilities, revenues, expenses or profit or loss relating to the joint arrangement.

Joint control (paragraphs 7–13)

- B5 In assessing whether an entity has joint control of an arrangement, an entity shall assess first whether all the parties, or a group of the parties, control the arrangement. IFRS 10 defines control and shall be used to determine whether all the parties, or a group of the parties, are exposed, or have rights, to variable returns from their involvement with the arrangement and have the ability to affect those returns through their power over the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the activities that significantly affect the returns of the arrangement (ie the relevant activities), the parties control the arrangement collectively.
- B6 After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity shall assess whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. Assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties, or controlled by one of its parties alone, can require judgement.
- B7 Sometimes the decision-making process that is agreed upon by the parties in their contractual arrangement implicitly leads to joint control. For example, assume two parties establish an arrangement in which each has 50 per cent of the voting rights and the contractual arrangement between them specifies that at least 51 per cent of the voting rights are required to make decisions about the relevant activities. In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.

- B8 In other circumstances, the contractual arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the contractual arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement.

Application examples

Example 1

Assume that three parties establish an arrangement: A has 50 per cent of the voting rights in the arrangement, B has 30 per cent and C has 20 per cent. The contractual arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their contractual arrangement requiring at least 75 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.

Example 2

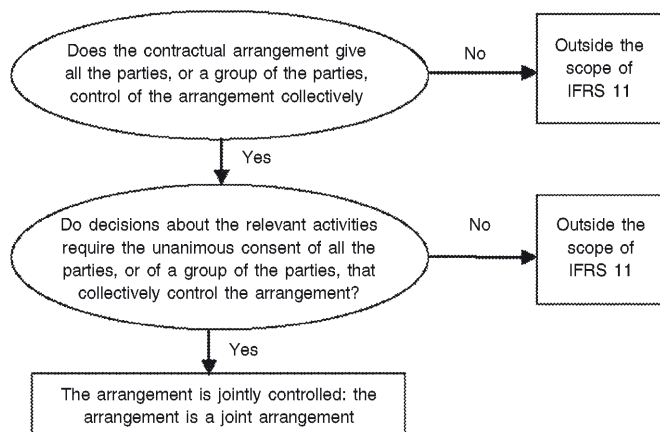
Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The contractual arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (ie either A and B or A and C). In such a situation, to be a joint arrangement the contractual arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.

Example 3

Assume an arrangement in which A and B each have 35 per cent of the voting rights in the arrangement with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. A and B have joint control of the arrangement only if the contractual arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

- B9 The requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent. If the requirement for unanimous consent relates only to decisions that give a party protective rights and not to decisions about the relevant activities of an arrangement, that party is not a party with joint control of the arrangement.
- B10 A contractual arrangement might include clauses on the resolution of disputes, such as arbitration. These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control. The existence of such provisions does not prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement.

Assessing joint control



B11 When an arrangement is outside the scope of IFRS 11, an entity accounts for its interest in the arrangement in accordance with relevant IFRSs, such as IFRS 10, IAS 28 (as amended in 2011) or IFRS 9.

TYPES OF JOINT ARRANGEMENT (PARAGRAPHS 14–19)

B12 Joint arrangements are established for a variety of purposes (eg as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets), and can be established using different structures and legal forms.

B13 Some arrangements do not require the activity that is the subject of the arrangement to be undertaken in a separate vehicle. However, other arrangements involve the establishment of a separate vehicle.

B14 The classification of joint arrangements required by this IFRS depends upon the parties' rights and obligations arising from the arrangement in the normal course of business. This IFRS classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs B16–B33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

Classification of a joint arrangement

B15 As stated in paragraph B14, the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:

- (a) the structure of the joint arrangement (see paragraphs B16–B21).
- (b) when the joint arrangement is structured through a separate vehicle:
 - (i) the legal form of the separate vehicle (see paragraphs B22–B24);
 - (ii) the terms of the contractual arrangement (see paragraphs B25–B28); and
 - (iii) when relevant, other facts and circumstances (see paragraphs B29–B33).

Structure of the joint arrangement

Joint arrangements not structured through a separate vehicle

B16 A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

B17 The contractual arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to manufacture a product together, with each party being responsible for a specific task and each using its own assets and incurring its own liabilities. The contractual arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognises in its financial statements the assets and liabilities used for the specific task, and recognises its share of the revenues and expenses in accordance with the contractual arrangement.

B18 In other cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. In such a case, the contractual arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each joint operator accounts for its share of the joint asset and its agreed share of any liabilities, and recognises its share of the output, revenues and expenses in accordance with the contractual arrangement.

Joint arrangements structured through a separate vehicle

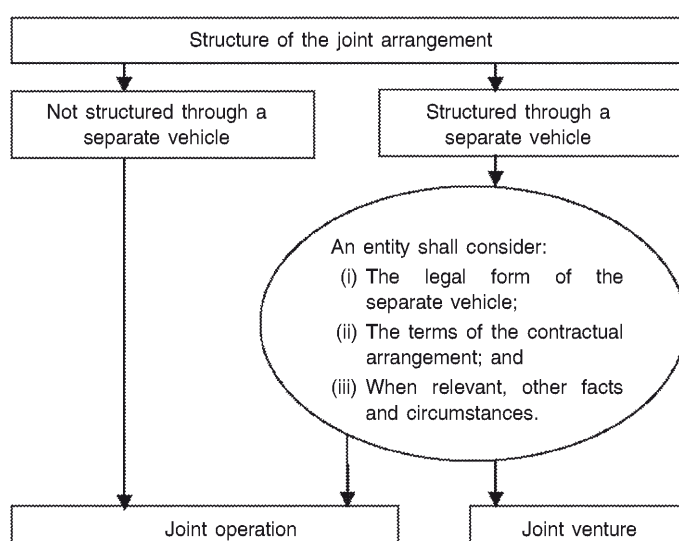
B19 A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

B20 Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement that are held in the separate vehicle.

B21 As stated in paragraph B15, when the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, any other facts and circumstances give them:

- (a) rights to the assets, and obligations for the liabilities, relating to the arrangement (ie the arrangement is a joint operation); or
- (b) rights to the net assets of the arrangement (ie the arrangement is a joint venture).

Classification of a joint arrangement: assessment of the parties' rights and obligations arising from the arrangement



The legal form of the separate vehicle

B22 The legal form of the separate vehicle is relevant when assessing the type of joint arrangement. The legal form assists in the initial assessment of the parties' rights to the assets and obligations for the liabilities held in the separate vehicle, such as whether the parties have interests in the assets held in the separate vehicle and whether they are liable for the liabilities held in the separate vehicle.

B23 For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their contractual arrangement (see paragraphs B25–B28) and, when relevant, other facts and circumstances (see paragraphs B29–B33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.

B24 The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (ie the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

Assessing the terms of the contractual arrangement

B25 In many cases, the rights and obligations agreed to by the parties in their contractual arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured.

- B26 In other cases, the parties use the contractual arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

Application example

Example 4

Assume that two parties structure a joint arrangement in an incorporated entity. Each party has a 50 per cent ownership interest in the incorporated entity. The incorporation enables the separation of the entity from its owners and as a consequence the assets and liabilities held in the entity are the assets and liabilities of the incorporated entity. In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the parties have rights to the net assets of the arrangement.

However, the parties modify the features of the corporation through their contractual arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporated entity in a specified proportion. Such contractual modifications to the features of a corporation can cause an arrangement to be a joint operation.

- B27 The following table compares common terms in contractual arrangements of parties to a joint operation and common terms in contractual arrangements of parties to a joint venture. The examples of the contractual terms provided in the following table are not exhaustive.

Assessing the terms of the contractual arrangement

	Joint operation	Joint venture
The terms of the contractual arrangement	The contractual arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The contractual arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (ie it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
Rights to assets	The contractual arrangement establishes that the parties to the joint arrangement share all interests (eg rights, title or ownership) in the assets relating to the arrangement in a specified proportion (eg in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The contractual arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (ie no rights, title or ownership) in the assets of the arrangement.
Obligations for liabilities	The contractual arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (eg in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The contractual arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.
		The contractual arrangement establishes that the parties to the joint arrangement are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both.

	Joint operation	Joint venture
	The contractual arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.	The contractual arrangement states that creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
Revenues, expenses, profit or loss	The contractual arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the contractual arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement. In other instances, the parties might have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.	The contractual arrangement establishes each party's share in the profit or loss relating to the activities of the arrangement.
Guarantees	The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).	

B28 When the contractual arrangement specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances (paragraphs B29–B33) for the purposes of classifying the joint arrangement.

Assessing other facts and circumstances

B29 When the terms of the contractual arrangement do not specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, the parties shall consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.

B30 A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The contractual terms agreed among the parties might not specify the parties' rights to the assets and obligations for the liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation. This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.

B31 When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.

B32 The effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement.

Application example

Example 5

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the contractual arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

From the fact pattern above, the following facts and circumstances are relevant:

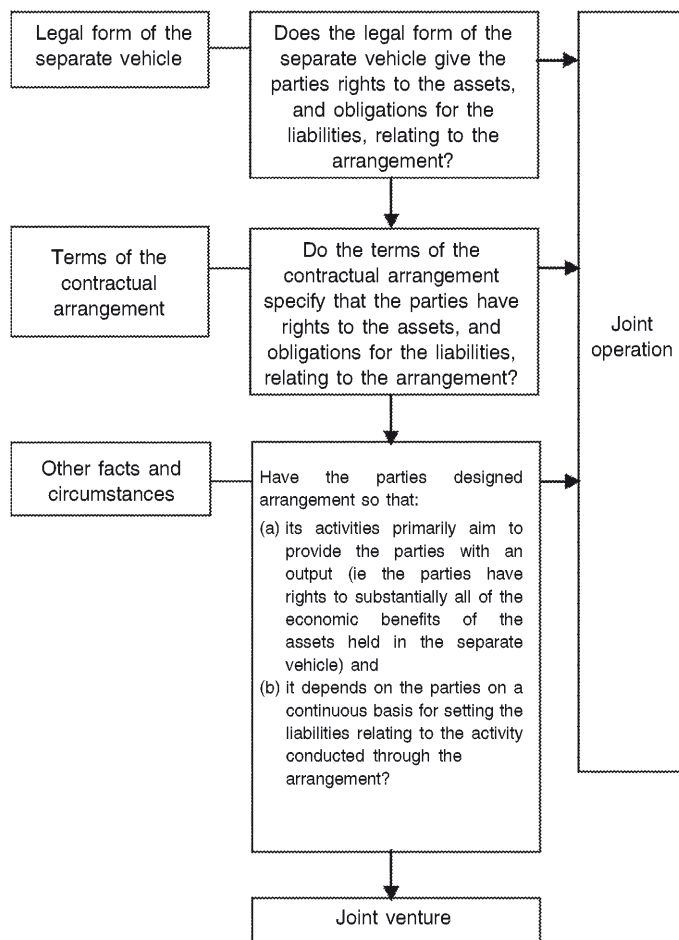
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of entity C.

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the contractual arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

B33 The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle:

Classification of a joint arrangement structured through a separate vehicle



FINANCIAL STATEMENTS OF PARTIES TO A JOINT ARRANGEMENT (PARAGRAPH 22)

Accounting for sales or contributions of assets to a joint operation

B34 When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

B35 When such transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses shall be recognised fully by the joint operator.

Accounting for purchases of assets from a joint operation

B36 When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognise its share of the gains and losses until it resells those assets to a third party.

B37 When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognise its share of those losses.

Appendix C

Effective date, transition and withdrawal of other IFRSs

This appendix is an integral part of the IFRS and has the same authority as the other parts of the IFRS.

EFFECTIVE DATE

- C1 An entity shall apply this IFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this IFRS earlier, it shall disclose that fact and apply IFRS 10, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011) at the same time.

TRANSITION**Joint ventures—transition from proportionate consolidation to the equity method**

- C2 When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture as at the beginning of the earliest period presented. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.
- C3 The opening balance of the investment determined in accordance with paragraph C2 is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 40–43 of IAS 28 (as amended in 2011) to the opening balance of the investment to assess whether the investment is impaired and shall recognise any impairment loss as an adjustment to retained earnings at the beginning of the earliest period presented. The initial recognition exception in paragraphs 15 and 24 of IAS 12 *Income Taxes* does not apply when the entity recognises an investment in a joint venture resulting from applying the transition requirements for joint ventures that had previously been proportionately consolidated.
- C4 If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, an entity shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the entity shall recognise the corresponding liability. If the entity concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognise the corresponding liability but it shall adjust retained earnings at the beginning of the earliest period presented. The entity shall disclose this fact, along with its cumulative unrecognised share of losses of its joint ventures as at the beginning of the earliest period presented and at the date at which this IFRS is first applied.
- C5 An entity shall disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning of the earliest period presented. That disclosure shall be prepared in an aggregated manner for all joint ventures for which an entity applies the transition requirements referred to in paragraphs C2–C6.
- C6 After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with IAS 28 (as amended in 2011).

Joint operations—transition from the equity method to accounting for assets and liabilities

- C7 When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the beginning of the earliest period presented, derecognise the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of IAS 28 (as amended in 2011) and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.
- C8 An entity shall determine its interest in the assets and liabilities relating to the joint operation on the basis of its rights and obligations in a specified proportion in accordance with the contractual arrangement. An entity measures the initial carrying amounts of the assets and liabilities by disaggregating them from the carrying amount of the investment at the beginning of the earliest period presented on the basis of the information used by the entity in applying the equity method.

- C9 Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of IAS 28 (as amended in 2011), and the net amount of the assets and liabilities, including any goodwill, recognised shall be:
- (a) offset against any goodwill relating to the investment with any remaining difference adjusted against retained earnings at the beginning of the earliest period presented, if the net amount of the assets and liabilities, including any goodwill, recognised is higher than the investment (and any other items that formed part of the entity's net investment) derecognised.
 - (b) adjusted against retained earnings at the beginning of the earliest period presented, if the net amount of the assets and liabilities, including any goodwill, recognised is lower than the investment (and any other items that formed part of the entity's net investment) derecognised.
- C10 An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted against retained earnings, at the beginning of the earliest period presented.
- C11 The initial recognition exception in paragraphs 15 and 24 of IAS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation.

Transition provisions in an entity's separate financial statements

- C12 An entity that, in accordance with paragraph 10 of IAS 27, was previously accounting in its separate financial statements for its interest in a joint operation as an investment at cost or in accordance with IFRS 9 shall:
- (a) derecognise the investment and recognise the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraphs C7–C9.
 - (b) provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted in retained earnings, at the beginning of the earliest period presented.
- C13 The initial recognition exception in paragraphs 15 and 24 of IAS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation in its separate financial statements resulting from applying the transition requirements for joint operations referred to in paragraph C12.

References to IFRS 9

- C14 If an entity applies this IFRS but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

WITHDRAWAL OF OTHER IFRSS

- C15 This IFRS supersedes the following IFRSSs:

- (a) IAS 31 *Interests in Joint Ventures*; and
- (b) SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*.

Appendix D

Amendments to other IFRSs

This appendix sets out amendments to other IFRSs that are a consequence of the Board issuing IFRS 11. An entity shall apply the amendments for annual periods beginning on or after 1 January 2013. If an entity applies IFRS 11 for an earlier period, it shall apply the amendments for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.

- D1 This table shows how the following references have been amended in other IFRSs.

Existing reference to	contained in	in	is amended to reference to
IAS 31 <i>Interests in Joint Ventures</i>	IFRS 2	paragraph 5	IFRS 11 <i>Joint Arrangements</i>
	IFRS 9 (issued October 2010)	paragraph B4.3.12(c)	
	IAS 36	paragraph 4(c)	
	IFRIC 5	References	
	IFRIC 9	paragraph 5(c)	
IAS 28 <i>Investments in Associates</i>	IAS 18	paragraph 6(b)	IAS 28 <i>Investments in Associates and Joint Ventures</i>
	IAS 36	paragraph 4(b)	
	IFRIC 5	References	
joint control over	IAS 24	Paragraph 9(a)(i) and 11(b)	joint control of
jointly controlled entity(ies)	IFRS 1	heading before paragraph 31, paragraphs 31 and D1(g), heading before paragraph D14, paragraphs D14 and D15	joint venture(s)
	IAS 36	heading before paragraph 12(h) and paragraphs 12(h) and 12(h)(ii)	
joint venture(s)	IAS 12	paragraphs 2, 15, 18(e), 24, heading before paragraph 38, paragraphs 38, 38(a), 44, 45, 81(f), 87 and 87C	joint arrangement(s)
	IAS 21	definition of 'foreign operation' in paragraph 8 and paragraphs 11 and 18	
venturer(s)	IAS 24	paragraphs 11(b) and 19(e)	joint venturer(s)

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

D2 Paragraph 39I is added as follows:

39I IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 31, B7, C1, D1, D14 and D15 and added paragraph D31. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

D3 Paragraph D1 is amended as follows:

D1 An entity may elect to use one or more of the following exemptions:

(a) ...

(p) extinguishing financial liabilities with equity instruments (paragraph D25);

(q) severe hyperinflation (paragraphs D26–D30).;

(r) joint arrangements (paragraph D31).

D4 After paragraph D30, a heading and paragraph D31 are added.

Joint arrangements

D31 A first-time adopter may apply the transition provisions in IFRS 11 with the following exception. When changing from proportionate consolidation to the equity method, a first-time adopter shall test for impairment the investment in accordance with IAS 36 as at the beginning of the earliest period presented, regardless of whether there is any indication that the investment may be impaired. Any resulting impairment shall be recognised as an adjustment to retained earnings at the beginning of the earliest period presented.

IFRS 2 *Share-based Payment*

D5 Paragraph 63A is added as follows:

63A IFRS 10 *Consolidated Financial Statements* and IFRS 11, issued in May 2011, amended paragraph 5 and Appendix A. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

D6 Paragraph 28 is amended as follows:

28 The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss [footnote omitted] from continuing operations in the period in which the criteria in paragraphs 7–9 are no longer met. Financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of comprehensive income used to present a gain or loss, if any, recognised in accordance with paragraph 37.

D7 Paragraph 44G is added as follows:

44G IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph 28. An entity shall apply that amendment when it applies IFRS 11.

IFRS 7 *Financial Instruments: Disclosures*

D8 Paragraph 3(a) is amended as follows:

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*, or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27 or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, ...

D9 Paragraph 44O is added as follows:

44O IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph 3. An entity shall apply that amendment when it applies IFRS 10 and IFRS 11.

IFRS 9 *Financial Instruments* (as issued in November 2009)

D10 Paragraph 8.1.2 is added as follows:

8.1.2 IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph C8 and deleted paragraphs C18–C23 and the related headings. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

D11 In Appendix C, in paragraph C8, the amendments to paragraph 3(a) of IFRS 7 *Financial Instruments: Disclosures* are amended as follows:

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27 or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39 and IFRS 9; in those cases, ...

D12 The heading above paragraph C20 and paragraphs C20 and C21 are deleted.

D13 The heading above paragraph C22 and paragraphs C22 and C23 are deleted.

IFRS 9 *Financial Instruments* (as issued in October 2010)

D14 Paragraph 7.1.2 is added as follows:

- 7.1.2 IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 3.2.1, B3.2.1–B3.2.3, B4.3.12(c), B5.7.15, C11 and C30 and deleted paragraphs C23–C28 and the related headings. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

D15 In Appendix C, in paragraph C11, the amendments to paragraph 3(a) of IFRS 7 *Financial Instruments: Disclosures* are amended as follows:

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27 or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, ...

D16 The heading above paragraph C25 and paragraphs C25 and C26 are deleted.

D17 The heading above paragraph C27 and paragraphs C27 and C28 are deleted.

D18 In paragraph C30, the amendments to paragraph 4(a) of IAS 32 *Financial Instruments: Presentation* are amended as follows:

4 This Standard shall be applied by all entities to all types of financial instruments except:

- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27 or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, ...**

IAS 7 *Statement of Cash Flows*

D19 [Not applicable to requirements]

D20 Paragraphs 37 and 38 are amended as follows:

- 37 When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

- 38 An entity that reports its interest in an associate or a joint venture using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

D21 Paragraph 50(b) is deleted.

D22 Paragraph 57 is added as follows:

- 57 IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 37, 38 and 42B and deleted paragraph 50(b). An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 12 *Income Taxes*

D23 [Not applicable to requirements]

D24 [Not applicable to requirements]

D25 Paragraph 39 is amended as follows:

- 39 **An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:**

(a) **the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and**

(b) ...

