ASSURANCE AND ACCOUNTING

ASPE - IFRS: A Comparison

Subsidiaries and Consolidations

In this publication we will examine the key differences between Accounting Standards for Private Enterprises (ASPE) and International Financial Reporting Standards (IFRS) related to accounting for subsidiaries and application of the consolidation principles with a focus on:

- Scope;
- The control model;
- Reporting;
- Non-controlling interests; and
- Disclosure.

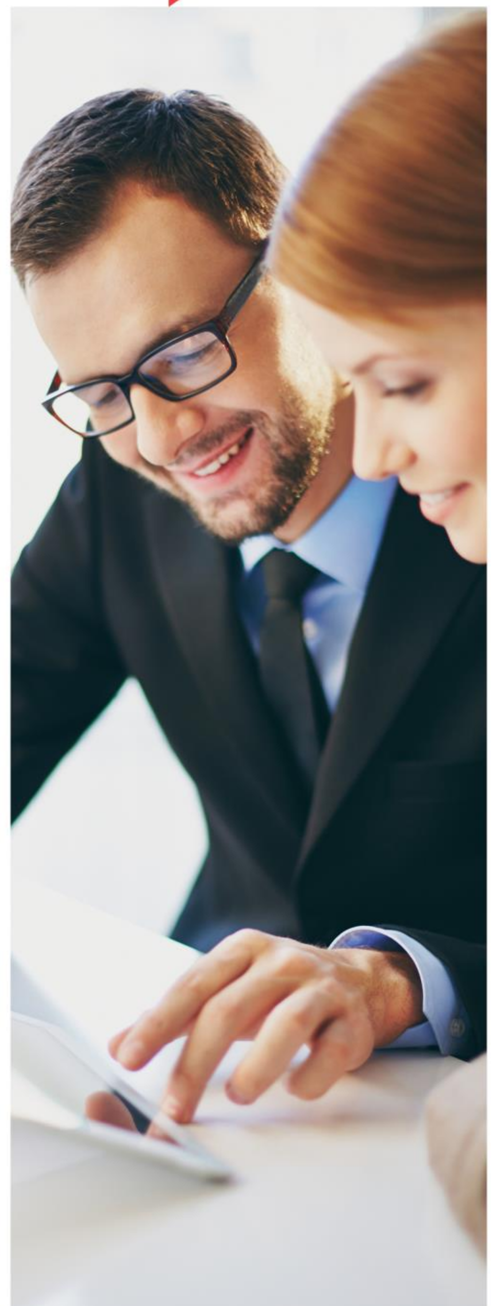
References

ASPE	IFRS
• Section 1591 – *Subsidiaries* • Section 1601 – *Consolidated Financial Statements* • Section 1602 – *Non-controlling Interests*	• IFRS 10 – *Consolidated Financial Statements* • IFRS 12 – *Disclosure of Interests in Other Entities*

Overview of Major Differences

While IFRS and ASPE are similar in some areas in the treatment of subsidiaries and the application of consolidation principles, there are some major differences such as:

- Section 1591 has more scope exemptions than IFRS 10.
- The definition of control under ASPE and IFRS is different and IFRS provides significantly more guidance on the factors to consider in determining control.
- Under ASPE, a parent company has an accounting policy choice in how to account for its subsidiaries, while under IFRS a parent company must prepare consolidated financial statements except in limited circumstances.
- The disclosure requirements of IFRS are significantly more extensive than those in ASPE.



Scope

In ASPE, Section 1591 provides guidance on determining whether one entity controls another entity, while Section 1601 provides guidance on applying the principles of consolidation and Section 1602 provides guidance on accounting for non-controlling interests when a parent does not own 100% of a subsidiary. Under IFRS, all of this guidance is contained in one standard, IFRS 10. The scope of these standards is similar, however, ASPE includes more scope exemptions than IFRS.

ASPE	IFRS
The scope of Section 1591 provides an exemption for investment companies that meet the definition in AcG-18, *Investment Companies*. Under ASPE, an investment company measures all of its investments at fair value and present them on this basis in its financial statements with limited exceptions. As such, a parent of an investment company, also accounts for the investment company's investments at fair value as long as certain criteria set out in AcG-18 are met.	Under IFRS 10, a parent company that that meets the definition of an investment entity in IFRS 10 does not consolidate subsidiaries measured at fair value through profit or loss. However, a parent company of an investment entity consolidates all entities it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.
Section 1591 does not deal with accounting for an entity's interest in a qualifying special-purpose entity (QSPE), which is a trust or other legal vehicle that meets certain conditions. Nor does it deal with accounting for a QSPE by a transferor of financial assets or its affiliates. Instead, a transferor reports its rights and obligations related to the QSPE in accordance with Appendix B of Section 3856, *Financial Instruments*.	IFRS 10 does not contain the concept of QSPE's.
Section 1591 also scopes out accounting for contractual arrangements between enterprises under common control. Instead, in its consolidated or non-consolidated financial statements, each such entity reports its rights and obligations related to another entity under common control in accordance with the applicable Section of ASPE.	No such scope exemption is included in IFRS 10.