D26 Paragraph 43 is amended as follows:

- 43 The arrangement between the parties to a joint arrangement usually deals with the distribution of the profits and identifies whether decisions on such matters require the consent of all the parties or a group of the parties. When the joint venturer or joint operator can control the timing of the distribution of its share of the profits of the joint arrangement and it is probable that its share of the profits will not be distributed in the foreseeable future, a deferred tax liability is not recognised.

D27 Paragraph 98A is added as follows:

- 98A IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 2, 15, 18(e), 24, 38, 39, 43–45, 81(f), 87 and 87C. An entity shall apply those amendments when it applies IFRS 11.

IAS 18 *Revenue*

D28 [Not applicable to requirements]

D29 Paragraph 41 is added as follows:

- 41 IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph 6(b). An entity shall apply that amendment when it applies IFRS 11.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

D30 [Not applicable to requirements]

D31 In paragraphs 3(b) and 44 'proportionate consolidation' and in paragraph 33 'proportionately consolidated' are deleted.

D32 In paragraph 45, 'IAS 31 *Interests in Joint Ventures*' is deleted.

D33 In paragraph 46 the last sentence is amended as follows:

- 46 ... The same approach is used in applying the equity method to associates and joint ventures in accordance with IAS 28 (as amended in 2011).

D34 Paragraph 48A is amended as follows:

- 48A In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals:

- (a) when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, regardless of whether the entity retains a non-controlling interest in its former subsidiary after the partial disposal; and
- (b) when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.
- (c) {deleted}

D35 Paragraph 60F is added as follows:

- 60F IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 3(b), 8, 11, 18, 19, 33, 44–46 and 48A. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 24 *Related Party Disclosures*

D36 Paragraph 3 is amended as follows:

- 3 This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent or investors with joint control of, or significant influence over, an investee presented in accordance with IFRS 10 Consolidated Financial Statements or IAS 27 *Separate Financial Statements*. This Standard also applies to individual financial statements.**

D37 Paragraph 19 is amended as follows:

- 19 The disclosures required by paragraph 18 shall be made separately for each of the following categories:**
- (a) the parent;**
 - (b) entities with joint control of, or significance influence over, the entity;**
 - (c) subsidiaries;...**

D38 Paragraph 25 is amended as follows:

- 25 A reporting entity is exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with:**
- (a) a government that has control, or joint control of, or significance influence over, the reporting entity; and**
 - (b) another entity that is a related party because the same government has control, or joint control of, or significance influence over, both the reporting entity and the other entity.**

D39 Paragraph 28A is added as follows:

- 28A IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12, issued in May 2011, amended paragraphs 3, 9, 11(b), 15, 19(b) and (e) and 25. An entity shall apply those amendments when it applies IFRS 10, IFRS 11 and IFRS 12.

IAS 32 *Financial Instruments: Presentation*

D40 Paragraph 4(a) is amended as follows:

4 This Standard shall be applied by all entities to all types of financial instruments except:

- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27 or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; ...

D41 Paragraph 97I is added as follows:

- 97I IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 4(a) and AG29. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 33 *Earnings per Share*

D42 Paragraph 40 and A11 are amended and paragraph 74B is added as follows:

- 40 A subsidiary, joint venture or associate may issue to parties other than the parent or investors with joint control of, or significant influence over, the investee potential ordinary shares that are convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent or investors with joint control of, or significant influence (the reporting entity) over, the investee. If these potential ordinary shares of the subsidiary, joint venture or associate have a dilutive effect on the basic earnings per share of the reporting entity, they are included in the calculation of diluted earnings per share.
- A11 Potential ordinary shares of a subsidiary, joint venture or associate convertible into either ordinary shares of the subsidiary, joint venture or associate, or ordinary shares of the parent, or investors with joint control of, or significant influence (the reporting entity) over, the investee are included in the calculation of diluted earnings per share as follows: ...
- 74B IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 4, 40 and A11. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 36 *Impairment of Assets*

D43 Paragraph 140H is added as follows:

- 140H IFRS 10 and IFRS 11, issued in May 2011, amended paragraph 4, the heading above paragraph 12(h) and paragraph 12(h). An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 38 *Intangible Assets*

D44 Paragraph 3(e) is amended as follows:

- 3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:
- (a) ...

(e) financial assets as defined in IAS 32. The recognition and measurement of some financial assets are covered by IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.

(f) ...

D45 Paragraph 130F is added as follows:

130F IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph 3(e). An entity shall apply that amendment when it applies IFRS 10 and IFRS 11.

IAS 39 *Financial Instruments: Recognition and Measurement* (as amended at October 2009)

D46 Paragraph 2(a) is amended as follows:

2 This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, entities shall apply this Standard to an interest in a subsidiary, associate or joint venture that according to IAS 27 or IAS 28 is accounted for under this Standard. ...

D47 Paragraphs AG3 and AG4I(a) are amended as follows:

AG3 Sometimes, an entity makes what it views as a 'strategic investment' in equity instruments issued by another entity, with the intention of establishing or maintaining a long-term operating relationship with the entity in which the investment is made. The investor or joint venturer entity uses IAS 28 to determine whether the equity method of accounting is appropriate for such an investment. If the equity method is not appropriate, the entity applies this Standard to that strategic investment.

AG4I(a) The entity is a venture capital organisation, mutual fund, unit trust or similar entity whose business is investing in financial assets with a view to profiting from their total return in the form of interest or dividends and changes in fair value. IAS 28 allows such investments to be measured at fair value through profit or loss in accordance with this Standard. An entity may apply the same accounting policy to other investments managed on a total return basis but over which its influence is insufficient for them to be within the scope of IAS 28.

D48 Paragraph 103P is added as follows:

103P IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 2(a), 15, AG3, AG36–AG38 and AG4I(a). An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

D49 Paragraphs 8 and 9 are amended as follows:

8 The contributor shall determine whether it has control or joint control of, or significance influence over, the fund by reference to IFRS 10, IFRS 11 and IAS 28. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

9 If a contributor does not have control or joint control of, or significance influence over, the fund, the contributor shall recognise the right to receive reimbursement from the fund as a reimbursement in accordance with IAS 37. This reimbursement shall be measured at the lower of:

(a) ...

D50 Paragraph 14B is added as follows:

- 14B IFRS 10 and IFRS 11, issued in May 2011, amended paragraphs 8 and 9. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IFRIC 9 *Reassessment of Embedded Derivatives*

D51 [Not applicable to requirements]

D52 Paragraph 12 is added as follows:

- 12 IFRS 11, issued in May 2011, amended paragraph 5(c). An entity shall apply that amendment when it applies IFRS 11.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

D53 The footnote to paragraph 2 is amended as follows:

- * This will be the case for consolidated financial statements, financial statements in which investments such as associates or joint ventures are accounted for using the equity method and financial statements that include a branch or a joint operation as defined in IFRS 11 *Joint Arrangements*.

INTERNATIONAL FINANCIAL REPORTING STANDARD 12

Disclosure of Interests in Other Entities

OBJECTIVE

1 The objective of this IFRS is to require an entity to disclose information that enables users of its 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.**

Meeting the objective

2 To meet the objective in paragraph 1, an entity shall disclose:

- (a) the significant judgements and assumptions it has 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 (paragraphs 7–9); and
- (b) information about its interests in:
 - (i) subsidiaries (paragraphs 10–19);
 - (ii) joint arrangements and associates (paragraphs 20–23); and
 - (iii) *structured entities* that are not controlled by the entity (unconsolidated structured entities) (paragraphs 24–31).

3 If the disclosures required by this IFRS, together with disclosures required by other IFRSs, do not meet the objective in paragraph 1, an entity shall disclose whatever additional information is necessary to meet that objective.

4 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements in this IFRS. It 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 (see paragraphs B2–B6).

SCOPE

5 This IFRS shall be applied by an entity that has an interest in any of the following:

- (a) subsidiaries
- (b) joint arrangements (ie joint operations or joint ventures)
- (c) associates
- (d) unconsolidated structured entities.

6 This IFRS does not apply to:

- (a) post-employment benefit plans or other long-term employee benefit plans to which IAS 19 *Employee Benefits* applies.
- (b) an entity's separate financial statements to which IAS 27 *Separate Financial Statements* applies. However, if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraphs 24–31 when preparing those separate financial statements.
- (c) an interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.

- (d) an interest in another entity that is accounted for in accordance with IFRS 9 *Financial Instruments*. However, an entity shall apply this IFRS:
 - (i) when that interest is an interest in an associate or a joint venture that, in accordance with IAS 28 *Investments in Associates and Joint Ventures*, is measured at fair value through profit or loss; or
 - (ii) when that interest is an interest in an unconsolidated structured entity.

SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS

7 An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- (a) **that it has control of another entity, ie an investee as described in paragraphs 5 and 6 of IFRS 10 *Consolidated Financial Statements*;**
 - (b) **that it has joint control of an arrangement or significant influence over another entity; and**
 - (c) **the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.**
- 8 The significant judgements and assumptions disclosed in accordance with paragraph 7 include those made by the entity when changes in facts and circumstances are such that the conclusion about whether it has control, joint control or significant influence changes during the reporting period.
- 9 To comply with paragraph 7, an entity shall disclose, for example, significant judgements and assumptions made in determining that:
- (a) it does not control another entity even though it holds more than half of the voting rights of the other entity.
 - (b) it controls another entity even though it holds less than half of the voting rights of the other entity.
 - (c) it is an agent or a principal (see paragraphs 58–72 of IFRS 10).
 - (d) it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity.
 - (e) it has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

INTERESTS IN SUBSIDIARIES

10 An entity shall disclose information that enables users of its consolidated financial statements

- (a) **to understand:**
 - (i) **the composition of the group; and**
 - (ii) **the interest that non-controlling interests have in the group's activities and cash flows (paragraph 12); 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 (paragraph 13);**
 - (ii) **the nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 14–17);**
 - (iii) **the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control (paragraph 18); and**
 - (iv) **the consequences of losing control of a subsidiary during the reporting period (paragraph 19).**

11 When the financial statements of a subsidiary used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (see paragraphs B92 and B93 of IFRS 10), an entity shall disclose:

- (a) the date of the end of the reporting period of the financial statements of that subsidiary; and
- (b) the reason for using a different date or period.

The interest that non-controlling interests have in the group's activities and cash flows

12 An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:

- (a) the name of the subsidiary.
- (b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.
- (c) the proportion of ownership interests held by non-controlling interests.
- (d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.
- (e) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.
- (f) accumulated non-controlling interests of the subsidiary at the end of the reporting period.
- (g) summarised financial information about the subsidiary (see paragraph B10).

The nature and extent of significant restrictions

13 An entity shall disclose:

- (a) significant restrictions (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as:
 - (i) those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group.
 - (ii) guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.
- (b) the nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary).
- (c) the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

Nature of the risks associated with an entity's interests in consolidated structured entities

14 An entity shall disclose the terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).

15 If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a consolidated structured entity (eg purchasing assets of or instruments issued by the structured entity), the entity shall disclose:

- (a) the type and amount of support provided, including situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support; and

(b) the reasons for providing the support.

16 If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision.

17 An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control

18 An entity shall present a schedule that shows the effects on the equity attributable to owners of the parent of any changes in its ownership interest in a subsidiary that do not result in a loss of control.

Consequences of losing control of a subsidiary during the reporting period

19 An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph 25 of IFRS 10, and:

(a) the portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(b) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

INTERESTS IN JOINT ARRANGEMENTS AND ASSOCIATES

20 An entity shall disclose information that enables users of its financial statements to evaluate:

(a) **the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22); and**

(b) **the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 23).**

Nature, extent and financial effects of an entity's interests in joint arrangements and associates

21 An entity shall disclose:

(a) for each joint arrangement and associate that is material to the reporting entity:

(i) the name of the joint arrangement or associate.

(ii) the nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities).

(iii) the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate.

(iv) the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

(b) for each joint venture and associate that is material to the reporting entity:

(i) whether the investment in the joint venture or associate is measured using the equity method or at fair value.

(ii) summarised financial information about the joint venture or associate as specified in paragraphs B12 and B13.

(iii) if the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.

(c) financial information as specified in paragraph B16 about the entity's investments in joint ventures and associates that are not individually material:

(i) in aggregate for all individually immaterial joint ventures and, separately,

(ii) in aggregate for all individually immaterial associates.

22 An entity shall also disclose:

(a) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity.

(b) when the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:

(i) the date of the end of the reporting period of the financial statements of that joint venture or associate; and

(ii) the reason for using a different date or period.

(c) the unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method.

Risks associated with an entity's interests in joint ventures and associates

23 An entity shall disclose:

(a) commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs B18–B20.

(b) in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.

INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

24 An entity shall disclose information that enables users of its financial statements:

(a) **to understand the nature and extent of its interests in unconsolidated structured entities (paragraphs 26–28); and**

(b) **to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (paragraphs 29–31).**

25 The information required by paragraph 24(b) includes information about an entity's exposure to risk from involvement that it had with unconsolidated structured entities in previous periods (eg sponsoring the structured entity), even if the entity no longer has any contractual involvement with the structured entity at the reporting date.

Nature of interests

26 An entity shall disclose qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.

27 If an entity has sponsored an unconsolidated structured entity for which it does not provide information required by paragraph 29 (eg because it does not have an interest in the entity at the reporting date), the entity shall disclose:

(a) how it has determined which structured entities it has sponsored;

(b) *income from those structured entities* during the reporting period, including a description of the types of income presented; and

- (c) the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.
- 28 An entity shall present the information in paragraph 27(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs B2–B6).

Nature of risks

- 29 An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:
- (a) the carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities.
 - (b) the line items in the statement of financial position in which those assets and liabilities are recognised.
 - (c) the amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons.
 - (d) a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.
- 30 If during the reporting period an entity has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated structured entity in which it previously had or currently has an interest (for example, purchasing assets of or instruments issued by the structured entity), the entity shall disclose:
- (a) the type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and
 - (b) the reasons for providing the support.
- 31 An entity shall disclose any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

Appendix A

Defined terms

This appendix is an integral part of the IFRS.

income from a structured entity For the purpose of this IFRS, income from a **structured entity** includes, but is not limited to, recurring and non-recurring fees, interest, dividends, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

interest in another entity For the purpose of this IFRS, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

Paragraphs B7–B9 provide further information about interests in other entities.

Paragraphs B55–B57 of IFRS 10 explain variability of returns.

structured entity

An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Paragraphs B22–B24 provide further information about structured entities.

The following terms are defined in IAS 27 (as amended in 2011), IAS 28 (as amended in 2011), IFRS 10 and IFRS 11 *Joint Arrangements* and are used in this IFRS with the meanings specified in those IFRSs:

- associate
- consolidated financial statements
- control of an entity
- equity method
- group
- joint arrangement
- joint control
- joint operation
- joint venture
- non-controlling interest
- parent
- protective rights
- relevant activities
- separate financial statements
- separate vehicle
- significant influence
- subsidiary.

Appendix B

Application guidance

This appendix is an integral part of the IFRS. It describes the application of paragraphs 1–31 and has the same authority as the other parts of the IFRS.

- B1 The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IFRS 12.

AGGREGATION (PARAGRAPH 4)

- B2 An entity shall decide, in the 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 and how it aggregates the information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.
- B3 An entity may aggregate the disclosures required by this IFRS for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in paragraph B4, and does not obscure the information provided. An entity shall disclose how it has aggregated its interests in similar entities.
- B4 An entity shall present information separately for interests in:
- (a) subsidiaries;
 - (b) joint ventures;

- (c) joint operations;
- (d) associates; and
- (e) unconsolidated structured entities.

B5 In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and return characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity shall present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.

B6 Examples of aggregation levels within the classes of entities set out in paragraph B4 that might be appropriate are:

- (a) nature of activities (eg a research and development entity, a revolving credit card securitisation entity).
- (b) industry classification.
- (c) geography (eg country or region).

INTERESTS IN OTHER ENTITIES

B7 An interest in another entity refers to contractual and non-contractual involvement that exposes the reporting entity to variability of returns from the performance of the other entity. Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in this IFRS. That assessment shall include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entity and other parties.

B8 A reporting entity is typically exposed to variability of returns from the performance of another entity by holding instruments (such as equity or debt instruments issued by the other entity) or having another involvement that absorbs variability. For example, assume a structured entity holds a loan portfolio. The structured entity obtains a credit default swap from another entity (the reporting entity) to protect itself from the default of interest and principal payments on the loans. The reporting entity has involvement that exposes it to variability of returns from the performance of the structured entity because the credit default swap absorbs variability of returns of the structured entity.

B9 Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of returns for the other entity but do not typically expose the reporting entity to variability of returns from the performance of the other entity. For example, assume a structured entity is established to provide investment opportunities for investors who wish to have exposure to entity Z's credit risk (entity Z is unrelated to any party involved in the arrangement). The structured entity obtains funding by issuing to those investors notes that are linked to entity Z's credit risk (credit-linked notes) and uses the proceeds to invest in a portfolio of risk-free financial assets. The structured entity obtains exposure to entity Z's credit risk by entering into a credit default swap (CDS) with a swap counterparty. The CDS passes entity Z's credit risk to the structured entity in return for a fee paid by the swap counterparty. The investors in the structured entity receive a higher return that reflects both the structured entity's return from its asset portfolio and the CDS fee. The swap counterparty does not have involvement with the structured entity that exposes it to variability of returns from the performance of the structured entity because the CDS transfers variability to the structured entity, rather than absorbing variability of returns of the structured entity.

SUMMARISED FINANCIAL INFORMATION FOR SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (PARAGRAPHS 12 AND 21)

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

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

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

B12 For each joint venture and associate that is material to the reporting entity, an entity shall disclose:

- (a) dividends received from the joint venture or associate.
- (b) summarised financial information for the joint venture or associate (see paragraphs B14 and B15) including, but not necessarily limited to:
 - (i) current assets.
 - (ii) non-current assets.
 - (iii) current liabilities.
 - (iv) non-current liabilities.
 - (v) revenue.
 - (vi) profit or loss from continuing operations.
 - (vii) post-tax profit or loss from discontinued operations.
 - (viii) other comprehensive income.
 - (ix) total comprehensive income.

B13 In addition to the summarised financial information required by paragraph B12, an entity shall disclose for each joint venture that is material to the reporting entity the amount of:

- (a) cash and cash equivalents included in paragraph B12(b)(i).
- (b) current financial liabilities (excluding trade and other payables and provisions) included in paragraph B12(b)(iii).
- (c) non-current financial liabilities (excluding trade and other payables and provisions) included in paragraph B12(b)(iv).
- (d) depreciation and amortisation.
- (e) interest income.
- (f) interest expense.
- (g) income tax expense or income.

B14 The summarised financial information presented in accordance with paragraphs B12 and B13 shall be the amounts included in the IFRS financial statements of the joint venture or associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:

- (a) the amounts included in the IFRS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.
- (b) the entity shall provide a reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture or associate.

B15 An entity may present the summarised financial information required by paragraphs B12 and B13 on the basis of the joint venture's or associate's financial statements if:

- (a) the entity measures its interest in the joint venture or associate at fair value in accordance with IAS 28 (as amended in 2011); and
- (b) the joint venture or associate does not prepare IFRS financial statements and preparation on that basis would be impracticable or cause undue cost.

In that case, the entity shall disclose the basis on which the summarised financial information has been prepared.

B16 An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

- (a) profit or loss from continuing operations.
- (b) post-tax profit or loss from discontinued operations.
- (c) other comprehensive income.
- (d) total comprehensive income.

An entity provides the disclosures separately for joint ventures and associates.

B17 When an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the entity is not required to disclose summarised financial information for that subsidiary, joint venture or associate in accordance with paragraphs B10–B16.

COMMITMENTS FOR JOINT VENTURES (PARAGRAPH 23(a))

B18 An entity shall disclose total commitments it has made but not recognised at the reporting date (including its share of commitments made jointly with other investors with joint control of a joint venture) relating to its interests in joint ventures. Commitments are those that may give rise to a future outflow of cash or other resources.

B19 Unrecognised commitments that may give rise to a future outflow of cash or other resources include:

- (a) unrecognised commitments to contribute funding or resources as a result of, for example:
 - (i) the constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period).
 - (ii) capital-intensive projects undertaken by a joint venture.
 - (iii) unconditional purchase obligations, comprising procurement of equipment, inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture.
 - (iv) unrecognised commitments to provide loans or other financial support to a joint venture.
 - (v) unrecognised commitments to contribute resources to a joint venture, such as assets or services.
 - (vi) other non-cancellable unrecognised commitments relating to a joint venture.
- (b) unrecognised commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future.

B20 The requirements and examples in paragraphs B18 and B19 illustrate some of the types of disclosure required by paragraph 18 of IAS 24 *Related Party Disclosures*.

INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (PARAGRAPHS 24–31)

Structured entities

B21 A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

B22 A structured entity often has some or all of the following features or attributes:

- (a) restricted activities.
- (b) a narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.
- (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support.
- (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

B23 Examples of entities that are regarded as structured entities include, but are not limited to:

- (a) securitisation vehicles.
- (b) asset-backed financings.
- (c) some investment funds.

B24 An entity that is controlled by voting rights is not a structured entity simply because, for example, it receives funding from third parties following a restructuring.

Nature of risks from interests in unconsolidated structured entities (paragraphs 29–31)

B25 In addition to the information required by paragraphs 29–31, an entity shall disclose additional information that is necessary to meet the disclosure objective in paragraph 24(b).

B26 Examples of additional information that, depending on the circumstances, might be relevant to an assessment of the risks to which an entity is exposed when it has an interest in an unconsolidated structured entity are:

- (a) the terms of an arrangement that could require the entity to provide financial support to an unconsolidated structured entity (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support), including:
 - (i) a description of events or circumstances that could expose the reporting entity to a loss.
 - (ii) whether there are any terms that would limit the obligation.
 - (iii) whether there are any other parties that provide financial support and, if so, how the reporting entity's obligation ranks with those of other parties.
- (b) losses incurred by the entity during the reporting period relating to its interests in unconsolidated structured entities.
- (c) the types of income the entity received during the reporting period from its interests in unconsolidated structured entities.

- (d) whether the entity is required to absorb losses of an unconsolidated structured entity before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity's interest in the unconsolidated structured entity.
- (e) information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in unconsolidated structured entities.
- (f) any difficulties an unconsolidated structured entity has experienced in financing its activities during the reporting period.
- (g) in relation to the funding of an unconsolidated structured entity, the forms of funding (eg commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analyses of the assets and funding of an unconsolidated structured entity if the structured entity has longer-term assets funded by shorter-term funding.

Appendix C

Effective date and transition

This appendix is an integral part of the IFRS and has the same authority as the other parts of the IFRS.

EFFECTIVE DATE AND TRANSITION

- C1 An entity shall apply this IFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted.
- C2 An entity is encouraged to provide information required by this IFRS earlier than annual periods beginning on or after 1 January 2013. Providing some of the disclosures required by this IFRS does not compel the entity to comply with all the requirements of this IFRS or to apply IFRS 10, IFRS 11, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011) early.

REFERENCES TO IFRS 9

- C3 If an entity applies this IFRS but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

Appendix D

Amendments to other IFRSs

This appendix sets out amendments to other IFRSs that are a consequence of the Board issuing IFRS 12. An entity shall apply the amendments for annual periods beginning on or after 1 January 2013. If an entity applies IFRS 12 for an earlier period, it shall apply the amendments for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.

IAS 1 *Presentation of Financial Statements*

D1 Paragraphs 119 and 124 are amended and paragraph 139H is added as follows.

- 119 ... An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some IFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. ...
- 124 Some of the disclosures made in accordance with paragraph 122 are required by other IFRSs. For example IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose the judgements it has made in determining whether it controls another entity. IAS 40 requires...
- 139H IFRSs 10 and 12, issued in May 2011, amended paragraphs 4, 119, 123 and 124. An entity shall apply those amendments when it applies IFRSs 10 and 12.

IAS 24 *Related Party Disclosures*

D2 Paragraph 15 is amended and paragraph 28A is added as follows.

- 15 The requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in IAS 27 and IFRS 12 *Disclosure of Interests in Other Entities*.
- 28A IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12, issued in May 2011, amended paragraphs 3, 9, 11(b), 15, 19(b) and (e) and 25. An entity shall apply those amendments when it applies IFRS 10, IFRS 11 and IFRS 12.

INTERNATIONAL ACCOUNTING STANDARD 27

Separate Financial Statements

OBJECTIVE

- 1 The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

SCOPE

- 2 **This Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.**
- 3 This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with International Financial Reporting Standards.

DEFINITIONS

- 4 **The following terms are used in this Standard with the meanings specified:**

***Consolidated financial statements* are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.**

***Separate financial statements* are those presented by a parent (ie an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with IFRS 9 *Financial Instruments*.**

- 5 The following terms are defined in Appendix A of IFRS 10 *Consolidated Financial Statements*, Appendix A of IFRS 11 *Joint Arrangements* and paragraph 3 of IAS 28 *Investments in Associates and Joint Ventures*:

- associate
- control of an investee
- group
- joint control
- joint venture
- joint venturer
- parent
- significant influence
- subsidiary.

- 6 Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances set out in paragraph 8. Separate financial statements need not be appended to, or accompany, those statements.
- 7 Financial statements in which the equity method is applied are not separate financial statements. Similarly, the financial statements of an entity that does not have a subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements.
- 8 An entity that is exempted in accordance with paragraph 4(a) of IFRS 10 from consolidation or paragraph 17 of IAS 28 (as amended in 2011) from applying the equity method may present separate financial statements as its only financial statements.

PREPARATION OF SEPARATE FINANCIAL STATEMENTS

9 Separate financial statements shall be prepared in accordance with all applicable IFRSs, except as provided in paragraph 10.

10 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

- (a) **at cost, or**
- (b) **in accordance with IFRS 9.**

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with IFRS 9 is not changed in such circumstances.

11 If an entity elects, in accordance with paragraph 18 of IAS 28 (as amended in 2011), to measure its investments in associates or joint ventures at fair value through profit or loss in accordance with IFRS 9, it shall also account for those investments in the same way in its separate financial statements.

12 An entity shall recognise a dividend from a subsidiary, a joint venture or an associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

13 When a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

- (a) the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;
- (b) the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and
- (c) the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation,

and the new parent accounts for its investment in the original parent in accordance with paragraph 10(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

14 Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria in paragraph 13. The requirements in paragraph 13 apply equally to such reorganisations. In such cases, references to 'original parent' and 'original group' are to the 'original entity'.

DISCLOSURE

15 An entity shall apply all applicable IFRSs when providing disclosures in its separate financial statements, including the requirements in paragraphs 16 and 17.

16 When a parent, in accordance with paragraph 4(a) of IFRS 10, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:

- (a) **the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable.**
- (b) **a list of significant investments in subsidiaries, joint ventures and associates, including:**
 - (i) **the name of those investees.**

- (ii) the principal place of business (and country of incorporation, if different) of those investees.
 - (iii) its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.
 - (c) a description of the method used to account for the investments listed under (b).
- 17** When a parent (other than a parent covered by paragraph 16) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with IFRS 10, IFRS 11 or IAS 28 (as amended in 2011) to which they relate. The parent or investor shall also disclose in its separate financial statements:
- (a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law.
 - (b) a list of significant investments in subsidiaries, joint ventures and associates, including:
 - (i) the name of those investees.
 - (ii) the principal place of business (and country of incorporation, if different) of those investees.
 - (iii) its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.
 - (c) a description of the method used to account for the investments listed under (b).

The parent or investor shall also identify the financial statements prepared in accordance with IFRS 10, IFRS 11 or IAS 28 (as amended in 2011) to which they relate.

EFFECTIVE DATE AND TRANSITION

- 18** An entity shall apply this Standard for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS 10, IFRS 11, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 (as amended in 2011) at the same time.

References to IFRS 9

- 19** If an entity applies this Standard but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

WITHDRAWAL OF IAS 27 (2008)

- 20** This Standard is issued concurrently with IFRS 10. Together, the two IFRSs supersede IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008).

INTERNATIONAL ACCOUNTING STANDARD 28

Investments in Associates and Joint Ventures

OBJECTIVE

- 1 The objective of this Standard is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

SCOPE

- 2 This Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.

DEFINITIONS

- 3 The following terms are used in this Standard with the meanings specified:

An *associate* is an entity over which the investor has significant influence.

Consolidated financial statements are the financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

The *equity method* is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

A *joint arrangement* is an arrangement of which two or more parties have joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A *joint venture* is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A *joint venturer* is a party to a joint venture that has joint control of that joint venture.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

- 4 The following terms are defined in paragraph 4 of IAS 27 *Separate Financial Statements* and in Appendix A of IFRS 10 *Consolidated Financial Statements* and are used in this Standard with the meanings specified in the IFRSs in which they are defined:

— control of an investee

— group

— parent

— separate financial statements

— subsidiary.

SIGNIFICANT INFLUENCE

- 5 If an entity holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

- 6 The existence of significant influence by an entity is usually evidenced in one or more of the following ways:
- (a) representation on the board of directors or equivalent governing body of the investee;
 - (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
 - (c) material transactions between the entity and its investee;
 - (d) interchange of managerial personnel; or
 - (e) provision of essential technical information.
- 7 An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (ie potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
- 8 In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.
- 9 An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual arrangement.

EQUITY METHOD

- 10 Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in the investor's other comprehensive income (see IAS 1 *Presentation of Financial Statements*).
- 11 The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the profit or loss of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets and profit or loss.
- 12 When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments, unless paragraph 13 applies.
- 13 In some circumstances, an entity has, in substance, an existing ownership as a result of a transaction that currently gives it access to the returns associated with an ownership interest. In such circumstances, the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the returns.
- 14 IFRS 9 *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in an associate or a joint venture, the instruments are not subject to IFRS 9. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with IFRS 9.

- 15 Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset.

APPLICATION OF THE EQUITY METHOD

- 16 An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 17–19.

Exemptions from applying the equity method

- 17 An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a parent that is exempt from preparing consolidated financial statements by the scope exception in paragraph 4(a) of IFRS 10 or if all the following apply:
- (a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.
 - (b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
 - (c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.
 - (d) The ultimate or any intermediate parent of the entity produces consolidated financial statements available for public use that comply with IFRSs.
- 18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IFRS 9.
- 19 When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with IFRS 9 regardless of whether the venture capital organisation, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds.

Classification as held for sale

- 20 An entity shall apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with IFRS 9 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.
- 21 When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

Discontinuing the use of the equity method

22 An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

- (a) **If the investment becomes a subsidiary, the entity shall account for its investment in accordance with IFRS 3 *Business Combinations* and IFRS 10.**
 - (b) **If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. The entity shall recognise in profit or loss any difference between:**
 - (i) **the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and**
 - (ii) **the carrying amount of the investment at the date the equity method was discontinued.**
 - (c) **When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.**
- 23 Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued. For example, if an associate or a joint venture has cumulative exchange differences relating to a foreign operation and the entity discontinues the use of the equity method, the entity shall reclassify to profit or loss the gain or loss that had previously been recognised in other comprehensive income in relation to the foreign operation.
- 24 If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.**

Changes in ownership interest

- 25 If an entity's ownership interest in an associate or a joint venture is reduced, but the entity continues to apply the equity method, the entity shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Equity method procedures

- 26 Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.
- 27 A group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 35 and 36).

- 28 Gains and losses resulting from 'upstream' and 'downstream' transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. 'Upstream' transactions are, for example, sales of assets from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.
- 29 When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.
- 30 The contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 28, except when the contribution lacks commercial substance, as that term is described in IAS 16 *Property, Plant and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised unless paragraph 31 also applies. Such unrealised gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.
- 31 If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognises in full in profit or loss the portion of the gain or loss on the non-monetary contribution relating to the monetary or non-monetary assets received.
- 32 An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:
- (a) Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.
 - (b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.
- Appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made for impairment losses such as for goodwill or property, plant and equipment.
- 33 **The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity unless it is impracticable to do so.**
- 34 When, in accordance with paragraph 33, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.
- 35 The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.

- 36 If an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.
- 37 If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of profit or loss after adjusting for the dividends on such shares, whether or not the dividends have been declared.
- 38 If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (ie priority in liquidation).
- 39 After the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Impairment losses

- 40 After application of the equity method, including recognising the associate's or joint venture's losses in accordance with paragraph 38, the entity applies IAS 39 *Financial Instruments: Recognition and Measurement* to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture.
- 41 The entity also applies IAS 39 to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.
- 42 Because goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of IAS 39 indicates that the investment may be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:
- (a) its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or
 - (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

- 43 The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

SEPARATE FINANCIAL STATEMENTS

- 44 An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 10 of IAS 27 (as amended in 2011).

EFFECTIVE DATE AND TRANSITION

- 45 An entity shall apply this Standard for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS 10, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 (as amended in 2011) at the same time.

References to IFRS 9

- 46 If an entity applies this Standard but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39.

WITHDRAWAL OF IAS 28 (2003)

- 47 This Standard supersedes IAS 28 *Investments in Associates* (as revised in 2003).
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COMMISSION REGULATION (EU) No 1255/2012

of 11 December 2012

amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 12, International Financial Reporting Standards 1 and 13, and Interpretation 20 of the International Financial Reporting Interpretations Committee

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ⁽¹⁾, and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1126/2008 ⁽²⁾ certain international standards and interpretations that were in existence at 15 October 2008 were adopted.

(2) On 20 December 2010, the International Accounting Standards Board (IASB) published amendments to International Financial Reporting Standard ('IFRS') 1 First-time Adoption of International Financial Reporting Standards - *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (hereinafter "the amendments to IFRS 1") and to International Accounting Standard ('IAS') 12 Income Taxes - *Deferred Tax: Recovery of Underlying Assets* (hereinafter "the amendments to IAS 12"). The objective of the amendments to IFRS 1 is to introduce a new exemption in the scope of IFRS 1 – namely, entities that have been subject to severe hyperinflation are allowed to use fair value as the deemed cost of their assets and liabilities in their opening IFRS statement of financial position. In addition, those amendments also replace the references to fixed dates in IFRS 1 with references to the date of transition. As to IAS 12, it prescribes the accounting treatment for income taxes. The objective of the amendments to IAS 12 is to introduce an exception to the measurement principle in IAS 12 in the form of a rebuttable presumption that assumes that the carrying amount of an investment property measured at fair value would be recovered through sale and an entity would be required to use the tax rate applicable to the sale of underlying asset.

(3) On 12 May 2011, the IASB issued IFRS 13 *Fair Value Measurement* (hereinafter "IFRS 13"). IFRS 13 sets out a

single IFRS framework for measuring fair value and provides comprehensive guidance on how to measure the fair value of both financial and non-financial assets and liabilities. IFRS 13 applies when another IFRS requires or permits fair value measurement or disclosures about fair value measurements.

(4) On 19 October 2011, the IASB issued Interpretation 20 of the International Financial Reporting Interpretations Committee ('IFRIC') *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20"). The objective of IFRIC 20 is to provide guidance on recognition of production stripping costs as an asset and on the initial and subsequent measurement of the stripping activity asset in order to reduce the diversity in practice as to how entities account for stripping costs incurred in the production phase of a surface mine.

(5) This Regulation endorses the amendments to IAS 12, the amendments to IFRS 1, IFRS 13, IFRIC 20, and the resulting amendments to other standards and interpretations. Those standards, amendments to existing standards or interpretations contain some references to IFRS 9 that at present cannot be applied as IFRS 9 has not been adopted by the Union yet. Therefore, any reference to IFRS 9 as laid down in the Annex to this Regulation should be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, any consequential amendment to IFRS 9 resulting from the Annex to this Regulation cannot be applied.

(6) The consultation with the Technical Expert Group (TEG) of the European Financial Reporting Advisory Group (EFRAG) confirms that the amendments to IAS 12 and the amendments to IFRS 1 as well as IFRS 13 and IFRIC 20 meet the technical criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(7) Regulation (EC) No 1126/2008 should therefore be amended accordingly.

(8) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

⁽¹⁾ OJ L 243, 11.9.2002, p. 1.

⁽²⁾ OJ L 320, 29.11.2008, p. 1.

HAS ADOPTED THIS REGULATION:

Article 1

1. The Annex to Regulation (EC) No 1126/2008 is amended as follows:

- (a) International Accounting Standard (IAS) 12 *Income Taxes* is amended as set out in the Annex to this Regulation;
- (b) Interpretation 21 of the Standing Interpretations Committee (SIC) is deleted in accordance with the amendments to IAS 12 as set out in the Annex to this Regulation.
- (c) International Financial Reporting Standard (IFRS) 1 *First-time Adoption of International Financial Reporting Standards* is amended as set out in the Annex to this Regulation;
- (d) IFRS 13 *Fair Value Measurement* is inserted as set out in the Annex to this Regulation;
- (e) IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 7, IAS 1, IAS 2, IAS 8, IAS 10, IAS 16, IAS 17, IAS 18, IAS 19, IAS 20, IAS 21, IAS 28, IAS 31, IAS 32, IAS 33, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41, IFRIC 2, IFRIC 4, IFRIC 13, IFRIC 17 and IFRIC 19 are amended in accordance with IFRS 13 as set out in the Annex to this Regulation;

(f) IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* is inserted as set out in the Annex to this Regulation;

(g) IFRS 1 is amended in accordance with IFRIC 20 as set out in the Annex to this Regulation.

2. Any reference to IFRS 9 as laid down in the Annex to this Regulation shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.

3. Any consequential amendment to IFRS 9 resulting from the Annex to this Regulation shall not be applied.

Article 2

1. Each company shall apply the amendments referred to in points (a), (b) and (c) of Article 1(1) at the latest, as from the commencement date of its first financial year starting on or after the date of entry into force of this Regulation.

2. Each company shall apply IFRS 13, IFRIC 20, and the consequential amendments as referred to in points (d) – (g) of Article 1(1), at the latest, as from the commencement date of its first financial year starting on or after 1 January 2013.

Article 3

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 11 December 2012.

For the Commission

The President

José Manuel BARROSO

ANNEX

INTERNATIONAL ACCOUNTING STANDARDS

IFRS 1	IFRS 1 <i>First-time Adoption - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
IAS 12	IAS 12 <i>Income Taxes - Deferred Tax: Recovery of Underlying Assets</i>
IFRS 13	IFRS 13 <i>Fair Value Measurement</i>
IFRIC 20	IFRIC Interpretation 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>

AMENDMENTS TO IFRS 1***First-time Adoption of International Financial Reporting Standards***

After paragraph 31B a heading and paragraph 31C are added.

PRESENTATION AND DISCLOSURE**Explanation of transition to IFRSs*****Use of deemed cost after severe hyperinflation***

31C If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening IFRS statement of financial position because of severe hyperinflation (see paragraphs D26–D30), the entity's first IFRS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that has both of the following characteristics:

- (a) a reliable general price index is not available to all entities with transactions and balances in the currency.
- (b) exchangeability between the currency and a relatively stable foreign currency does not exist.

Appendix B**Exceptions to the retrospective application of other IFRSs**

Paragraph B2 is amended.

Derecognition of financial assets and financial liabilities

B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in IAS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after the date of transition to IFRSs. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to IFRSs, it shall not recognise those assets and liabilities in accordance with IFRSs (unless they qualify for recognition as a result of a later transaction or event).

Appendix D**Exemptions from other IFRSs**

Paragraphs D1 and D20 are amended.

D1 An entity may elect to use one or more of the following exemptions:

- (a) ...
- (o) transfers of assets from customers (paragraph D24);
- (p) extinguishing financial liabilities with equity instruments (paragraph D25); and
- (q) severe hyperinflation (paragraphs D26–D30).

An entity shall not apply these exemptions by analogy to other items.

Fair value measurement of financial assets or financial liabilities at initial recognition

D20 Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of IAS 39 paragraph AG76 and in paragraph AG76A prospectively to transactions entered into on or after the date of transition to IFRSs.

A heading and paragraphs D26–D30 are added.

Severe hyperinflation

- D26 If an entity has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of transition to IFRSs. This applies to entities that are adopting IFRSs for the first time, as well as entities that have previously applied IFRSs.
- D27 The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:
- (a) a reliable general price index is not available to all entities with transactions and balances in the currency.
 - (b) exchangeability between the currency and a relatively stable foreign currency does not exist.
- D28 The functional currency of an entity ceases to be subject to severe hyperinflation on the functional currency normalisation date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph D27, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.
- D29 When an entity's date of transition to IFRSs is on, or after, the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to IFRSs. The entity may use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.
- D30 When the functional currency normalisation date falls within a 12-month comparative period, the comparative period may be less than 12 months, provided that a complete set of financial statements (as required by paragraph 10 of IAS 1) is provided for that shorter period.

EFFECTIVE DATE

Paragraph 39H is added.

- 39H *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (Amendments to IFRS 1), issued in December 2010, amended paragraphs B2, D1 and D20 and added paragraphs 31C and D26–D30. An entity shall apply those amendments for annual periods beginning on or after 1 July 2011. Earlier application is permitted.

AMENDMENTS TO IFRS 9**IFRS 9 *Financial Instruments* (issued November 2009)**

Paragraph C2 is amended as follows.

- C2 In Appendix B, paragraphs B1, B2 and B5 are amended, ...
- B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in IAS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after the date of transition to IFRSs. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to IFRSs, it shall not recognise those assets and liabilities in accordance with IFRSs (unless they qualify for recognition as a result of a later transaction or event).