Control Model

Both Section 1591 and IFRS 10 are based on a control model for consolidation. However, there are differences in the definition of control between ASPE and IFRS. Additionally, Appendix B to IFRS 10 provides significantly more guidance on the factors to consider in determining control than Section 1591 does.

ASPE	IFRS
Under ASPE, control of an entity is defined as the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.	Under IFRS, 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. There are three essential elements of control included in the above definition and an investor must assess whether it has <u>all</u> of them when determining control: • Power over an investee; • Exposure, or rights, to variable returns from involvement with the investee; and

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The ability to use power over the investee to affect the amount of the investor’s return.
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One entity is presumed to control another entity when it owns, directly or indirectly, an equity interest that carries the right to elect the majority of the members of the other entity’s board of directors, and is presumed not to control the other entity without such ownership.
When assessing control, potential voting rights and the ability to control instead of the actual exercise of control are considered. An entity also takes into account its ability to maintain control by exercising rights, options or warrants or converting securities and the ability of others to dilute its voting interest through such exercises or conversions. Exercises and conversions are only taken into account when the economic cost is not so high as to make them unlikely for the foreseeable future.
Though control is typically acquired through an equity interest, it may also be acquired by other means such as contractual arrangements or a combination thereof. In these circumstances, control may exist through contractual arrangements that confer on the entity the right and ability to affect both the future benefits of and risks from the other entity.
In evaluating whether contractual rights are sufficient to give one entity control over another, the entity considers:

The degree of involvement in decisions made at inception in determining the purpose and design of the other entity;
How decisions are made about strategic policies that could affect the right and ability to obtain future economic benefits and related risks, who has the continuing ability to direct the activities of the other entity, and who receives economic benefits and is exposed to the related risks from those activities;
The risks to which the other entity was designed to be exposed, the risk it was designed to pass on to the parties involved, and whether the entity is exposed to some or all of those risks; and
Whether the investor has the continuing ability in the contractual arrangement to direct the strategic policies of the other entity without the co-operation of others.

</td><td>Power</td></tr>
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When assessing control, an investor considers the purpose and design of the investee in order to identify:

The relevant activities of the investee;
How decisions about those activities are made;
Who has the current ability to direct those activities; and
Who receives returns from those activities.

Power arises from rights. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities of the investee.

Relevant activities are those that significantly affect the investee’s returns. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

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

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

Establishing operating and capital decisions of the investee, including budgets; and
Appointing and remunerating an investee’s key management personnel or service providers and terminating their services or employment.

Rights that, either individually or in combination, can give an investor power via the ability to direct relevant activities include, but are not limited to:

Rights in the form of voting rights (or potential voting rights) of an investee;
Rights to appoint, reassign or remove members of an investee’s key management personnel, or another entity, that has the ability to direct the relevant activities;
Rights to direct the investee into (or veto any changes to) transactions for the benefit of the investor; and
Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

Sometimes it is very clear than an investor has power over an investee, such as when power is obtained directly and solely by voting rights granted by equity
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<tr><td></td><td>interests (for example, the relevant activities are directed by vote or a majority of the governing body is appointed by vote) and the investor holds a majority of those voting rights.

In other cases the assessment can be more complex, such as when power results from contractual arrangements or a combination of voting rights and contractual arrangements. Power without a majority of voting rights (also known as de facto control), occurs where:
• Contractual arrangements with other vote holders exist;
• Relevant activities are directed by contractual arrangements held;
• The investor has the practical ability to unilaterally direct relevant activities, considering all facts and circumstances such as:
    • Relative size and dispersion of other vote holders;
    • Potential voting rights held by the investor and other parties;
    • Rights arising from other contractual arrangements; and
    • Any additional facts or circumstances (i.e. voting patterns).

An investor with the current ability to direct the relevant activities has power even if its rights have not yet been exercised.</td></tr>
<tr><td>Rights that are designed to protect the interest of the entity holding those rights (protective rights) do not give the holder control over the other entity.</td><td>Only substantive rights and rights that are not protective are considered in determining control. For a right to be substantive, the holder must have the practical ability to exercise that right.