Paragraph C3 is amended by adding paragraph D20 as follows.

- C3 In Appendix D (exemptions from other IFRSs), paragraphs D19 and D20 are amended ...
- D20 Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of IAS 39 paragraph AG76 and in paragraph AG76A prospectively to transactions entered into on or after the date of transition to IFRSs.

IFRS 9 *Financial Instruments* (issued October 2010)

Paragraphs C2 and C3 are amended as follows.

In paragraph C2, the amendment to paragraph B2 is amended as follows

B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in IFRS 9 *Financial Instruments* prospectively for transactions occurring on or after date of transition to IFRSs. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to IFRSs, it shall not recognise those assets and liabilities in accordance with IFRSs (unless they qualify for recognition as a result of a later transaction or event).

In paragraph C3, the amendment to paragraph D20 is amended as follows:

D20 Despite the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of paragraph B5.4.8 and in paragraph B5.4.9 of IFRS 9 prospectively to transactions entered into on or after the date of transition to IFRSs.

Amendments to IAS 12

Income Taxes

Paragraph 52 is renumbered as paragraph 51A. Paragraph 10 and the examples following paragraph 51A are amended. Paragraphs 51B and 51C and the following example, and paragraphs 51D, 51E, 98 and 99 are added.

DEFINITIONS

Tax base

- 10 Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: that an entity shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. Example C following paragraph 51A illustrates circumstances when it may be helpful to consider this fundamental principle, for example, when the tax base of an asset or liability depends on the expected manner of recovery or settlement.

MEASUREMENT

- 51A In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

- (a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and
- (b) the tax base of the asset (liability).

In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement.

Example A

An item of property, plant and equipment has a carrying amount of 100 and a tax base of 60. A tax rate of 20 % would apply if the item were sold and a tax rate of 30 % would apply to other income.

The entity recognises a deferred tax liability of 8 (40 at 20 %) if it expects to sell the item without further use and a deferred tax liability of 12 (40 at 30 %) if it expects to retain the item and recover its carrying amount through use.

Example B

An item of property, plant and equipment with a cost of 100 and a carrying amount of 80 is revalued to 150. No equivalent adjustment is made for tax purposes. Cumulative depreciation for tax purposes is 30 and the tax rate is 30 %. If the item is sold for more than cost, the cumulative tax depreciation of 30 will be included in taxable income but sale proceeds in excess of cost will not be taxable.

The tax base of the item is 70 and there is a taxable temporary difference of 80. If the entity expects to recover the carrying amount by using the item, it must generate taxable income of 150, but will only be able to deduct depreciation of 70. On this basis, there is a deferred tax liability of 24 (80 at 30 %). If the entity expects to recover the carrying amount by selling the item immediately for proceeds of 150, the deferred tax liability is computed as follows:

	Taxable Temporary Difference	Tax Rate	Deferred Tax Liability
Cumulative tax depreciation	30	30 %	9
Proceeds in excess of cost	50	nil	—
Total	80		9

(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)

Example C

The facts are as in example B, except that if the item is sold for more than cost, the cumulative tax depreciation will be included in taxable income (taxed at 30 %) and the sale proceeds will be taxed at 40 %, after deducting an inflation-adjusted cost of 110.

If the entity expects to recover the carrying amount by using the item, it must generate taxable income of 150, but will only be able to deduct depreciation of 70. On this basis, the tax base is 70, there is a taxable temporary difference of 80 and there is a deferred tax liability of 24 (80 at 30 %), as in example B.

If the entity expects to recover the carrying amount by selling the item immediately for proceeds of 150, the entity will be able to deduct the indexed cost of 110. The net proceeds of 40 will be taxed at 40 %. In addition, the cumulative tax depreciation of 30 will be included in taxable income and taxed at 30 %. On this basis, the tax base is 80 (110 less 30), there is a taxable temporary difference of 70 and there is a deferred tax liability of 25 (40 at 40 % plus 30 at 30 %). If the tax base is not immediately apparent in this example, it may be helpful to consider the fundamental principle set out in paragraph 10.

(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)

51B If a deferred tax liability or deferred tax asset arises from a non-depreciable asset measured using the revaluation model in IAS 16, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the non-depreciable asset through sale, regardless of the basis of measuring the carrying amount of that asset. Accordingly, if the tax law specifies a tax rate applicable to the taxable amount derived from the sale of an asset that differs from the tax rate applicable to the taxable amount derived from using an asset, the former rate is applied in measuring the deferred tax liability or asset related to a non-depreciable asset.

51C If a deferred tax liability or asset arises from investment property that is measured using the fair value model in IAS 40, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, the requirements of paragraphs 51 and 51A shall be followed.

Example illustrating paragraph 51C

An investment property has a cost of 100 and fair value of 150. It is measured using the fair value model in IAS 40. It comprises land with a cost of 40 and fair value of 60 and a building with a cost of 60 and fair value of 90. The land has an unlimited useful life.

Cumulative depreciation of the building for tax purposes is 30. Unrealised changes in the fair value of the investment property do not affect taxable profit. If the investment property is sold for more than cost, the reversal of the cumulative tax depreciation of 30 will be included in taxable profit and taxed at an ordinary tax rate of 30 %. For sales proceeds in excess of cost, tax law specifies tax rates of 25 % for assets held for less than two years and 20 % for assets held for two years or more.

Because the investment property is measured using the fair value model in IAS 40, there is a rebuttable presumption that the entity will recover the carrying amount of the investment property entirely through sale. If that presumption is not rebutted, the deferred tax reflects the tax consequences of recovering the carrying amount entirely through sale, even if the entity expects to earn rental income from the property before sale.

The tax base of the land if it is sold is 40 and there is a taxable temporary difference of 20 (60 – 40). The tax base of the building if it is sold is 30 (60 – 30) and there is a taxable temporary difference of 60 (90 – 30). As a result, the total taxable temporary difference relating to the investment property is 80 (20 + 60).

In accordance with paragraph 47, the tax rate is the rate expected to apply to the period when the investment property is realised. Thus, the resulting deferred tax liability is computed as follows, if the entity expects to sell the property after holding it for more than two years:

	Taxable Temporary Difference	Tax Rate	Deferred Tax Liability
Cumulative tax depreciation	30	30 %	9
Proceeds in excess of cost	50	20 %	10
Total	80		19

If the entity expects to sell the property after holding it for less than two years, the above computation would be amended to apply a tax rate of 25 %, rather than 20 %, to the proceeds in excess of cost.

If, instead, the entity holds the building within a business model whose objective is to consume substantially all of the economic benefits embodied in the building over time, rather than through sale, this presumption would be rebutted for the building. However, the land is not depreciable. Therefore the presumption of recovery through sale would not be rebutted for the land. It follows that the deferred tax liability would reflect the tax consequences of recovering the carrying amount of the building through use and the carrying amount of the land through sale.

The tax base of the building if it is used is 30 ($60 - 30$) and there is a taxable temporary difference of 60 ($90 - 30$), resulting in a deferred tax liability of 18 (60 at 30%).

The tax base of the land if it is sold is 40 and there is a taxable temporary difference of 20 ($60 - 40$), resulting in a deferred tax liability of 4 (20 at 20%).

As a result, if the presumption of recovery through sale is rebutted for the building, the deferred tax liability relating to the investment property is 22 ($18 + 4$).

51D The rebuttable presumption in paragraph 51C also applies when a deferred tax liability or a deferred tax asset arises from measuring investment property in a business combination if the entity will use the fair value model when subsequently measuring that investment property.

51E Paragraphs 51B–51D do not change the requirements to apply the principles in paragraphs 24–33 (deductible temporary differences) and paragraphs 34–36 (unused tax losses and unused tax credits) of this Standard when recognising and measuring deferred tax assets.

EFFECTIVE DATE

98 Paragraph 52 was renumbered as 51A, paragraph 10 and the examples following paragraph 51A were amended, and paragraphs 51B and 51C and the following example and paragraphs 51D, 51E and 99 were added by *Deferred Tax: Recovery of Underlying Assets*, issued in December 2010. An entity shall apply those amendments for annual periods beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

WITHDRAWAL OF SIC-21

99 The amendments made by *Deferred Tax: Recovery of Underlying Assets*, issued in December 2010, supersede SIC Interpretation 21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets*.

INTERNATIONAL FINANCIAL REPORTING STANDARD 13

Fair Value Measurement

OBJECTIVE

1 This IFRS:

- (a) **defines *fair value*;**
 - (b) **sets out in a single IFRS a framework for measuring fair value; and**
 - (c) **requires disclosures about fair value measurements.**
- 2 Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an *orderly transaction* to sell the asset or to transfer the liability would take place between *market participants* at the measurement date under current market conditions (ie an *exit price* at the measurement date from the perspective of a market participant that holds the asset or owes the liability).
- 3 When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximises the use of relevant *observable inputs* and minimises the use of *unobservable inputs*. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.
- 4 The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. In addition, this IFRS shall be applied to an entity's own equity instruments measured at fair value.

SCOPE

- 5 **This IFRS applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except as specified in paragraphs 6 and 7.**
- 6 The measurement and disclosure requirements of this IFRS do not apply to the following:
- (a) share-based payment transactions within the scope of IFRS 2 *Share-based Payment*;
 - (b) leasing transactions within the scope of IAS 17 *Leases*; and
 - (c) measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.
- 7 The disclosures required by this IFRS are not required for the following:
- (a) plan assets measured at fair value in accordance with IAS 19 *Employee Benefits*;
 - (b) retirement benefit plan investments measured at fair value in accordance with IAS 26 *Accounting and Reporting by Retirement Benefit Plans*; and
 - (c) assets for which recoverable amount is fair value less costs of disposal in accordance with IAS 36.
- 8 The fair value measurement framework described in this IFRS applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs.

MEASUREMENT

Definition of fair value

- 9 This IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.**

10 Paragraph B2 describes the overall fair value measurement approach.

The asset or liability

- 11 A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:**

(a) the condition and location of the asset; and

(b) restrictions, if any, on the sale or use of the asset.

- 12 The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by market participants.

- 13 The asset or liability measured at fair value might be either of the following:

(a) a stand-alone asset or liability (eg a financial instrument or a non-financial asset); or

(b) a group of assets, a group of liabilities or a group of assets and liabilities (eg a cash-generating unit or a business).

- 14 Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its *unit of account*. The unit of account for the asset or liability shall be determined in accordance with the IFRS that requires or permits the fair value measurement, except as provided in this IFRS.

The transaction

- 15 A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.**

- 16 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:**

(a) in the principal market for the asset or liability; or

(b) in the absence of a principal market, in the most advantageous market for the asset or liability.

- 17 An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

- 18 If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

- 19 The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and businesses within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and businesses within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.

- 20 Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.
- 21 Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.

Market participants

- 22 An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.**
- 23 In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify characteristics that distinguish market participants generally, considering factors specific to all the following:
- (a) the asset or liability;
 - (b) the principal (or most advantageous) market for the asset or liability; and
 - (c) market participants with whom the entity would enter into a transaction in that market.

The price

- 24 Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.**
- 25 The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for *transaction costs*. Transaction costs shall be accounted for in accordance with other IFRSs. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.
- 26 Transaction costs do not include *transport costs*. If location is a characteristic of the asset (as might be the case, for example, for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.

Application to non-financial assets

Highest and best use for non-financial assets

- 27 A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.**
- 28 The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:
- (a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (eg the location or size of a property).
 - (b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property).
 - (c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

29 Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

30 To protect its competitive position, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset that the entity plans to use defensively by preventing others from using it. Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.

Valuation premise for non-financial assets

31 The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:

(a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (eg a business).

(i) If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (ie its complementary assets and the associated liabilities) would be available to market participants.

(ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.

(iii) Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.

(b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.

32 The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other IFRSs (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.

33 Paragraph B3 describes the application of the valuation premise concept for non-financial assets.

Application to liabilities and an entity's own equity instruments

General principles

34 A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (eg equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

(a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

(b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

- 35 Even when there is no observable market to provide pricing information about the transfer of a liability or an entity's own equity instrument (eg because contractual or other legal restrictions prevent the transfer of such items), there might be an observable market for such items if they are held by other parties as assets (eg a corporate bond or a call option on an entity's shares).
- 36 In all cases, an entity shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs to meet the objective of a fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants at the measurement date under current market conditions.

Liabilities and equity instruments held by other parties as assets

- 37 When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.**

- 38 In such cases, an entity shall measure the fair value of the liability or equity instrument as follows:

- (a) using the quoted price in an *active market* for the identical item held by another party as an asset, if that price is available.
- (b) if that price is not available, using other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset.
- (c) if the observable prices in (a) and (b) are not available, using another valuation technique, such as:
 - (i) an *income approach* (eg a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset; see paragraphs B10 and B11).
 - (ii) a *market approach* (eg using quoted prices for similar liabilities or equity instruments held by other parties as assets; see paragraphs B5–B7).

- 39 An entity shall adjust the quoted price of a liability or an entity's own equity instrument held by another party as an asset only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability or equity instrument. An entity shall ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:

- (a) The quoted price for the asset relates to a similar (but not identical) liability or equity instrument held by another party as an asset. For example, the liability or equity instrument may have a particular characteristic (eg the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability or equity instrument held as an asset.
- (b) The unit of account for the asset is not the same as for the liability or equity instrument. For example, for liabilities, in some cases the price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit enhancement. If the unit of account for the liability is not for the combined package, the objective is to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, the entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement.

Liabilities and equity instruments not held by other parties as assets

- 40 When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity.**

41 For example, when applying a present value technique an entity might take into account either of the following:

- (a) the future cash outflows that a market participant would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation (see paragraphs B31–B33).
- (b) the amount that a market participant would receive to enter into or issue an identical liability or equity instrument, using the assumptions that market participants would use when pricing the identical item (eg having the same credit characteristics) in the principal (or most advantageous) market for issuing a liability or an equity instrument with the same contractual terms.

Non-performance risk

42 The fair value of a liability reflects the effect of non-performance risk. Non-performance risk includes, but may not be limited to, an entity's own credit risk (as defined in IFRS 7 *Financial Instruments: Disclosures*). Non-performance risk is assumed to be the same before and after the transfer of the liability.

43 When measuring the fair value of a liability, an entity shall take into account the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the liability, for example:

- (a) whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a non-financial liability).
- (b) the terms of credit enhancements related to the liability, if any.

44 The fair value of a liability reflects the effect of non-performance risk on the basis of its unit of account. The issuer of a liability issued with an inseparable third-party credit enhancement that is accounted for separately from the liability shall not include the effect of the credit enhancement (eg a third-party guarantee of debt) in the fair value measurement of the liability. If the credit enhancement is accounted for separately from the liability, the issuer would take into account its own credit standing and not that of the third party guarantor when measuring the fair value of the liability.

Restriction preventing the transfer of a liability or an entity's own equity instrument

45 When measuring the fair value of a liability or an entity's own equity instrument, an entity shall not include a separate input or an adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the item. The effect of a restriction that prevents the transfer of a liability or an entity's own equity instrument is either implicitly or explicitly included in the other inputs to the fair value measurement.

46 For example, at the transaction date, both the creditor and the obligor accepted the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction being included in the transaction price, a separate input or an adjustment to an existing input is not required at the transaction date to reflect the effect of the restriction on transfer. Similarly, a separate input or an adjustment to an existing input is not required at subsequent measurement dates to reflect the effect of the restriction on transfer.

Financial liability with a demand feature

47 The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk

48 An entity that holds a group of financial assets and financial liabilities is exposed to market risks (as defined in IFRS 7) and to the credit risk (as defined in IFRS 7) of each of the counterparties. If the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this IFRS for measuring fair value. That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

49 An entity is permitted to use the exception in paragraph 48 only if the entity does all the following:

- (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy;
- (b) provides information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel, as defined in IAS 24 *Related Party Disclosures*; and
- (c) is required or has elected to measure those financial assets and financial liabilities at fair value in the statement of financial position at the end of each reporting period.

50 The exception in paragraph 48 does not pertain to financial statement presentation. In some cases the basis for the presentation of financial instruments in the statement of financial position differs from the basis for the measurement of financial instruments, for example, if an IFRS does not require or permit financial instruments to be presented on a net basis. In such cases an entity may need to allocate the portfolio-level adjustments (see paragraphs 53–56) to the individual assets or liabilities that make up the group of financial assets and financial liabilities managed on the basis of the entity's net risk exposure. An entity shall perform such allocations on a reasonable and consistent basis using a methodology appropriate in the circumstances.

51 An entity shall make an accounting policy decision in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to use the exception in paragraph 48. An entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs 53–55) and credit adjustments (see paragraph 56), if applicable, consistently from period to period for a particular portfolio.

52 The exception in paragraph 48 applies only to financial assets and financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*.

Exposure to market risks

53 When using the exception in paragraph 48 to measure the fair value of a group of financial assets and financial liabilities managed on the basis of the entity's net exposure to a particular market risk (or risks), the entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks (see paragraphs 70 and 71).

54 When using the exception in paragraph 48, an entity shall ensure that the market risk (or risks) to which the entity is exposed within that group of financial assets and financial liabilities is substantially the same. For example, an entity would not combine the interest rate risk associated with a financial asset with the commodity price risk associated with a financial liability because doing so would not mitigate the entity's exposure to interest rate risk or commodity price risk. When using the exception in paragraph 48, any basis risk resulting from the market risk parameters not being identical shall be taken into account in the fair value measurement of the financial assets and financial liabilities within the group.

55 Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities shall be substantially the same. For example, an entity that uses a 12-month futures contract against the cash flows associated with 12 months' worth of interest rate risk exposure on a five-year financial instrument within a group made up of only those financial assets and financial liabilities measures the fair value of the exposure to 12-month interest rate risk on a net basis and the remaining interest rate risk exposure (ie years 2–5) on a gross basis.

Exposure to the credit risk of a particular counterparty

56 When using the exception in paragraph 48 to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the entity shall include the effect of the entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default (eg a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party). The fair value measurement shall reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

Fair value at initial recognition

- 57 When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an *entry price*). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an *exit price*). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.
- 58 In many cases the transaction price will equal the fair value (eg that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).
- 59 When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph B4 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.
- 60 If another IFRS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall recognise the resulting gain or loss in profit or loss unless that IFRS specifies otherwise.

Valuation techniques

- 61 An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.**
- 62 The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used valuation techniques are the market approach, the *cost approach* and the income approach. The main aspects of those approaches are summarised in paragraphs B5–B11. An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value.
- 63 In some cases a single valuation technique will be appropriate (eg when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (eg that might be the case when valuing a cash-generating unit). If multiple valuation techniques are used to measure fair value, the results (ie respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.
- 64 If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price. Calibration ensures that the valuation technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the valuation technique is necessary (eg there might be a characteristic of the asset or liability that is not captured by the valuation technique). After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, an entity shall ensure that those valuation techniques reflect observable market data (eg the price for a similar asset or liability) at the measurement date.
- 65 Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application (eg a change in its weighting when multiple valuation techniques are used or a change in an adjustment applied to a valuation technique) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:
- (a) new markets develop;
 - (b) new information becomes available;
 - (c) information previously used is no longer available;

(d) valuation techniques improve; or

(e) market conditions change.

- 66 Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with IAS 8. However, the disclosures in IAS 8 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

Inputs to valuation techniques

General principles

- 67 Valuation techniques used to measure fair value shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs.**

- 68 Examples of markets in which inputs might be observable for some assets and liabilities (eg financial instruments) include exchange markets, dealer markets, brokered markets and principal-to-principal markets (see paragraph B34).

- 69 An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 11 and 12). In some cases those characteristics result in the application of an adjustment, such as a premium or discount (eg a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the IFRS that requires or permits the fair value measurement (see paragraphs 13 and 14). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph 80) rather than as a characteristic of the asset or liability (eg a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (ie a *Level 1 input*) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph 79.

Inputs based on bid and ask prices

- 70 If an asset or a liability measured at fair value has a bid price and an ask price (eg an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorised within the fair value hierarchy (ie *Level 1, 2 or 3*; see paragraphs 72–90). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.
- 71 This IFRS does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

Fair value hierarchy

- 72 To increase consistency and comparability in fair value measurements and related disclosures, this IFRS establishes a fair value hierarchy that categorises into three levels (see paragraphs 76–90) the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (*Level 1 inputs*) and the lowest priority to unobservable inputs (*Level 3 inputs*).
- 73 In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs to sell, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorised.
- 74 The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques (see paragraph 61). However, the fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorised within *Level 2* or *Level 3*, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.

- 75 If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorised within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a *Level 2 input* and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorised within Level 3 of the fair value hierarchy.

Level 1 inputs

- 76 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- 77 A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph 79.

- 78 A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (eg on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

- (a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and
- (b) whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.

- 79 An entity shall not make an adjustment to a Level 1 input except in the following circumstances:

- (a) when an entity holds a large number of similar (but not identical) assets or liabilities (eg debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (ie given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (eg matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorised within a lower level of the fair value hierarchy.
- (b) when a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorised within a lower level of the fair value hierarchy.
- (c) when measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset (see paragraph 39). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorised within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorised within a lower level of the fair value hierarchy.

- 80 If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Level 2 inputs

- 81 Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- 82 If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:
- (a) quoted prices for similar assets or liabilities in active markets.
 - (b) quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (c) inputs other than quoted prices that are observable for the asset or liability, for example:
 - (i) interest rates and yield curves observable at commonly quoted intervals;
 - (ii) implied volatilities; and
 - (iii) credit spreads.
 - (d) *market-corroborated inputs*.
- 83 Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:
- (a) the condition or location of the asset;
 - (b) the extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph 39); and
 - (c) the volume or level of activity in the markets within which the inputs are observed.
- 84 An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.
- 85 Paragraph B35 describes the use of Level 2 inputs for particular assets and liabilities.

Level 3 inputs

- 86 Level 3 inputs are unobservable inputs for the asset or liability.
- 87 Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, ie an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.
- 88 Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (eg when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs B37–B47).
- 89 An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (eg an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.

90 Paragraph B36 describes the use of Level 3 inputs for particular assets and liabilities.

DISCLOSURE

91 An entity shall disclose information that helps users of its financial statements assess both of the following:

- (a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.**
- (b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.**

92 To meet the objectives in paragraph 91, an entity shall consider all the following:

- (a) the level of detail necessary to satisfy the disclosure requirements;
- (b) how much emphasis to place on each of the various requirements;
- (c) how much aggregation or disaggregation to undertake; and
- (d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IFRS and other IFRSs are insufficient to meet the objectives in paragraph 91, an entity shall disclose additional information necessary to meet those objectives.

93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition:

- (a) for recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* because the asset's fair value less costs to sell is lower than its carrying amount).
- (b) for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).
- (c) for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.
- (d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

- (e) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
- (i) total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised.
 - (ii) total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised.
 - (iii) purchases, sales, issues and settlements (each of those types of changes disclosed separately).
 - (iv) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
- (f) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.
- (g) for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).
- (h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:
- (i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).
 - (ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.
- (i) for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.
- 94 An entity shall determine appropriate classes of assets and liabilities on the basis of the following:
- (a) the nature, characteristics and risks of the asset or liability; and
 - (b) the level of the fair value hierarchy within which the fair value measurement is categorised.

The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IFRS specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this IFRS if that class meets the requirements in this paragraph.

95 An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 93(c) and (e)(iv). The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

- (a) the date of the event or change in circumstances that caused the transfer.
- (b) the beginning of the reporting period.
- (c) the end of the reporting period.

96 If an entity makes an accounting policy decision to use the exception in paragraph 48, it shall disclose that fact.

97 For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 93(b), (d) and (i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 93(d). For such assets and liabilities, an entity does not need to provide the other disclosures required by this IFRS.

98 For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.

99 An entity shall present the quantitative disclosures required by this IFRS in a tabular format unless another format is more appropriate.

Appendix A

Defined terms

This appendix is an integral part of the IFRS.

active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
cost approach	A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
entry price	The price paid to acquire an asset or received to assume a liability in an exchange transaction.
exit price	The price that would be received to sell an asset or paid to transfer a liability.
expected cash flow	The probability-weighted average (ie mean of the distribution) of possible future cash flows.
fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
highest and best use	The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used.
income approach	Valuation techniques that convert future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Inputs	The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following: (a) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and (b) the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.
Level 1 inputs	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2 inputs	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs	Unobservable inputs for the asset or liability.
market approach	A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.
market-corroborated inputs	Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
market participants	Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: (a) They are independent of each other, ie they are not related parties as defined in IAS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms. (b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary. (c) They are able to enter into a transaction for the asset or liability. (d) They are willing to enter into a transaction for the asset or liability, ie they are motivated but not forced or otherwise compelled to do so.
most advantageous market	The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.
non-performance risk	The risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.
observable inputs	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

orderly transaction	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale).
principal market	The market with the greatest volume and level of activity for the asset or liability.
risk premium	Compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.
transaction costs	The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria: (a) They result directly from and are essential to that transaction. (b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made (similar to costs to sell, as defined in IFRS 5).
transport costs	The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.
unit of account	The level at which an asset or a liability is aggregated or disaggregated in an IFRS for recognition purposes.
unobservable inputs	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

Appendix B

Application guidance

This appendix is an integral part of the IFRS. It describes the application of paragraphs 1–99 and has the same authority as the other parts of the IFRS.

- B1 The judgements applied in different valuation situations may be different. This appendix describes the judgements that might apply when an entity measures fair value in different valuation situations.

THE FAIR VALUE MEASUREMENT APPROACH

- B2 The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following:

- (a) the particular asset or liability that is the subject of the measurement (consistently with its unit of account).
- (b) for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).
- (c) the principal (or most advantageous) market for the asset or liability.
- (d) the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.

VALUATION PREMISE FOR NON-FINANCIAL ASSETS (PARAGRAPHS 31–33)

- B3 When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (eg a business), the effect of the valuation premise depends on the circumstances. For example:
- (a) the fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is a business that market participants would continue to operate. In that case, the transaction would involve valuing the business in its entirety. The use of the assets as a group in an ongoing business would generate synergies that would be available to market participants (ie market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities).
 - (b) an asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a stand-alone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).
 - (c) an asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any specialised machinery necessary to convert the inventory into finished goods.
 - (d) an asset's use in combination with other assets or with other assets and liabilities might be incorporated into the valuation technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that valuation technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.
 - (e) in more limited situations, when an entity uses an asset within a group of assets, the entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (ie an asset group) is allocated to its component assets (such as land and improvements).

FAIR VALUE AT INITIAL RECOGNITION (PARAGRAPHS 57–60)

- B4 When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:
- (a) The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.
 - (b) The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.
 - (c) The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (eg in a business combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another IFRS, or the transaction price includes transaction costs.
 - (d) The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market.

VALUATION TECHNIQUES (PARAGRAPHS 61–66)

Market approach

- B5 The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.
- B6 For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors specific to the measurement.
- B7 Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

Cost approach

- B8 The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
- B9 From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.

Income approach

- B10 The income approach converts future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.
- B11 Those valuation techniques include, for example, the following:

- (a) present value techniques (see paragraphs B12–B30);
- (b) option pricing models, such as the Black-Scholes-Merton formula or a binomial model (ie a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and
- (c) the multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

Present value techniques

- B12 Paragraphs B13–B30 describe the use of present value techniques to measure fair value. Those paragraphs focus on a discount rate adjustment technique and an *expected cash flow* (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (eg whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

The components of a present value measurement

- B13 Present value (ie an application of the income approach) is a tool used to link future amounts (eg cash flows or values) to a present amount using a discount rate. A fair value measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:
- (a) an estimate of future cash flows for the asset or liability being measured.

- (b) expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.
- (c) the time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (ie a risk-free interest rate).
- (d) the price for bearing the uncertainty inherent in the cash flows (ie a risk premium).
- (e) other factors that market participants would take into account in the circumstances.
- (f) for a liability, the non-performance risk relating to that liability, including the entity's (ie the obligor's) own credit risk.

General principles

B14 Present value techniques differ in how they capture the elements in paragraph B13. However, all the following general principles govern the application of any present value technique used to measure fair value:

- (a) Cash flows and discount rates should reflect assumptions that market participants would use when pricing the asset or liability.
- (b) Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.
- (c) To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (ie a discount rate adjustment technique). That same rate should not be used if using expected (ie probability-weighted) cash flows (ie an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.
- (d) Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.
- (e) Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Risk and uncertainty

B15 A fair value measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.

B16 Market participants generally seek compensation (ie a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.

B17 Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:

- (a) The discount rate adjustment technique (see paragraphs B18–B22) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.

- (b) Method 1 of the expected present value technique (see paragraph B25) uses risk-adjusted expected cash flows and a risk-free rate.
- (c) Method 2 of the expected present value technique (see paragraph B26) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.

Discount rate adjustment technique

- B18 The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (eg contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (ie a market rate of return).
- B19 The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (eg whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (eg credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (ie using a 'build-up' approach).
- B20 To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU800 ⁽¹⁾ in one year (ie there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:
- (a) Asset B is a contractual right to receive CU1,200 in one year and has a market price of CU1,083. Thus, the implied annual rate of return (ie a one-year market rate of return) is 10,8 per cent $[(CU1,200/CU1,083) - 1]$.
 - (b) Asset C is a contractual right to receive CU700 in two years and has a market price of CU566. Thus, the implied annual rate of return (ie a two-year market rate of return) is 11,2 per cent $[(CU700/CU566)^{0,5} - 1]$.
 - (c) All three assets are comparable with respect to risk (ie dispersion of possible pay-offs and credit).
- B21 On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (ie one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (CU800) and the one-year market rate derived from Asset B (10,8 per cent), the fair value of Asset A is CU722 $(CU800/1,108)$. Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11,2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.
- B22 When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

⁽¹⁾ In this IFRS monetary amounts are denominated in 'currency units (CU)'.

Expected present value technique

B23 The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (ie the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).

B24 In making an investment decision, risk-averse market participants would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:

- (a) unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability.
- (b) systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.

Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)

B25 Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (ie market) risk by subtracting a cash risk premium (ie risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of CU1,200 for a certain cash flow of CU1,000, the CU1,000 is the certainty equivalent of the CU1,200 (ie the CU200 would represent the cash risk premium). In that case the market participant would be indifferent as to the asset held.

B26 In contrast, Method 2 of the expected present value technique adjusts for systematic (ie market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (ie an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.

B27 To illustrate Methods 1 and 2, assume that an asset has expected cash flows of CU780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.

Possible cash flows	Probability	Probability-weighted cash flows
CU500	15 %	CU75
CU800	60 %	CU480
CU900	25 %	CU225
Expected cash flows		CU780

B28 In this simple illustration, the expected cash flows (CU780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use realised cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (eg changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.

B29 In theory, the present value (ie the fair value) of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:

- (a) Using Method 1, the expected cash flows are adjusted for systematic (ie market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (ie the cash risk premium of CU22) could be determined using the systematic risk premium of 3 per cent ($CU780 - [CU780 \times (1,05/1,08)]$), which results in risk-adjusted expected cash flows of CU758 ($CU780 - CU22$). The CU758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (ie the fair value) of the asset is CU722 ($CU758/1,05$).
- (b) Using Method 2, the expected cash flows are not adjusted for systematic (ie market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (ie the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value (ie the fair value) of the asset is CU722 ($CU780/1,08$).

B30 When using an expected present value technique to measure fair value, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgements applied.

APPLYING PRESENT VALUE TECHNIQUES TO LIABILITIES AND AN ENTITY'S OWN EQUITY INSTRUMENTS NOT HELD BY OTHER PARTIES AS ASSETS (PARAGRAPHS 40 AND 41)

B31 When using a present value technique to measure the fair value of a liability that is not held by another party as an asset (eg a decommissioning liability), an entity shall, among other things, estimate the future cash outflows that market participants would expect to incur in fulfilling the obligation. Those future cash outflows shall include market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation. Such compensation includes the return that a market participant would require for the following:

- (a) undertaking the activity (ie the value of fulfilling the obligation; eg by using resources that could be used for other activities); and
- (b) assuming the risk associated with the obligation (ie a *risk premium* that reflects the risk that the actual cash outflows might differ from the expected cash outflows; see paragraph B33).

B32 For example, a non-financial liability does not contain a contractual rate of return and there is no observable market yield for that liability. In some cases the components of the return that market participants would require will be indistinguishable from one another (eg when using the price a third party contractor would charge on a fixed fee basis). In other cases an entity needs to estimate those components separately (eg when using the price a third party contractor would charge on a cost plus basis because the contractor in that case would not bear the risk of future changes in costs).

B33 An entity can include a risk premium in the fair value measurement of a liability or an entity's own equity instrument that is not held by another party as an asset in one of the following ways:

- (a) by adjusting the cash flows (ie as an increase in the amount of cash outflows); or
- (b) by adjusting the rate used to discount the future cash flows to their present values (ie as a reduction in the discount rate).

An entity shall ensure that it does not double-count or omit adjustments for risk. For example, if the estimated cash flows are increased to take into account the compensation for assuming the risk associated with the obligation, the discount rate should not be adjusted to reflect that risk.

INPUTS TO VALUATION TECHNIQUES (PARAGRAPHS 67–71)

B34 Examples of markets in which inputs might be observable for some assets and liabilities (eg financial instruments) include the following:

- (a) *Exchange markets*. In an exchange market, closing prices are both readily available and generally representative of fair value. An example of such a market is the London Stock Exchange.

- (b) *Dealer markets.* In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (eg used equipment).
- (c) *Brokered markets.* In a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.
- (d) *Principal-to-principal markets.* In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.

FAIR VALUE HIERARCHY (PARAGRAPHS 72–90)

Level 2 inputs (paragraphs 81–85)

B35 Examples of Level 2 inputs for particular assets and liabilities include the following:

- (a) *Receive-fixed, pay-variable interest rate swap based on the London Interbank Offered Rate (LIBOR) swap rate.* A Level 2 input would be the LIBOR swap rate if that rate is observable at commonly quoted intervals for substantially the full term of the swap.
- (b) *Receive-fixed, pay-variable interest rate swap based on a yield curve denominated in a foreign currency.* A Level 2 input would be the swap rate based on a yield curve denominated in a foreign currency that is observable at commonly quoted intervals for substantially the full term of the swap. That would be the case if the term of the swap is 10 years and that rate is observable at commonly quoted intervals for 9 years, provided that any reasonable extrapolation of the yield curve for year 10 would not be significant to the fair value measurement of the swap in its entirety.
- (c) *Receive-fixed, pay-variable interest rate swap based on a specific bank's prime rate.* A Level 2 input would be the bank's prime rate derived through extrapolation if the extrapolated values are corroborated by observable market data, for example, by correlation with an interest rate that is observable over substantially the full term of the swap.
- (d) *Three-year option on exchange-traded shares.* A Level 2 input would be the implied volatility for the shares derived through extrapolation to year 3 if both of the following conditions exist:
 - (i) Prices for one-year and two-year options on the shares are observable.
 - (ii) The extrapolated implied volatility of a three-year option is corroborated by observable market data for substantially the full term of the option.

In that case the implied volatility could be derived by extrapolating from the implied volatility of the one-year and two-year options on the shares and corroborated by the implied volatility for three-year options on comparable entities' shares, provided that correlation with the one-year and two-year implied volatilities is established.

- (e) *Licensing arrangement.* For a licensing arrangement that is acquired in a business combination and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement.

- (f) *Finished goods inventory at a retail outlet.* For finished goods inventory that is acquired in a business combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (ie similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement.
- (g) *Building held and used.* A Level 2 input would be the price per square metre for the building (a valuation multiple) derived from observable market data, eg multiples derived from prices in observed transactions involving comparable (ie similar) buildings in similar locations.
- (h) *Cash-generating unit.* A Level 2 input would be a valuation multiple (eg a multiple of earnings or revenue or a similar performance measure) derived from observable market data, eg multiples derived from prices in observed transactions involving comparable (ie similar) businesses, taking into account operational, market, financial and non-financial factors.

Level 3 inputs (paragraphs 86–90)

B36 Examples of Level 3 inputs for particular assets and liabilities include the following:

- (a) *Long-dated currency swap.* A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.
- (b) *Three-year option on exchange-traded shares.* A Level 3 input would be historical volatility, ie the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option.
- (c) *Interest rate swap.* A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.
- (d) *Decommissioning liability assumed in a business combination.* A Level 3 input would be a current estimate using the entity's own data about the future cash outflows to be paid to fulfil the obligation (including market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, eg a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.
- (e) *Cash-generating unit.* A Level 3 input would be a financial forecast (eg of cash flows or profit or loss) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.

MEASURING FAIR VALUE WHEN THE VOLUME OR LEVEL OF ACTIVITY FOR AN ASSET OR A LIABILITY HAS SIGNIFICANTLY DECREASED

B37 The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence available, there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate the significance and relevance of factors such as the following:

- (a) There are few recent transactions.

- (b) Price quotations are not developed using current information.
 - (c) Price quotations vary substantially either over time or among market-makers (eg some brokered markets).
 - (d) Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.
 - (e) There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability.
 - (f) There is a wide bid-ask spread or significant increase in the bid-ask spread.
 - (g) There is a significant decline in the activity of, or there is an absence of, a market for new issues (ie a primary market) for the asset or liability or similar assets or liabilities.
 - (h) Little information is publicly available (eg for transactions that take place in a principal-to-principal market).
- B38 If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (eg there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (eg when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).
- B39 This IFRS does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs 61–66 and B5–B11 for a discussion of the use of valuation techniques when measuring fair value. Regardless of the valuation technique used, an entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph B17). Otherwise, the measurement does not faithfully represent fair value. In some cases determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.
- B40 If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate (eg the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple valuation techniques, an entity shall consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.
- B41 Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (ie not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.
- B42 Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires judgement. An entity's intention to hold the asset or to settle or otherwise fulfil the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.

Identifying transactions that are not orderly

B43 The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (ie forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following:

- (a) There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.
- (b) There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.
- (c) The seller is in or near bankruptcy or receivership (ie the seller is distressed).
- (d) The seller was required to sell to meet regulatory or legal requirements (ie the seller was forced).
- (e) The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.

An entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.

B44 An entity shall consider all the following when measuring fair value or estimating market risk premiums:

- (a) If the evidence indicates that a transaction is not orderly, an entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price.
- (b) If the evidence indicates that a transaction is orderly, an entity shall take into account that transaction price. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances, such as the following:
 - (i) the volume of the transaction.
 - (ii) the comparability of the transaction to the asset or liability being measured.
 - (iii) the proximity of the transaction to the measurement date.
- (c) If an entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (ie the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When an entity does not have sufficient information to conclude whether particular transactions are orderly, the entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.

An entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When an entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.

Using quoted prices provided by third parties

B45 This IFRS does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this IFRS.

B46 If there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a valuation technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, an entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.

B47 Furthermore, the nature of a quote (eg whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that represent binding offers.

Appendix C

Effective date and transition

This appendix is an integral part of the IFRS and has the same authority as the other parts of the IFRS.

C1 An entity shall apply this IFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this IFRS for an earlier period, it shall disclose that fact.

C2 This IFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

C3 The disclosure requirements of this IFRS need not be applied in comparative information provided for periods before initial application of this IFRS.

Appendix D

Amendments to other IFRSs

This appendix sets out amendments to other IFRSs that are a consequence of the Board issuing IFRS 13. An entity shall apply the amendments for annual periods beginning on or after 1 January 2013. If an entity applies IFRS 13 for an earlier period, it shall apply the amendments for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.

CHANGE IN DEFINITION

D1 In IFRSs 1, 3–5 and 9 (issued in October 2010) the definition of fair value is replaced with:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13.)

In IASs 2, 16, 18–21, 32 and 40 the definition of fair value is replaced with:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 *Fair Value Measurement*.)

IFRS 1 *First-time Adoption of International Financial Reporting Standards* (as amended at September 2010)

D2 Paragraph 19 is deleted.

D3 Paragraph 39J is added as follows:

39J IFRS 13 *Fair Value Measurement*, issued in May 2011, deleted paragraph 19, amended the definition of fair value in Appendix A and amended paragraphs D15 and D20. An entity shall apply those amendments when it applies IFRS 13.

D4 Paragraphs D15 and D20 are amended as follows:

D15 If a first-time adopter measures such an investment at cost in accordance with IAS 27, it shall measure that investment at one of the following amounts in its separate opening IFRS statement of financial position:

...

(b) deemed cost. The deemed cost of such an investment shall be its:

(i) fair value at the entity's date of transition to IFRSs in its separate financial statements; or

...

D20 Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in paragraph AG76(a) of IAS 39, in either of the following ways:

...

IFRS 2 *Share-based Payment*

D5 Paragraph 6A is added as follows:

6A This IFRS uses the term 'fair value' in a way that differs in some respects from the definition of fair value in IFRS 13 *Fair Value Measurement*. Therefore, when applying IFRS 2 an entity measures fair value in accordance with this IFRS, not IFRS 13.

IFRS 3 *Business Combinations*

D6 Paragraphs 20, 29, 33 and 47 are amended as follows:

20 Paragraphs 24–31 specify the types of identifiable assets and liabilities that include items for which this IFRS provides limited exceptions to the measurement principle.