IFRS provides specific guidance on both substantive and protective rights, while ASPE only provides general guidance on protective rights.</td></tr>
<tr><td rowspan="2">The right and ability of the parent to obtain future economic benefits from the resources of an entity that it controls and the parent’s exposure to the related risks are necessary characteristics of a parent-subsidiary relationship.

Future economic benefits include cash flows generated by the subsidiary that the parent may receive in such form as dividends, interest, fees, royalties or profits on intercompany sales.

Risks include exposure of the subsidiary’s resources to business losses or direct exposure of the parent to loss.</td><td>Exposure, or Rights, to Variable Returns</td></tr>
<tr><td>When assessing whether an investor has control over an investee, the investor must determine whether it is exposed, or has rights, to variable returns as a result of its involvement with the investee.

Variable returns are those that are not fixed and have the potential to vary as a result of the performance of the investee. They can be only positive, only negative, or both positive and negative.

Some examples of returns include:
• Dividends, other distributions of economic benefits, and changes in value of the investor’s investment;
• Remuneration for servicing an investee’s assets or liabilities, fees and exposure to loss from providing credit or liquidity support residual interests in net</td></tr>
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	assets on liquidation, tax benefits, and access to future liquidity; • Returns that re not available to other interest holders (i.e. synergies, economies of scale, cost savings, etc.).
Section 1591 does not provide specific guidance on considering whether an entity is a principal or an agent.	**Link between Power and Returns** When an investor with decision-making rights assesses whether has control over an investee, it must determine whether it is a principal or an agent. 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. The investor must also determine whether another entity with decision-making rights is acting as an agent for the investor. When assessing whether it controls an investee, the investor must treat any decision-making rights delegated to its agent as held by the investor directly. In determining whether it is an agent, a decision maker must consider the overall relationship between itself, the investee being managed and other parties involved with the investee, including all the following factors: • The scope of its decision-making authority over the investee; • The rights held by other parties; • The remuneration to which it is entitled per the remuneration agreement(s); and • The decision maker's exposure to variability of returns from other interests that it holds in the investee.
ASPE does not provide specific guidance considering de facto agents.	An investor must also consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf (i.e. de facto agents). This determination requires judgement and considers not only the nature of the relationship, but also how those parties interact with each other and the investor. 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 the party to act on the investor's behalf. In this situation, an investor considers both the de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent and its own when assessing control of an investee.
ASPE does not provide specific guidance on control of specified assets.	Under IFRS 10, an investor must also consider whether it treats a portion of an investee as a deemed separate entity (often referred to as a 'silo'), and, if so, whether it controls it. If the investor controls the deemed separate entity, it must consolidate that portion of the investee in its financial statements.

Reporting

Under ASPE, a parent company has an accounting policy choice in how to account for its subsidiaries. However, under IFRS, a parent company must prepare consolidated financial statements, except in certain circumstances.

ASPE	IFRS
A parent company has a free accounting policy choice in how to account for its subsidiaries. It can either: a) consolidate its subsidiaries in accordance with Section 1601; or b) prepare non-consolidated financial statements and account for its subsidiaries that it controls through: i. Voting interests, potential voting interests, or a combination thereof, using the equity method or the cost method in accordance with Section 3051, *Investments*; ii. Contractual arrangements according to the nature of the contractual arrangements in accordance with the applicable Section (i.e. a lease in accordance with Section 3065, a financial asset or financial liability in accordance with Section 3856); and iii. Voting interests, potential voting interests, or a combination thereof, in combination with contractual arrangements, in accordance with item (i) for the voting and potential voting interests and in accordance with item (ii) for the contractual arrangements. However, all subsidiaries must be accounted for using the same method.	IFRS 10 requires the parent company to prepare consolidated financial statements and provides the option of presenting a non-consolidated financial statement (which would be prepared in accordance with IAS 27, *Separate Financial Statements*) as well. One exception to this requirement, is that a parent company does not have to prepare consolidated financial statements if it meets all of the following criteria: • The parent is itself a wholly owned subsidiary, or is a partially owned subsidiary of another entity, and its other owners (including those not otherwise entitled to vote) have been informed about, and do not object to, the parent not presenting consolidated financial statements; • The parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); • The parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and • The ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with IFRS. If the parent company does not prepare consolidated financial statements, but only non-consolidated statements, there are additional disclosure requirements.
Section 1601 does not mandate the consistency of reporting periods between a parent company and subsidiary. However, when the fiscal periods of a parent and a subsidiary are not coterminous, events relating to, or transactions of, the subsidiary that have occurred during the intervening period and that significantly affect the financial position or results of operations of the group should be recorded or disclosed, as appropriate. This is different than IFRS which requires adjustment, not just disclosure, of significant transactions.	The reporting dates for the subsidiary and the parent cannot differ more than 3 months. 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 statements as of the same date as the financial statements of the parent unless it is impracticable to do so. Adjustments are made for the effects of significant transactions or events that occur between the subsidiary's reporting date and the date of the parent's financial statements.
Once an entity obtains control of another entity, as long as control is not lost, all changes to a parent's ownership	Once an entity obtains control of another entity, as long as control is not lost, all changes to ownership interests