29 The acquirer shall measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals when measuring its fair value. Paragraphs B35 and B36 provide related application guidance.

33 ... To determine the amount of goodwill in a business combination in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquiree in place of the acquisition-date fair value of the consideration transferred (paragraph 32(a)(i)). ...

47 ... For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value measured at that date is likely to indicate an error in the provisional amount.

D7 Paragraph 64F is added as follows:

64F IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraphs 20, 29, 33, 47, amended the definition of fair value in Appendix A and amended paragraphs B22, B40, B43–B46, B49 and B64. An entity shall apply those amendments when it applies IFRS 13.

D8 In Appendix B paragraphs B22 and B40, B43–B46, B49 and B64 are amended as follows:

B22 Because the consolidated financial statements represent the continuation of the financial statements of the legal subsidiary except for its capital structure, the consolidated financial statements reflect:

...

(d) the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the business combination to the fair value of the legal parent (accounting acquiree) However, ...

...

B40 The identifiability criteria determine whether an intangible asset is recognised separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would use when pricing the intangible asset, such as expectations of future contract renewals, in measuring fair value. ...

- B43 To protect its competitive position, or for other reasons, the acquirer may intend not to use an acquired non-financial asset, or it may not intend to use the asset according to its highest and best use. For example, that might be the case for an acquired research and development intangible asset that the acquirer plans to use defensively by preventing others from using it. Nevertheless, the acquirer shall measure the fair value of the non-financial asset assuming its highest and best use by market participants in accordance with the appropriate valuation premise, both initially and when measuring fair value less costs of disposal for subsequent impairment testing.
- B44 This IFRS allows the acquirer to measure a non-controlling interest in the acquiree at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market for the equity shares (ie those not held by the acquirer). In other situations, however, a quoted price in an active market for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using another valuation techniques.
- B45 The fair values of the acquirer's interest in the acquiree and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquiree or, conversely, the inclusion of a discount for lack of control (also referred to as a non-controlling interest discount) in the per-share fair value of the non-controlling interest if market participants would take into account such a premium or discount when pricing the non-controlling interest.
- B46 In a business combination achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquiree for the acquisition-date fair value of the consideration transferred to measure goodwill or a gain on a bargain purchase (see paragraphs 32–34).
- B49 A fair value measurement of a mutual entity should include the assumptions that market participants would make about future member benefits as well as any other relevant assumptions market participants would make about the mutual entity. For example, a present value technique may be used to measure the fair value of a mutual entity. The cash flows used as inputs to the model should be based on the expected cash flows of the mutual entity, which are likely to reflect reductions for member benefits, such as reduced fees charged for goods and services.
- B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:
- ...
- (f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
- ...
- (iv) equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.
- ...
- (o) for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:
- ...
- (ii) for each non-controlling interest in an acquiree measured at fair value, the valuation technique(s) and significant inputs used to measure that value.
- ...

IFRS 4 *Insurance Contracts*

D9 Paragraph 41E is added as follows:

- 41E IFRS 13 *Fair Value Measurement*, issued in May 2011, amended the definition of fair value in Appendix A. An entity shall apply that amendment when it applies IFRS 13.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

D10 Paragraph 44H is added as follows:

- 44H IFRS 13 *Fair Value Measurement*, issued in May 2011, amended the definition of fair value in Appendix A. An entity shall apply that amendment when it applies IFRS 13.

IFRS 7 *Financial Instruments: Disclosures* (as amended at October 2009)

D11 [Not applicable to requirements]

D12 Paragraph 3 is amended as follows:

- 3 This IFRS shall be applied by all entities to all types of financial instruments, except:
- (a) ... in those cases, entities shall apply the requirements of this IFRS and, for those interests measured at fair value, the requirements of IFRS 13 *Fair Value Measurement*. ...
- ...

D13 Paragraphs 27–27B are deleted.

D14 Paragraph 28 is amended as follows:

- 28 In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph AG76 of IAS 39). In such cases, the entity shall disclose by class of financial asset or financial liability:
- (a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph AG76(b) of IAS 39).
- ...
- (c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

D15 Paragraph 29 is amended as follows:

29 Disclosures of fair value are not required:

- ...
- (b) for an investment in equity instruments that do not have a quoted ~~market~~ price in an active market for an identical instrument (ie a Level 1 input), or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 because its fair value cannot otherwise be measured reliably; or
- ...

D16 Paragraph 44P is added as follows:

- 44P IFRS 13, issued in May 2011, amended paragraphs 3, 28, 29, B4 and B26 and Appendix A and deleted paragraphs 27–27B. An entity shall apply those amendments when it applies IFRS 13.

D17 In Appendix A the definition of other price risk is amended as follows:

other price risk The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from **interest rate risk** or **currency risk**), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

IFRS 9 *Financial Instruments* (issued November 2009)

D18 Paragraph 5.1.1 is amended as follows:

5.1.1 At initial recognition, an entity shall measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

D19 Paragraph 5.1.1A is added as follows:

5.1.1A However, if the fair value of the financial asset at initial recognition differs from the transaction price, an entity shall apply paragraph B5.1 and paragraph AG76 of IAS 39.

D20 Paragraphs 5.2.1, 5.3.2, 8.2.5 and 8.2.11 are amended as follows:

5.2.1 After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1–4.5 at fair value or amortised cost.

5.3.2 If, in accordance with paragraph 4.9, an entity reclassifies a financial asset so that it is measured at fair value, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss.

8.2.5 If an entity measures a hybrid contract at fair value in accordance with paragraph 4.4 or paragraph 4.5 but the fair value of the hybrid contract had not been measured in comparative reporting periods, the fair value of the hybrid contract in the comparative reporting periods shall be the sum of the fair values of the components (ie the non-derivative host and the embedded derivative) at the end of each comparative reporting period.

8.2.11 If an entity previously accounted for an investment in an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) (or a derivative that is linked to and must be settled by delivery of such an equity instrument) at cost in accordance with IAS 39, it shall measure that instrument at fair value at the date of initial application. ...

D21 Paragraph 8.1.3 is added as follows:

8.1.3 IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraphs 5.1.1, 5.2.1, 5.3.2, 8.2.5, 8.2.11, B5.1, B5.4, B5.5, B5.7, C8, C20, C22, C27 and C28 and added paragraph 5.1.1A. An entity shall apply those amendments when it applies IFRS 13.

D22 In Appendix A the introductory text is amended as follows:

The following terms are defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation*, paragraph 9 of IAS 39 or Appendix A of IFRS 13 and are used in this IFRS with the meanings specified in IAS 32, IAS 39 or IFRS 13: ...

D23 In Appendix B paragraph B5.1, the heading above paragraph B5.5 and paragraphs B5.5 and B5.7 are amended as follows:

B5.1 The fair value of a financial asset at initial recognition is normally the transaction price (ie the fair value of the consideration given, see also IFRS 13 and paragraph AG76 of IAS 39). However, if part of the consideration given is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.

Investments in equity instruments (and contracts on those investments)

B5.5 ... That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

B5.7 ... In such cases, the entity must measure fair value.

D24 In Appendix C, in paragraph C8 the amendments to paragraph 29 of IFRS 7 *Financial Instruments: Disclosures* are amended as follows:

29 Disclosures of fair value are not required:

...

(b) for derivatives linked to investments in equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input) that are measured at cost in accordance with IAS 39 because their fair value cannot otherwise be measured reliably;
or

...

D25 In paragraph C20 the amendments to paragraph 1 of IAS 28 *Investments in Associates* are amended as follows:

1 **This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:**

(a) **venture capital organisations, or**

(b) **mutual funds, unit trusts and similar entities including investment-linked insurance funds**

that are measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*. An entity holding such an investment shall make the disclosures required by paragraph 37(f).

D26 In paragraph C22 the amendments to paragraph 1 of IAS 31 *Interests in Joint Ventures* are amended as follows:

1 **This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

(a) **venture capital organisations, or**

(b) **mutual funds, unit trusts and similar entities including investment-linked insurance funds**

that are measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*. A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.

D27 In paragraph C27 the amendments to paragraphs 9, 13 and 88 of IAS 39 *Financial Instruments: Recognition and Measurement* are amended as follows:

9 ...

It should be noted that IFRS 13 *Fair Value Measurement* sets out the requirements for measuring the fair value of a financial liability, whether by designation or otherwise, or whose fair value is disclosed.

...

13 If an entity is unable to measure reliably the fair value of an embedded derivative on the basis of its terms and conditions, the fair value of the embedded derivative is the difference between the fair value of the hybrid (combined) contract and the fair value of the host. If the entity is unable to measure the fair value of the embedded derivative using this method, paragraph 12 applies and the hybrid (combined) contract is designated as at fair value through profit or loss.

88 **A hedging relationship qualifies for hedge accounting under paragraphs 89–102 if, and only if, all of the following conditions are met.**

...

(d) The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.

...

D28 In paragraph C28 the amendments to paragraphs AG64, AG80, AG81 and AG96 of IAS 39 are amended as follows:

AG64 The fair value of a financial liability on initial recognition is normally the transaction price (ie the fair value of the consideration received, see also paragraph AG76 and IFRS 13). However, if part of the consideration given or received is for something other than the financial liability, an entity shall measure the fair value of the financial liability.

AG80 The fair value of derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input) (see paragraph 47(a)) is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value.

AG81 There are many situations in which the variability in the range of reasonable fair value measurements of derivatives that are linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input) (see paragraph 47(a)) is likely not to be significant. Normally it is possible to measure the fair value of such derivatives that an entity has acquired from an outside party. However, if the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the instrument at fair value.

- AG96 A derivative that is linked to and must be settled by delivery of equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input) and is not carried at fair value because its fair value cannot otherwise be reliably measured (see paragraph 47(a)) cannot be designated as a hedging instrument.

IFRS 9 *Financial Instruments* (issued October 2010)

D29 [Not applicable to requirements]

D30 Paragraphs 3.2.14, 4.3.7 and 5.1.1 are amended as follows:

- 3.2.14 When an entity allocates the previous carrying amount of a larger financial asset between the part that continues to be recognised and the part that is derecognised, the fair value of the part that continues to be recognised needs to be measured. When the entity has a history of selling parts similar to the part that continues to be recognised or other market transactions exist for such parts, recent prices of actual transactions provide the best estimate of its fair value. ...
- 4.3.7 If an entity is unable to measure reliably the fair value of an embedded derivative on the basis of its terms and conditions, the fair value of the embedded derivative is the difference between the fair value of the hybrid contract and the fair value of the host. If the entity is unable to measure the fair value of the embedded derivative using this method, paragraph 4.3.6 applies and the hybrid contract is designated as at fair value through profit or loss.
- 5.1.1 **At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.**

D31 Paragraph 5.1.1A is added as follows:

- 5.1.1A **However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph B5.1.2A.**

D32 Paragraph 5.2.1 is amended as follows:

- 5.2.1 **After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1–4.1.5 at fair value or amortised cost (see paragraphs 9 and AG5–AG8 of IAS 39).**

D33 The heading above paragraph 5.4.1 and paragraphs 5.4.1–5.4.3 are deleted.

D34 Paragraphs 5.6.2, 7.2.5, 7.2.11 and 7.2.12 are amended as follows:

- 5.6.2 **If, in accordance with paragraph 4.4.1, an entity reclassifies a financial asset so that it is measured at fair value, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss.**
- 7.2.5 If an entity measures a hybrid contract at fair value in accordance with paragraph 4.1.4 or paragraph 4.1.5 but the fair value of the hybrid contract had not been measured in comparative reporting periods, the fair value of the hybrid contract in the comparative reporting periods shall be the sum of the fair values of the components (ie the non-derivative host and the embedded derivative) at the end of each comparative reporting period.
- 7.2.11 If an entity previously accounted for an investment in an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) (or a derivative asset that is linked to and must be settled by delivery of such an equity instrument) at cost in accordance with IAS 39, it shall measure that instrument at fair value at the date of initial application. ...

- 7.2.12 If an entity previously accounted for a derivative liability that is linked to and must be settled by delivery of an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) at cost in accordance with IAS 39, it shall measure that derivative liability at fair value at the date of initial application. ...

D35 Paragraph 7.1.3 is added as follows:

- 7.1.3 IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraphs 3.2.14, 4.3.7, 5.1.1, 5.2.1, 5.4.1, 5.6.2, 7.2.5, 7.2.11, 7.2.12, amended the definition of fair value in Appendix A, amended paragraphs B3.2.11, B3.2.17, B5.1.1, B5.2.2, B5.4.8, B5.4.14, B5.4.16, B5.7.20, C3, C11, C26, C28, C30, C49 and C53, deleted paragraphs 5.4.2, B5.4.1–B5.4.13 and added paragraphs 5.1.1A, B5.1.2A and B5.2.2A. An entity shall apply those amendments when it applies IFRS 13.

D36 In Appendix B paragraphs B3.2.11, B3.2.17, B5.1.1 and B5.2.2 are amended as follows:

- B3.2.11 When measuring the fair values of the part that continues to be recognised and the part that is derecognised for the purposes of applying paragraph 3.2.13, an entity applies the fair value measurement requirements in IFRS 13 in addition to paragraph 3.2.14.

- B3.2.17 This paragraph illustrates the application of the continuing involvement approach when the entity's continuing involvement is in a part of a financial asset.

Assume an entity has a portfolio of prepayable loans ... The fair value of the loans at the date of the transaction is CU10,100 and the fair value of the excess spread of 0.5 per cent is CU40.

...

The entity calculates the gain or loss on the sale of the 90 per cent share of cash flows. Assuming that separate fair values of the 90 per cent part transferred and the 10 per cent part retained are not available at the date of the transfer, the entity allocates the carrying amount of the asset in accordance with paragraph 3.2.14 as follows:

	<i>Fair value</i>	<i>Percentage</i>	<i>Allocated carrying amount</i>
Portion transferred	9,090	90 %	9,000
Portion retained	1,010	10 %	1,000
Total	10,100		10,000

...

- B5.1.1 The fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also paragraph B5.1.2A and IFRS 13). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.

D37 Paragraphs B5.1.2A and B5.2.2A are added as follows:

- B5.1.2A The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also IFRS 13). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 5.1.1A, the entity shall account for that instrument at that date as follows:

- (a) at the measurement required by paragraph 5.1.1 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- (b) in all other cases, at the measurement required by paragraph 5.1.1, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

B5.2.2A The subsequent measurement of a financial asset or financial liability and the subsequent recognition of gains and losses described in paragraph B5.1.2A shall be consistent with the requirements of this IFRS.

D38 Paragraphs B5.4.1–B5.4.13 and their related headings are deleted.

D39 The heading above paragraph B5.4.14 and paragraphs B5.4.14, B5.4.16 and B5.7.20 are amended as follows:

Investments in equity instruments ~~(and contracts on those investments)~~

B5.4.14 ... That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

B5.4.16 ... To the extent that any such relevant factors exist, they may indicate that cost might not be representative of fair value. In such cases, the entity must measure fair value.

B5.7.20 As with all fair value measurements, an entity's measurement method for determining the portion of the change in the liability's fair value that is attributable to changes in its credit risk must make maximum use of relevant observable inputs and minimum use of unobservable inputs.

D40 In Appendix C, in paragraph C3 the amendments to paragraphs D15 and D20 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* are amended as follows:

D15 If a first-time adopter measures such an investment at cost in accordance with IAS 27, it shall measure that investment at one of the following amounts in its separate opening IFRS statement of financial position:

...

(b) deemed cost. The deemed cost of such an investment shall be its:

(i) fair value at the entity's date of transition to IFRSs in its separate financial statements; or

...

D20 Despite the requirements of paragraphs 7 and 9, an entity may apply the requirements in paragraph B5.1.2A(b) of IFRS 9, in either of the following ways:

...

D41 In paragraph C11 the amendments to paragraph 28 of IFRS 7 *Financial Instruments: Disclosures* are amended as follows:

28 In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph B5.1.2A of IFRS 9). In such cases, the entity shall disclose by class of financial asset or financial liability:

- (a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9).

...

- (c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

D42 In paragraph C26 the amendments to paragraph 1 of IAS 28 *Investments in Associates* are amended as follows:

- 1 **This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:**

(a) **venture capital organisations, or**

(b) **mutual funds, unit trusts and similar entities including investment-linked insurance funds**

that are measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. An entity holding such an investment shall make the disclosures required by paragraph 37(f).

D43 In paragraph C28 the amendments to paragraph 1 of IAS 31 *Interests in Joint Ventures* are amended as follows:

- 1 **This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

(a) **venture capital organisations, or**

(b) **mutual funds, unit trusts and similar entities including investment-linked insurance funds**

that are measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.

D44 In paragraph C30 the amendments to paragraph 23 of IAS 32 *Financial Instruments: Presentation* are amended as follows:

- 23 ... One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. The financial liability is recognised initially at {the present value of the redemption amount}, and is reclassified from equity. ...

D45 In paragraph C49 the amendments to paragraph A8 of IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* are amended as follows:

- A8 Members' shares in excess of the prohibition against redemption are financial liabilities. The co-operative entity measures this financial liability at fair value at initial recognition. Because these shares are redeemable on demand, the co-operative entity measures the fair value of such financial liabilities in accordance with paragraph 47 of IFRS 13, which states: 'The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand ...' Accordingly, the co-operative entity classifies as financial liabilities the maximum amount payable on demand under the redemption provisions.

D46 In paragraph C53 the amendments to paragraph 7 of IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* are amended as follows:

- 7 If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (eg a demand deposit), paragraph 47 of IFRS 13 is not applied.

IAS 1 *Presentation of Financial Statements*

D47 Paragraphs 128 and 133 are amended as follows:

- 128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.
- 133 Other IFRSs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, IAS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IFRS 13 *Fair Value Measurement* requires disclosure of significant assumptions (including the valuation technique(s) and inputs) the entity uses when measuring the fair values of assets and liabilities that are carried at fair value.

D48 Paragraph 139I is added as follows:

- 139I IFRS 13, issued in May 2011, amended paragraphs 128 and 133. An entity shall apply those amendments when it applies IFRS 13.

IAS 2 *Inventories*

D49 Paragraph 7 is amended as follows:

- 7 Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

D50 Paragraph 40C is added as follows:

- 40C IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 6 and amended paragraph 7. An entity shall apply those amendments when it applies IFRS 13.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

D51 Paragraph 52 is amended as follows:

- 52 Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that
- (a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and
 - (b) would have been available when the financial statements for that prior period were authorised for issue

from other information. For some types of estimates (eg a fair value measurement that uses significant unobservable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

D52 Paragraph 54C is added as follows:

54C IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraph 52. An entity shall apply that amendment when it applies IFRS 13.

IAS 10 *Events after the Reporting Period*

D53 Paragraph 11 is amended as follows:

11 An example of a non-adjusting event after the reporting period is a decline in fair value of investments between the end of the reporting period and the date when the financial statements are authorised for issue. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. ...

D54 Paragraph 23A is added as follows:

23A IFRS 13, issued in May 2011, amended paragraph 11. An entity shall apply that amendment when it applies IFRS 13.

IAS 16 *Property, Plant and Equipment*

D55 Paragraph 26 is amended as follows:

26 The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

D56 Paragraphs 32 and 33 are deleted.

D57 Paragraphs 35 and 77 are amended as follows:

35 When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

(a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

This method is often used when an asset is revalued by means of applying an index to determine its replacement cost (see IFRS 13).

...

77 **If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed in addition to the disclosures required by IFRS 13:**

...

(c) [deleted]

(d) [deleted]

...

D58 Paragraph 81F is added as follows:

- 81F IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 6, amended paragraphs 26, 35 and 77 and deleted paragraphs 32 and 33. An entity shall apply those amendments when it applies IFRS 13.

IAS 17 *Leases*

D59 Paragraph 6A is added as follows:

- 6A IAS 17 uses the term 'fair value' in a way that differs in some respects from the definition of fair value in IFRS 13 *Fair Value Measurement*. Therefore, when applying IAS 17 an entity measures fair value in accordance with IAS 17, not IFRS 13.

IAS 18 *Revenue*

D60 Paragraph 42 is added as follows:

- 42 IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 7. An entity shall apply that amendment when it applies IFRS 13.

IAS 19 *Employee Benefits*

D61 [Not applicable to requirements]

D62 Paragraphs 50 and 102 are amended as follows:

- 50 Accounting by an entity for defined benefit plans involves the following steps:

...

- (c) measuring the fair value of any plan assets (see paragraphs 102–104);

...

- 102 The fair value of any plan assets is deducted in determining the amount recognised in the statement of financial position in accordance with paragraph 54.

D63 Paragraph 162 is added as follows:

- 162 IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 7 and amended paragraphs 50 and 102. An entity shall apply those amendments when it applies IFRS 13.

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

D64 Paragraph 45 is added as follows:

- 45 IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 3. An entity shall apply that amendment when it applies IFRS 13.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

D65 Paragraph 23 is amended as follows:

- 23 **At the end of each reporting period:**

...

- (c) **non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was measured.**

D66 Paragraph 60G is added as follows:

- 60G IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 8 and amended paragraph 23. An entity shall apply those amendments when it applies IFRS 13.

IAS 28 *Investments in Associates* (as amended at October 2009)

D67 Paragraphs 1 and 37 are amended as follows:

- 1 **This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:**

- (a) **venture capital organisations, or**
- (b) **mutual funds, unit trusts and similar entities including investment-linked insurance funds**

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. For such investments, an entity shall recognise changes in fair value in profit or loss in the period of the change. An entity holding such an investment shall make the disclosures required by paragraph 37(f).

- 37 **The following disclosures shall be made:**

- (a) **the fair value of investments in associates for which there are quoted market prices;**

...

D68 Paragraph 41G is added as follows:

- 41G IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraphs 1 and 37. An entity shall apply those amendments when it applies IFRS 13.

IAS 31 *Interests in Joint Ventures* (as amended at October 2009)

D69 Paragraph 1 is amended as follows:

- 1 **This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

- (a) **venture capital organisations, or**
- (b) **mutual funds, unit trusts and similar entities including investment-linked insurance funds**

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. For such investments, an entity shall recognise changes in fair value in profit or loss in the period of the change. A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.

D70 Paragraph 58F is added as follows:

- 58F IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraph 1. An entity shall apply that amendment when it applies IFRS 13.

IAS 32 *Financial Instruments: Presentation* (as amended at September 2010)

D71 Paragraph 23 is amended as follows:

- 23 ... The financial liability is recognised initially ~~(at the present value of the redemption amount)~~, and is reclassified from equity. ...

D72 Paragraph 97J is added as follows:

- 97J IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 11 and amended paragraphs 23 and AG31. An entity shall apply those amendments when it applies IFRS 13.

D73 In the Application Guidance paragraph AG31 is amended as follows:

- AG31 A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 28 requires the issuer of such a financial instrument to present the liability component and the equity component separately in the statement of financial position, as follows:

...

- (b) The equity instrument is an embedded option to convert the liability into equity of the issuer. This option has value on initial recognition even when it is out of the money.

IAS 33 *Earnings per Share*

D74 Paragraphs 8 and 47A are amended as follows:

- 8 Terms defined in IAS 32 *Financial Instruments: Presentation* are used in this Standard with the meanings specified in paragraph 11 of IAS 32, unless otherwise noted. IAS 32 defines financial instrument, financial asset, financial liability and equity instrument, and provides guidance on applying those definitions. IFRS 13 *Fair Value Measurement* defines fair value and sets out requirements for applying that definition.

- 47A For share options and other share-based payment arrangements to which IFRS 2 *Share-based Payment* applies, the issue price referred to in paragraph 46 and the exercise price referred to in paragraph 47 shall include the fair value (measured in accordance with IFRS 2) of any goods or services to be supplied to the entity in the future under the share option or other share-based payment arrangement.

D75 Paragraph 74C is added as follows:

- 74C IFRS 13, issued in May 2011, amended paragraphs 8, 47A and A2. An entity shall apply those amendments when it applies IFRS 13.

D76 In Appendix A paragraph A2 is amended as follows:

- A2 The issue of ordinary shares at the time of exercise or conversion of potential ordinary shares does not usually give rise to a bonus element. This is because the potential ordinary shares are usually issued for fair value, resulting in a proportionate change in the resources available to the entity. In a rights issue, however, the exercise price is often less than the fair value of the shares. ... The theoretical ex-rights fair value per share is calculated by adding the aggregate fair value of the shares immediately before the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. Where the rights are to be publicly traded separately from the shares before the exercise date, fair value is measured at the close of the last day on which the shares are traded together with the rights.

IAS 34 Interim Financial Reporting (as amended at May 2010)

D77 [Not applicable to requirements]

D78 Paragraph 16A(j) is added as follows:

- 16A **In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.**

...

- (j) **for financial instruments, the disclosures about fair value required by paragraphs 91–93(h), 94–96, 98 and 99 of IFRS 13 *Fair Value Measurement* and paragraphs 25, 26 and 28–30 of IFRS 7 *Financial Instruments: Disclosures*.**

D79 Paragraph 50 is added as follows:

- 50 IFRS 13, issued in May 2011, added paragraph 16A(j). An entity shall apply that amendment when it applies IFRS 13.

IAS 36 Impairment of Assets

D80 Paragraph 5 is amended as follows:

- 5 This Standard does not apply to financial assets within the scope of IAS 39, investment property measured at fair value within the scope of IAS 40, or biological assets related to agricultural activity measured at fair value less costs to sell within the scope of IAS 41. However, this Standard applies to assets that are carried at revalued amount (ie fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other IFRSs, such as the revaluation models in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The only difference between an asset's fair value and its fair value less costs of disposal is the direct incremental costs attributable to the disposal of the asset.

- (a) (i) If the disposal costs are negligible, the recoverable amount of the revalued asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued asset is impaired and recoverable amount need not be estimated.

(ii) [deleted]

(b) [deleted]

- (c) If the disposal costs are not negligible, the fair value less costs of disposal of the revalued asset is necessarily less than its fair value. Therefore, the revalued asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the asset may be impaired.

D81 Paragraph 6 is amended as follows (as a consequence of the amendment to the definition of fair value less costs to sell, all references to 'fair value less costs to sell' in IAS 36 are replaced with 'fair value less costs of disposal'):

- 6 **The following terms are used in this Standard with the meanings specified:**

[deleted]

(a) ~~[deleted]~~

(b) ~~[deleted]~~

(c) ~~[deleted]~~

***Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 *Fair Value Measurement*.)**

D82 Paragraphs 12, 20 and 22 are amended as follows:

- 12 **In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **there are observable indications that the asset's ~~market~~ value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.**

...

- 20 It may be possible to measure fair value less costs of disposal, even if there is not a quoted price in an active market for an identical asset. However, sometimes it will not be possible to measure fair value less costs of disposal because there is no basis for making a reliable estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. In this case, the entity may use the asset's value in use as its recoverable amount.

- 22 Recoverable amount is determined for an individual asset ... unless either:

...

- (b) the asset's value in use can be estimated to be close to its fair value less costs of disposal and fair value less costs of disposal can be measured.

D83 Paragraphs 25–27 are deleted.

D84 Paragraph 28 is amended as follows:

- 28 Costs of disposal, other than those that have been recognised as liabilities, are deducted in measuring fair value less costs of disposal. Examples ...

D85 Paragraph 53A is added as follows:

- 53A Fair value differs from value in use. Fair value reflects the assumptions market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to market participants:

- (a) additional value derived from the grouping of assets (such as the creation of a portfolio of investment properties in different locations);

- (b) synergies between the asset being measured and other assets;

- (c) legal rights or legal restrictions that are specific only to the current owner of the asset; and
- (d) tax benefits or tax burdens that are specific to the current owner of the asset.

D86 Paragraphs 78, 105, 111, 130 and 134 are amended as follows:

- 78 It may be necessary to consider some recognised liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs of disposal (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the price to sell the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.
- 105 **In allocating an impairment loss in accordance with paragraph 104, an entity shall not reduce the carrying amount of an asset below the highest of:**
- (a) **its fair value less costs of disposal (if measurable);**
 - ...
- 111 **In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**
- External sources of information
- (a) **there are observable indications that the asset's ~~market~~ value has increased significantly during the period.**
 - ...
- 130 **An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:**
- ...
 - (f) **if recoverable amount is fair value less costs of disposal, the basis used to measure fair value less costs of disposal (such as whether fair value was measured by reference to a quoted price in an active market for an identical asset). An entity is not required to provide the disclosures required by IFRS 13.**
- 134 **An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:**
- ...
 - (c) **the recoverable amount of the unit (or group of units) and the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs of disposal).**
 - (d) **if the unit's (group of units') recoverable amount is based on value in use:**
 - (i) **each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.**
 - ...

(e) if the unit's (group of units') recoverable amount is based on fair value less costs of disposal, the valuation technique(s) used to measure fair value less costs of disposal. An entity is not required to provide the disclosures required by IFRS 13. If fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units), an entity shall disclose the following information:

(i) each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

...

(iiA) the level of the fair value hierarchy (see IFRS 13) within which the fair value measurement is categorised in its entirety (without giving regard to the observability of 'costs of disposal').

(iiB) if there has been a change in valuation technique, the change and the reason(s) for making it.

If fair value less costs of disposal is measured using discounted cash flow projections, an entity shall disclose the following information:

(iii) the period over which management has projected cash flows.

(iv) the growth rate used to extrapolate cash flow projections.

(v) the discount rate(s) applied to the cash flow projections.

...

D87 Paragraph 140I is added as follows:

140I IFRS 13, issued in May 2011, amended paragraphs 5, 6, 12, 20, 78, 105, 111, 130 and 134, deleted paragraphs 25–27 and added paragraphs 25A and 53A. An entity shall apply those amendments when it applies IFRS 13.

IAS 38 *Intangible Assets*

D88 Paragraph 8 is amended as follows:

8 **The following terms are used in this Standard with the meanings specified:**

[deleted]

(a) [deleted]

(b) [deleted]

(c) [deleted]

...

***Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 *Fair Value Measurement*.)**

D89 Paragraph 33 is amended as follows:

33 In accordance with IFRS 3 *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the asset will flow to the entity. ...

D90 The heading above paragraph 35 is amended as follows:

Intangible asset acquired in a business combination

D91 Paragraphs 39–41 are deleted.

D92 Paragraphs 47, 50, 75, 78, 82, 84 and 100 are amended as follows:

47 Paragraph 21(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

50 Differences between the fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

75 **... For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. ...**

78 It is uncommon for an active market to exist for an intangible asset, although this may happen.
...

82 **If the fair value of a revalued intangible asset can no longer be measured by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.**

84 If the fair value of the asset can be measured by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

100 **The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:**

...

(b) **there is an active market (as defined in IFRS 13) for the asset and:**

...

D93 Paragraph 124 is amended as follows:

124 **If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:**

(a) **by class of intangible assets:**

...

(iii) **the carrying amount ... paragraph 74; and**

(b) **the amount of ... shareholders.**

(c) [deleted]

D94 Paragraph 130E is deleted.

D95 Paragraph 130G is added as follows:

130G IFRS 13, issued in May 2011, amended paragraphs 8, 33, 47, 50, 75, 78, 82, 84, 100 and 124 and deleted paragraphs 39–41 and 130E. An entity shall apply those amendments when it applies IFRS 13.

IAS 39 *Financial Instruments: Recognition and Measurement* (as amended at October 2009)

D96 [Not applicable to requirements]

D97 Paragraph 9 is amended as follows:

9 **The following terms are used in this Standard with the meanings specified:**

...

It should be noted that IFRS 13 *Fair Value Measurement* sets out the requirements for measuring the fair value of a financial asset or financial liability, whether by designation or otherwise, or whose fair value is disclosed.

...

***Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13.)**

...

The footnote to the definition of fair value is deleted.

D98 Paragraphs 13 and 28 are amended as follows:

13 If an entity is unable to measure reliably the fair value of an embedded derivative on the basis of its terms and conditions (for example, because the embedded derivative is based on an equity instrument that does not have a quoted price in an active market for an identical instrument, ie a Level 1 input), the fair value of the embedded derivative is the difference between the fair value of the hybrid (combined) instrument and the fair value of the host contract. If the entity is unable to measure the fair value of the embedded derivative using this method, paragraph 12 applies and the hybrid (combined) instrument is designated as at fair value through profit or loss.

28 When an entity allocates the previous carrying amount of a larger financial asset between the part that continues to be recognised and the part that is derecognised, the fair value of the part that continues to be recognised needs to be measured. ...

D99 Paragraph 43A is added.

43A **However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph AG76.**

D100 Paragraph 47 is amended as follows:

47 **After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:**

(a) **financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) whose fair value cannot otherwise be reliably measured, which shall be measured at cost.**

...

D101 Paragraphs 48–49 are deleted.

D102 Paragraph 88 is amended as follows:

88 **A hedging relationship qualifies for hedge accounting under paragraphs 89–102 if, and only if, all of the following conditions are met.**

...

(d) **The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.**

...

D103 Paragraph 103Q is added as follows:

103Q IFRS 13, issued in May 2011, amended paragraphs 9, 13, 28, 47, 88, AG46, AG52, AG64, AG76, AG76A, AG80, AG81 and AG96, added paragraph 43A and deleted paragraphs 48–49, AG69–AG75, AG77–AG79 and AG82. An entity shall apply those amendments when it applies IFRS 13.

D104 In Appendix A paragraphs AG46, AG52 and AG64 are amended as follows:

AG46 When measuring the fair values of the part that continues to be recognised and the part that is derecognised for the purposes of applying paragraph 27, an entity applies the fair value measurement requirements in IFRS 13 in addition to paragraph 28.

AG52 This paragraph illustrates the application of the continuing involvement approach when the entity's continuing involvement is in a part of a financial asset.

Assume an entity has a portfolio of prepayable loans ... The fair value of the loans at the date of the transaction is CU10,100 and the fair value of the excess spread of 0.5 per cent is CU40.

...

The entity calculates the gain or loss on the sale of the 90 per cent share of cash flows. Assuming that separate fair values of the 90 per cent part transferred and the 10 per cent part retained are not available at the date of the transfer, the entity allocates the carrying amount of the asset in accordance with paragraph 28 as follows:

	<i>Fair value</i>	<i>Percentage</i>	<i>Allocated carrying amount</i>
Portion transferred	9,090	90 %	9,000
Portion retained	1,010	10 %	1,000
Total	10,100		10,000

...

D105 Paragraph AG64 is amended as follows:

- AG64 The fair value of a financial instrument on initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also IFRS 13 and paragraph AG76). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.

D106 Paragraphs AG69–AG75 and their related headings are deleted.

D107 Paragraph AG76 is amended as follows:

- AG76 The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also IFRS 13). If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 43A, the entity shall account for that instrument at that date as follows:
- (a) at the measurement required by paragraph 43 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.
 - (b) in all other cases, at the measurement required by paragraph 43, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

D108 Paragraph AG76A is amended as follows:

- AG76A The subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains and losses shall be consistent with the requirements of this Standard.

D109 Paragraphs AG77–AG79 are deleted.

D110 Paragraphs AG80 and AG81 are amended as follows:

- AG80 The fair value of investments in equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input) and derivatives that are linked to and must be settled by delivery of such an equity instrument (see paragraphs 46(c) and 47) is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value.
- AG81 There are many situations in which the variability in the range of reasonable fair value measurements of investments in equity instruments that do not have a quoted price in an active market for an identical instrument (ie a Level 1 input) and derivatives that are linked to and must be settled by delivery of such an equity instrument (see paragraphs 46(c) and 47) is likely not to be significant. Normally it is possible to measure the fair value of a financial asset that an entity has acquired from an outside party. However, if the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the instrument at fair value.

D111 The heading above paragraph AG82 and paragraph AG82 are deleted.

D112 Paragraph AG96 is amended as follows:

AG96 An investment in an equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) is not carried at fair value because its fair value cannot otherwise be reliably measured or a derivative that is linked to and must be settled by delivery of such an equity instrument (see paragraphs 46(c) and 47) cannot be designated as a hedging instrument.

IAS 40 *Investment Property*

D113 [Not applicable to requirements]

D114 Paragraphs 26, 29 and 32 are amended as follows:

26 ... Guidance on measuring the fair value of a property interest is set out for the fair value model in paragraphs 33–52 and in IFRS 13. That guidance is also relevant to the measurement of fair value when that value is used as cost for initial recognition purposes.

29 The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If the entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

32 This Standard requires all entities to measure the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

D115 Paragraphs 36–39 are deleted.

D116 Paragraph 40 is amended as follows:

40 When measuring the fair value of investment property in accordance with IFRS 13, an entity shall ensure that the fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing the investment property under current market conditions.

D117 Paragraphs 42–47, 49, 51 and 75(d) are deleted.

D118 Paragraph 48 is amended as follows:

48 In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the variability in the range of reasonable fair value measurements will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single measure of fair value is negated. This may indicate that the fair value of the property will not be reliably measurable on a continuing basis (see paragraph 53).

D119 The heading above paragraph 53 and paragraphs 53 and 53B are amended as follows:

Inability to measure fair value reliably

53 **There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably measurable on a continuing basis. This arises when, and only when, the**

market for comparable properties is inactive (eg there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) and alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity shall measure that investment property using the cost model in IAS 16. The residual value of the investment property shall be assumed to be zero. The entity shall apply IAS 16 until disposal of the investment property.

- 53B ... An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be measured reliably.

D120 Paragraph 75(d) is deleted.

D121 Paragraphs 78–80 are amended as follows:

- 78 In the exceptional cases referred to in paragraph 53, when an entity measures investment property using the cost model in IAS 16, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

...

- (b) an explanation of why fair value cannot be measured reliably;

...

- 79 In addition to the disclosures required by paragraph 75, an entity that applies the cost model in paragraph 56 shall disclose:

...

- (e) the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot measure the fair value of the investment property reliably, it shall disclose:

...

- (ii) an explanation of why fair value cannot be measured reliably; and

...

- 80 An entity that has previously applied IAS 40 (2000) and elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property shall recognise the effect of that election as an adjustment to the opening balance of retained earnings for the period in which the election is first made. In addition:

- (a) if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of those property interests in earlier periods (measured on a basis that satisfies the definition of fair value in IFRS 13), the entity is encouraged, but not required:

...

D122 Paragraph 85B is amended as follows:

- 85B ... An entity is permitted to apply the amendments to investment property under construction from any date before 1 January 2009 provided that the fair values of investment properties under construction were measured at those dates. ...

D123 Paragraph 85C is added as follows:

- 85C IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 5, amended paragraphs 26, 29, 32, 40, 48, 53, 53B, 78–80 and 85B and deleted paragraphs 36–39, 42–47, 49, 51 and 75(d). An entity shall apply those amendments when it applies IFRS 13.

IAS 41 *Agriculture*

D124-125 [Not applicable to requirements]

D126 Paragraphs 8, 15 and 16 are amended as follows:

- 8 **The following terms are used in this Standard with the meanings specified:**

[deleted]

(a) [deleted]

(b) [deleted]

(c) [deleted]

...

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 *Fair Value Measurement*.)

- 15 The fair value measurement of a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. ...
- 16 Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which market participant buyers and sellers would enter into a transaction. ...

D127 Paragraphs 9, 17–21 and 23 are deleted.

D128 Paragraphs 25 and 30 are amended as follows:

- 25 ... An entity may use information regarding the combined assets to measure the fair value of the biological assets. ...
- 30 **There is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market-prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. ...**

D129 Paragraphs 47 and 48 are deleted.

D130 Paragraph 61 is added as follows:

- 61 IFRS 13, issued in May 2011, amended paragraphs 8, 15, 16, 25 and 30 and deleted paragraphs 9, 17–21, 23, 47 and 48. An entity shall apply those amendments when it applies IFRS 13.

IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* (as amended at October 2009)

D131 [Not applicable to requirements]

D132 Below the heading 'References' a reference to IFRS 13 *Fair Value Measurement* is added.

D133 Paragraph 16 is added as follows:

- 16 IFRS 13, issued in May 2011, amended paragraph A8. An entity shall apply that amendment when it applies IFRS 13.

D134 In the Appendix paragraph A8 is amended as follows:

- A8 Members' shares in excess of the prohibition against redemption are financial liabilities. The co-operative entity measures this financial liability at fair value at initial recognition. Because these shares are redeemable on demand, the co-operative entity measures the fair value of such financial liabilities as required by paragraph 47 of IFRS 13, which states: 'The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand ...' Accordingly, the co-operative entity classifies as financial liabilities the maximum amount payable on demand under the redemption provisions.

IFRIC 4 *Determining whether an Arrangement contains a Lease*

D135 Below the heading 'References' a reference to IFRS 13 *Fair Value Measurement* is added.

D136 In paragraph 15(a) 'fair value' is footnoted as follows:

- * IAS 17 uses the term 'fair value' in a way that differs in some respects from the definition of fair value in IFRS 13. Therefore, when applying IAS 17 an entity measures fair value in accordance with IAS 17, not IFRS 13.

IFRIC 13 *Customer Loyalty Programmes*

D137 Below the heading 'References' a reference to IFRS 13 *Fair Value Measurement* is added.

D138 Paragraph 6 is amended as follows:

- 6 The consideration allocated to the award credits shall be measured by reference to their fair value.

D139 Paragraph 10B is added as follows:

- 10B IFRS 13, issued in May 2011, amended paragraphs 6 and AG1–AG3. An entity shall apply those amendments when it applies IFRS 13.