interest in a consolidated subsidiary are accounted for as transactions with owners in their capacity as owners and reported within equity. If control is lost, any investment retained in the former subsidiary is recognized at its carrying amount at the date control is lost and is accounted for in accordance with other appropriate Sections of ASPE.	are treated as transactions among equity holders and reported within equity. However, under IFRS, the entity would also have to disclose the effects of any changes in a parent's ownership interest in a subsidiary that do not result in a loss of control. Such disclosure is not required under ASPE. If control is lost, any investment retained in the former subsidiary is recognized at its fair value at the date control is lost. Then the parent is required to provide disclosures relating to the gain or loss recognized in income. Such disclosure is not specifically required under ASPE.
Section 1601 provides specific guidance on the preparation of combined financial statements, which are distinguished from consolidated financial statements in that the financial statements of the parent company are not included. When combined financial statements are prepared, similar principles to those used to prepare consolidated financial statements are followed. Combined financial statements may be useful in certain situations, however they are not a substitute for consolidated statements.	IFRS does not specifically address combined financial statements.

Non-controlling Interests

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. The initial measurement of non-controlling interests was discussed in our publication ASPE-IFRS a Comparison: Business Combinations. This section deals with the classification and subsequent measurement of non-controlling interests, which is substantially the same under ASPE and IFRS.

ASPE	IFRS
On the balance sheet, non-controlling interest is presented within the equity section as a separate component of equity.	Non-controlling interest is classified as a separate component of equity, which is the same under ASPE.
On the income statement, net income or loss is attributed to both the controlling interest and the non-controlling interest. The amount attributed to the non-controlling interest is not a deduction in arriving at net income.	The presentation on the income statement under IFRS is the same as under ASPE.
Any losses attributable to the non-controlling interest are applied in full, even if this results in the non-controlling interest having a deficit balance.	In the same way, under IFRS, any losses attributable to the non-controlling interest should be applied in full, even if the result is a negative balance.

Disclosure

Under ASPE the disclosure requirements related to subsidiaries and consolidated financial statements are included in the same standard as the rest of the guidance on these topics. However, IFRS contains a separate disclosure standard, IFRS 12, which sets out the disclosure requirements for interests in subsidiaries.

ASPE	IFRS
ASPE requires that an entity disclose the basis for determining: • That control exists when the parent does not own an equity interest that gives it control over a subsidiary. • That control does not exist when the parent owns equity interests that carry the right to elect the majority of the board of directors. An entity must disclose: • A listing and description of significant subsidiaries, including the proportion of ownership interest held. • Significant restrictions on access to assets of the subsidiaries. However, ASPE does not require the same level of disclosure as IFRS.	IFRS 12 requires an entity to disclose information about, and changes in, significant judgements and assumptions made in determining control over another entity. As well as, information that enables users to understand the composition of the group and the interest that non-controlling interests have in the group's activities and cash flows. Additionally, an entity must disclose information that enables the user to evaluate: • The nature and extent of significant restrictions on the ability to access or use assets and settled liabilities of the group; • The nature of, and changes in, the risks associated with interests in the consolidated structured entities; • The consequences of changes in ownership interests in a subsidiary that do not result in a loss of control; and • The consequences of losing control of a subsidiary during the reporting period. IFRS has more extensive disclosure requirements than ASPE.

Conclusion

In general, the principles relating to accounting for subsidiaries and consolidation under ASPE and IFRS have a lot of similarities. However, when looking at the details of the standards there are also some major differences.

If you require further guidance on accounting for subsidiaries or consolidation under IFRS or ASPE, please contact your local BDO Canada LLP office. If you are considering the adoption of a new standard, learn how our BDO Integrated Advisory Services Team can help you with the transition.

To learn more about the differences between standards, view our ASPE-IFRS: A Comparison Series.

The information in this publication is current as of February 15th, 2017.