D140 In the Application Guidance paragraphs AG1–AG3 are amended as follows:

- AG1 Paragraph 6 of the consensus requires the consideration allocated to award credits to be measured by reference to their fair value. If there is not a quoted market price for an identical award credit, fair value must be measured using another valuation technique.

- AG2 An entity may measure the fair value of award credits by reference to the fair value of the awards for which they could be redeemed. The fair value of the award credits takes into account, as appropriate:

- (a) the amount of the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale;

(b) the proportion of award credits that are not expected to be redeemed by customers; and

(c) non-performance risk.

If customers can choose from a range of different awards, the fair value of the award credits reflects the fair values of the range of available awards, weighted in proportion to the frequency with which each award is expected to be selected.

AG3 In some circumstances, other valuation techniques may be used. For example, if a third party will supply the awards and the entity pays the third party for each award credit it grants, it could measure the fair value of the award credits by reference to the amount it pays the third party, adding a reasonable profit margin. Judgement is required to select and apply the valuation technique that satisfies the requirements of paragraph 6 of the consensus and is most appropriate in the circumstances.

IFRIC 17 *Distributions of Non-cash Assets to Owners*

D141 [Not applicable to requirements]

D142 Below the heading 'References' a reference to IFRS 13 *Fair Value Measurement* is added.

D143 Paragraph 17 is amended as follows:

17 If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:

...

(c) the fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method(s) used to measure that fair value required by paragraphs 93(b), (d), (g) and (i) and 99 of IFRS 13.

D144 Paragraph 20 is added as follows:

20 IFRS 13, issued in May 2011, amended paragraph 17. An entity shall apply that amendment when it applies IFRS 13.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (as amended at September 2010)

D145 [Not applicable to requirements]

D146 Below the heading 'References' a reference to IFRS 13 *Fair Value Measurement* is added.

D147 Paragraph 7 is amended as follows:

7 If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (eg a demand deposit), paragraph 47 of IFRS 13 is not applied.

D148 Paragraph 15 is added as follows:

15 IFRS 13, issued in May 2011, amended paragraph 7. An entity shall apply that amendment when it applies IFRS 13.

IFRIC INTERPRETATION 20***Stripping Costs in the Production Phase of a Surface Mine*****REFERENCES**

- *Conceptual Framework for Financial Reporting*
- *IAS 1 Presentation of Financial Statements*
- *IAS 2 Inventories*
- *IAS 16 Property, Plant and Equipment*
- *IAS 38 Intangible Assets*

BACKGROUND

- 1 In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.
- 2 During the development phase of the mine (before production begins), stripping costs are usually capitalised as part of the depreciable cost of building, developing and constructing the mine. Those capitalised costs are depreciated or amortised on a systematic basis, usually by using the units of production method, once production begins.
- 3 A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.
- 4 The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.
- 5 This Interpretation considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

SCOPE

- 6 This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').

ISSUES

- 7 This Interpretation addresses the following issues:
 - (a) recognition of production stripping costs as an asset;
 - (b) initial measurement of the stripping activity asset; and
 - (c) subsequent measurement of the stripping activity asset.

CONSENSUS**Recognition of production stripping costs as an asset**

- 8 To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of *IAS 2 Inventories*. To the extent the benefit is improved access to ore, the entity shall recognise these costs as a non-current asset, if the criteria in paragraph 9 below are met. This Interpretation refers to the non-current asset as the 'stripping activity asset'.

- 9 An entity shall recognise a stripping activity asset if, and only if, all of the following are met:
- (a) it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
 - (b) the entity can identify the component of the ore body for which access has been improved; and
 - (c) the costs relating to the stripping activity associated with that component can be measured reliably.
- 10 The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as *part* of an existing asset.
- 11 The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

Initial measurement of the stripping activity asset

- 12 The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset.
- 13 When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body, and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:
- (a) cost of inventory produced compared with expected cost;
 - (b) volume of waste extracted compared with expected volume, for a given volume of ore production; and
 - (c) mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

Subsequent measurement of the stripping activity asset

- 14 After initial recognition, the stripping activity asset shall be carried at either its cost or its revalued amount less depreciation or amortisation and less impairment losses, in the same way as the existing asset of which it is a part.
- 15 The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.
- 16 The expected useful life of the identified component of the ore body that is used to depreciate or amortise the stripping activity asset will differ from the expected useful life that is used to depreciate or amortise the mine itself and the related life-of-mine assets. The exception to this are those limited circumstances when the stripping activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

Appendix A

Effective date and transition

This appendix is an integral part of the Interpretation and has the same authority as the other parts of the Interpretation.

- A1 An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.

- A2 An entity shall apply this Interpretation to production stripping costs incurred on or after the beginning of the earliest period presented.
- A3 As at the beginning of the earliest period presented, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.
- A4 If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognised in opening retained earnings at the beginning of the earliest period presented.

Appendix B

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2013. If an entity applies this Interpretation for an earlier period these amendments shall be applied for that earlier period.

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

B1 In Appendix D, paragraph D1 is amended as follows:

D1 An entity may elect to use one or more of the following exemptions:

- (a) share-based payment transactions (paragraphs D2 and D3);
- ...
- (m) financial assets or intangible assets accounted for in accordance with IFRIC 12 *Service Concession Arrangements* (paragraph D22);
- (n) borrowing costs (paragraph D23);
- (o) transfers of assets from customers (paragraph D24);
- (p) extinguishing financial liabilities with equity instruments (paragraph D25);
- (q) severe hyperinflation (paragraphs D26–D30);
- (r) joint arrangements (paragraph D31) and
- (s) stripping costs in the production phase of a surface mine (paragraph D32).

B2 After paragraph D31 a heading and paragraph D32 are added:

Stripping costs in the production phase of a surface mine

D32 A first-time adopter may apply the transitional provisions set out in paragraphs A1 to A4 of IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. In that paragraph, reference to the effective date shall be interpreted as 1 January 2013 or the beginning of the first IFRS reporting period, whichever is later.

B3 After paragraph 39L paragraph 39M is added:

39M IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* added paragraph D32 and amended paragraph D1. An entity shall apply that amendment when it applies IFRIC 20.

COMMISSION REGULATION (EU) No 1256/2012

of 13 December 2012

amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 7 and International Accounting Standard 32

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ⁽¹⁾, and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1126/2008 ⁽²⁾ certain international standards and interpretations that were in existence at 15 October 2008 were adopted.

(2) On 16 December 2011, the International Accounting Standards Board (IASB) published amendments to International Financial Reporting Standard (IFRS) 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities and to International Accounting Standard (IAS) 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities. The amendment to IFRS 7 aims to require the provision of additional quantitative information in order to allow the users to better compare and reconcile the disclosures under IFRS and the Generally Accepted Accounting Principles (GAAP) of the United States. In addition, the IASB amended IAS 32 to provide additional guidance to reduce inconsistent application of the standard in practice.

(3) The amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets were adopted by Commission Regulation (EU) No 1205/2011 of 22 November 2011 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 7 ⁽³⁾ after being approved by the Accounting Regulatory Committee in June 2011.

However, the deletion of paragraph 13 of IFRS 7 was inadvertently omitted. This Regulation should remedy this omission. In order for this provision to be efficient, it should apply from 1 July 2011. The provision of retroactivity is necessary with the view to ensure legal certainty for the issuers concerned.

(4) The consultation with the Technical Expert Group (TEG) of the European Financial Reporting Advisory Group (EFRAG) confirms that the amendments to IFRS 7 and IAS 32 meet the technical criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(5) Regulation (EC) No 1126/2008 should therefore be amended accordingly.

(6) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

The Annex to Regulation (EC) No 1126/2008 is amended as follows:

(1) International Financial Reporting Standard (IFRS) 7 *Financial Instruments: Disclosures* is amended as set out in the Annex to this Regulation;

(2) International Accounting Standard (IAS) 32 *Financial Instruments: Presentation* is amended in accordance with the amendments to IFRS 7 as set out in the Annex to this Regulation;

(3) IAS 32 *Financial Instruments: Presentation* is amended as set out in the Annex to this Regulation;

(4) The heading before paragraph 13 and paragraph 13 of IFRS 7 are deleted in accordance with the amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* as adopted by Regulation (EU) No 1205/2011.

⁽¹⁾ OJ L 243, 11.9.2002, p. 1.

⁽²⁾ OJ L 320, 29.11.2008, p. 1.

⁽³⁾ OJ L 305, 23.11.2011, p. 16.

Article 2

1. Each company shall apply the amendments referred to in points (1) and (2) of Article 1 as from the commencement date of its first financial year starting on or after 1 January 2013.

2. Each company shall apply the amendments referred to in point (3) of Article 1, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

3. Each company shall apply the amendments referred to in point (4) of Article 1 as from the commencement date of its first financial year starting on or after 1 July 2011.

Article 3

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 13 December 2012.

For the Commission

The President

José Manuel BARROSO

ANNEX

INTERNATIONAL ACCOUNTING STANDARDS

IFRS 7	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
IAS 32	Amendments to IAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>

Amendments to IFRS 7 *Financial Instruments: Disclosures*

After paragraph 13, a heading and paragraphs 13A–13F are added.

Offsetting financial assets and financial liabilities

- 13A The disclosures in paragraphs 13B–13E supplement the other disclosure requirements of this IFRS and are required for all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. These disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.
- 13B An entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. This includes the effect or potential effect of rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities that are within the scope of paragraph 13A.
- 13C To meet the objective in paragraph 13B, an entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognised financial assets and recognised financial liabilities that are within the scope of paragraph 13A:
- (a) the gross amounts of those recognised financial assets and recognised financial liabilities;
 - (b) the amounts that are set off in accordance with the criteria in paragraph 42 of IAS 32 when determining the net amounts presented in the statement of financial position;
 - (c) the net amounts presented in the statement of financial position;
 - (d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b), including:
 - (i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of IAS 32; and
 - (ii) amounts related to financial collateral (including cash collateral); and
 - (e) the net amount after deducting the amounts in (d) from the amounts in (c) above.
- The information required by this paragraph shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.
- 13D The total amount disclosed in accordance with paragraph 13C(d) for an instrument shall be limited to the amount in paragraph 13C(e) for that instrument.
- 13E An entity shall include a description in the disclosures of the rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with paragraph 13C(d), including the nature of those rights.
- 13F If the information required by paragraphs 13B–13E is disclosed in more than one note to the financial statements, an entity shall cross-refer between those notes.

EFFECTIVE DATE AND TRANSITION

Paragraph 44R is added.

- 44R *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7), issued in December 2011, added paragraphs IN9, 13A–13F and B40–B53. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. An entity shall provide the disclosures required by those amendments retrospectively.

After paragraph B39, headings and paragraphs B40–B53 are added.

Offsetting financial assets and financial liabilities

(paragraphs 13A–13F)

Scope (paragraph 13A)

B40 The disclosures in paragraphs 13B–13E are required for all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. In addition, financial instruments are within the scope of the disclosure requirements in paragraphs 13B–13E if they are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with paragraph 42 of IAS 32.

B41 The similar agreements referred to in paragraphs 13A and B40 include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions referred to in paragraph B40 include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements. Examples of financial instruments that are not within the scope of paragraph 13A are loans and customer deposits at the same institution (unless they are set off in the statement of financial position), and financial instruments that are subject only to a collateral agreement.

Disclosure of quantitative information for recognised financial assets and recognised financial liabilities within the scope of paragraph 13A (paragraph 13C)

B42 Financial instruments disclosed in accordance with paragraph 13C may be subject to different measurement requirements (for example, a payable related to a repurchase agreement may be measured at amortised cost, while a derivative will be measured at fair value). An entity shall include instruments at their recognised amounts and describe any resulting measurement differences in the related disclosures.

Disclosure of the gross amounts of recognised financial assets and recognised financial liabilities within the scope of paragraph 13A (paragraph 13C(a))

B43 The amounts required by paragraph 13C(a) relate to recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amounts required by paragraph 13C(a) also relate to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement irrespective of whether they meet the offsetting criteria. However, the disclosures required by paragraph 13C(a) do not relate to any amounts recognised as a result of collateral agreements that do not meet the offsetting criteria in paragraph 42 of IAS 32. Instead, such amounts are required to be disclosed in accordance with paragraph 13C(d).

Disclosure of the amounts that are set off in accordance with the criteria in paragraph 42 of IAS 32 (paragraph 13C(b))

B44 Paragraph 13C(b) requires that entities disclose the amounts set off in accordance with paragraph 42 of IAS 32 when determining the net amounts presented in the statement of financial position. The amounts of both the recognised financial assets and the recognised financial liabilities that are subject to set-off under the same arrangement will be disclosed in both the financial asset and financial liability disclosures. However, the amounts disclosed (in, for example, a table) are limited to the amounts that are subject to set-off. For example, an entity may have a recognised derivative asset and a recognised derivative liability that meet the offsetting criteria in paragraph 42 of IAS 32. If the gross amount of the derivative asset is larger than the gross amount of the derivative liability, the financial asset disclosure table will include the entire amount of the derivative asset (in accordance with paragraph 13C(a)) and the entire amount of the derivative liability (in accordance with paragraph 13C(b)). However, while the financial liability disclosure table will include the entire amount of the derivative liability (in accordance with paragraph 13C(a)), it will only include the amount of the derivative asset (in accordance with paragraph 13C(b)) that is equal to the amount of the derivative liability.

Disclosure of the net amounts presented in the statement of financial position (paragraph 13C(c))

B45 If an entity has instruments that meet the scope of these disclosures (as specified in paragraph 13A), but that do not meet the offsetting criteria in paragraph 42 of IAS 32, the amounts required to be disclosed by paragraph 13C(c) would equal the amounts required to be disclosed by paragraph 13C(a).

B46 The amounts required to be disclosed by paragraph 13C(c) must be reconciled to the individual line item amounts presented in the statement of financial position. For example, if an entity determines that the

aggregation or disaggregation of individual financial statement line item amounts provides more relevant information, it must reconcile the aggregated or disaggregated amounts disclosed in paragraph 13C(c) back to the individual line item amounts presented in the statement of financial position.

Disclosure of the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b) (paragraph 13C(d))

B47 Paragraph 13C(d) requires that entities disclose amounts that are subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b). Paragraph 13C(d)(i) refers to amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of IAS 32 (for example, current rights of set-off that do not meet the criterion in paragraph 42(b) of IAS 32, or conditional rights of set-off that are enforceable and exercisable only in the event of default, or only in the event of insolvency or bankruptcy of any of the counterparties).

B48 Paragraph 13C(d)(ii) refers to amounts related to financial collateral, including cash collateral, both received and pledged. An entity shall disclose the fair value of those financial instruments that have been pledged or received as collateral. The amounts disclosed in accordance with paragraph 13C(d)(ii) should relate to the actual collateral received or pledged and not to any resulting payables or receivables recognised to return or receive back such collateral.

Limits on the amounts disclosed in paragraph 13C(d) (paragraph 13D)

B49 When disclosing amounts in accordance with paragraph 13C(d), an entity must take into account the effects of over-collateralisation by financial instrument. To do so, the entity must first deduct the amounts disclosed in accordance with paragraph 13C(d)(i) from the amount disclosed in accordance with paragraph 13C(c). The entity shall then limit the amounts disclosed in accordance with paragraph 13C(d)(ii) to the remaining amount in paragraph 13C(c) for the related financial instrument. However, if rights to collateral can be enforced across financial instruments, such rights can be included in the disclosure provided in accordance with paragraph 13D.

Description of the rights of set-off subject to enforceable master netting arrangements and similar agreements (paragraph 13E)

B50 An entity shall describe the types of rights of set-off and similar arrangements disclosed in accordance with paragraph 13C(d), including the nature of those rights. For example, an entity shall describe its conditional rights. For instruments subject to rights of set-off that are not contingent on a future event but that do not meet the remaining criteria in paragraph 42 of IAS 32, the entity shall describe the reason(s) why the criteria are not met. For any financial collateral received or pledged, the entity shall describe the terms of the collateral agreement (for example, when the collateral is restricted).

Disclosure by type of financial instrument or by counterparty

B51 The quantitative disclosures required by paragraph 13C(a)–(e) may be grouped by type of financial instrument or transaction (for example, derivatives, repurchase and reverse repurchase agreements or securities borrowing and securities lending agreements).

B52 Alternatively, an entity may group the quantitative disclosures required by paragraph 13C(a)–(c) by type of financial instrument, and the quantitative disclosures required by paragraph 13C(c)–(e) by counterparty. If an entity provides the required information by counterparty, the entity is not required to identify the counterparties by name. However, designation of counterparties (Counterparty A, Counterparty B, Counterparty C, etc) shall remain consistent from year to year for the years presented to maintain comparability. Qualitative disclosures shall be considered so that further information can be given about the types of counterparties. When disclosure of the amounts in paragraph 13C(c)–(e) is provided by counterparty, amounts that are individually significant in terms of total counterparty amounts shall be separately disclosed and the remaining individually insignificant counterparty amounts shall be aggregated into one line item.

Other

B53 The specific disclosures required by paragraphs 13C–13E are minimum requirements. To meet the objective in paragraph 13B an entity may need to supplement them with additional (qualitative) disclosures, depending on the terms of the enforceable master netting arrangements and related agreements, including the nature of the rights of set-off, and their effect or potential effect on the entity's financial position.

Appendix

Amendment to IAS 32 *Financial Instruments: Presentation*

Paragraph 43 is amended.

- 43 This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. An entity shall disclose the information required in paragraphs 13B–13E of IFRS 7 for recognised financial instruments that are within the scope of paragraph 13A of IFRS 7.

Offsetting Financial Assets and Financial Liabilities**Amendments to IAS 32 *Financial Instruments: Presentation*****EFFECTIVE DATE AND TRANSITION**

Paragraph 97L is added.

- 97L *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32), issued in December 2011, deleted paragraph AG38 and added paragraphs AG38A–AG38F. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. An entity shall apply those amendments retrospectively. Earlier application is permitted. If an entity applies those amendments from an earlier date, it shall disclose that fact and shall also make the disclosures required by *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) issued in December 2011.

Application Guidance

Immediately after the heading 'Offsetting a financial asset and a financial liability (paragraphs 42–50)', paragraph AG38 is deleted. Headings and paragraphs AG38A–AG38F are added.

Criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts' (paragraph 42(a))

- AG38A A right of set-off may be currently available or it may be contingent on a future event (for example, the right may be triggered or exercisable only on the occurrence of some future event, such as the default, insolvency or bankruptcy of one of the counterparties). Even if the right of set-off is not contingent on a future event, it may only be legally enforceable in the normal course of business, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.

- AG38B To meet the criterion in paragraph 42(a), an entity must currently have a legally enforceable right of set-off. This means that the right of set-off:

- (a) must not be contingent on a future event; and
- (b) must be legally enforceable in all of the following circumstances:
 - (i) the normal course of business;
 - (ii) the event of default; and
 - (iii) the event of insolvency or bankruptcy
 of the entity and all of the counterparties.

- AG38C The nature and extent of the right of set-off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary from one legal jurisdiction to another. Consequently, it cannot be assumed that the right of set-off is automatically available outside of the normal course of business. For example, the bankruptcy or insolvency laws of a jurisdiction may prohibit, or restrict, the right of set-off in the event of bankruptcy or insolvency in some circumstances.

AG38D The laws applicable to the relationships between the parties (for example, contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off is enforceable in the normal course of business, in an event of default, and in the event of insolvency or bankruptcy, of the entity and all of the counterparties (as specified in paragraph AG38B(b)).

Criterion that an entity ‘intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously’ (paragraph 42(b))

AG38E To meet the criterion in paragraph 42(b) an entity must intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. Although the entity may have a right to settle net, it may still realise the asset and settle the liability separately.

AG38F If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion in paragraph 42(b). This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. For example, a gross settlement system that has all of the following characteristics would meet the net settlement criterion in paragraph 42(b):

- (a) financial assets and financial liabilities eligible for set-off are submitted at the same point in time for processing;
 - (b) once the financial assets and financial liabilities are submitted for processing, the parties are committed to fulfil the settlement obligation;
 - (c) there is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing (unless the processing fails—see (d) below);
 - (d) assets and liabilities that are collateralised with securities will be settled on a securities transfer or similar system (for example, delivery versus payment), so that if the transfer of securities fails, the processing of the related receivable or payable for which the securities are collateral will also fail (and vice versa);
 - (e) any transactions that fail, as outlined in (d), will be re-entered for processing until they are settled;
 - (f) settlement is carried out through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository); and
 - (g) an intraday credit facility is in place that will provide sufficient overdraft amounts to enable the processing of payments at the settlement date for each of the parties, and it is virtually certain that the intraday credit facility will be honoured if called upon.
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