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Reporting Update

November 2013, 13RU-015

Not-for-profit guidance on determining when an entity controls another entity

AASB 2013-8 *Amendments to Australian Accounting Standards Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities* was released by the AASB earlier this month. This standard adds an appendix to both to AASB 10 *Consolidated Financial Statements (AASB 10) and* AASB 12 *Disclosure of Interests in Other Entities (AASB 12)* (hereafter referred to as the 'guidance' or the 'appendix').

This guidance is designed to assist not-for-profit entities in the public and private sector in their application of AASB 10 and AASB 12. The guidance does not change the principles contained within these standards but rather explains how these principles apply from the perspective of not-for-profit entities. This guidance does not apply to for-profit entities or affect their application of AASB 10.

For not-for-profit entities, AASB 10, AASB 12 and the related not-for-profit implementation guidance is effective for years commencing on or after 1 January 2014 i.e. for 31 December 2014 and 30 June 2015 year ends respectively. It can be early adopted for 31 December 2013 and 30 June 2014 year ends. This update focuses on the key impacts and practical issues expected to arise when not-for-profit entities adopt these standards.

This Reporting Update supersedes 13RU-005.

KEY POINTS

- **AASB 10 now contains guidance on determining when a not-for-profit entity controls another entity**
- **Guidance does not amend or change the principles contained within AASB 10 and AASB 12**
- **Effective for years commencing on or after 1 January 2014 i.e. 30 June 2015 year ends**

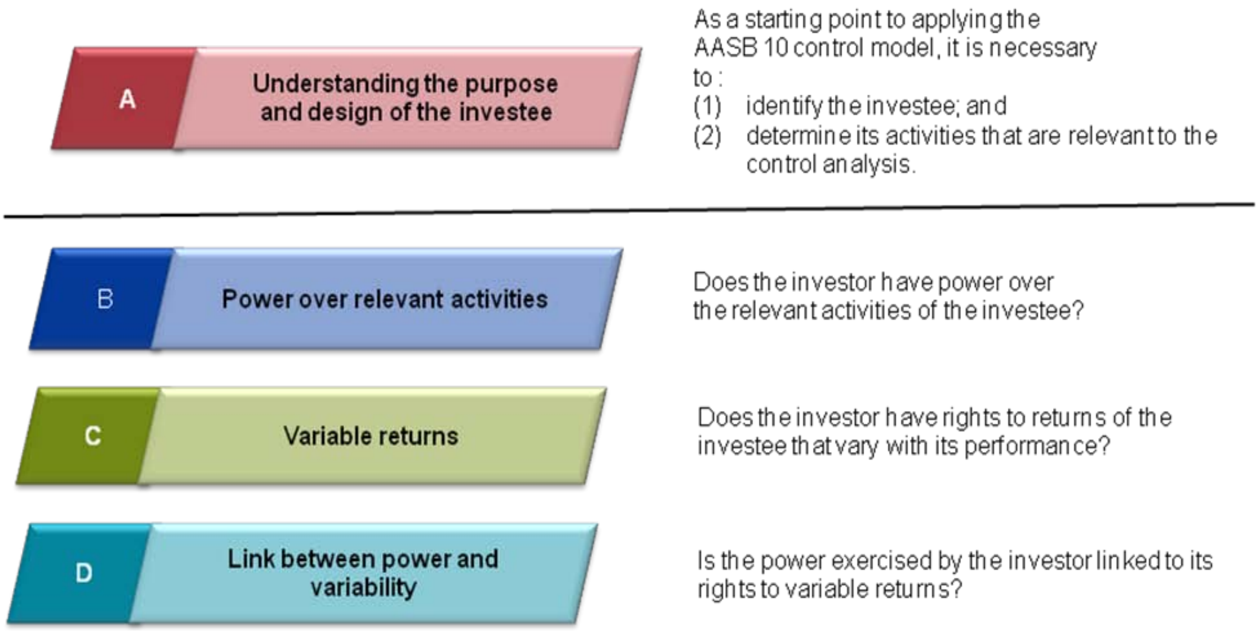
ACTION POINTS

- **Plan and prepare for adoption of AASB 10, AASB 12 and related implementation guidance**
- **Review all structures in place to determine whether the previous consolidation conclusion is appropriate**

AASB 10 - the new control model

AASB 10 provides a revised definition of control and related application guidance. It applies to all ‘investors’ and ‘investees’ in Australia, including not-for-profit entities and is generally written from the perspective of a for-profit entity. The application of AASB 10, for certain entities, will result in a change in the control conclusion.

Under the revised definition, 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. [AASB 10.6, 7, Appendix A, B2] The term ‘investor’ is not defined within the standard but would be regarded as any entity or structure that has involvement with another entity (the investee), for example, a government department, local government, federal government, state government, charity, university etc. The new control model can be summarised into a four step approach as illustrated below:



We consider the requirement to determine the purpose and design of the investee (Step A) together with who has power over relevant activities (Step B) as the critical steps in the overall control analysis and expect the majority of time and effort to be given to these two steps. This is evident by the focus of the guidance which includes relatively less discussion on exposure to variability in returns (Step C) and linkage (Step D). Furthermore, IG6 of the guidance reiterates that “assessing the purpose and design of an investee will assist an investor to identify who has power over the investee...”

The approach comprises a collection of indicators of control, but no hierarchy is provided: it requires an analysis of all facts and circumstances and the application of judgement in making the control conclusion. Furthermore, the examples contained within the guidance emphasise a principles based approach which requires an analysis of the relevant activities of the investee and of the substantive rights of various investors in considering whether the investor has power. In the examples the AASB decided to include a range of scenarios to illustrate that alternative outcomes for the assessment of control by the investor reflect the facts and circumstances in any particular case. The guidance indicates that the determination as to whether rights are substantive or protective requires judgement and requires an analysis of the circumstances, including considering the reasons for different investors holding various rights in relation to the investee. Circumstances may exist where several investors each have the ability to direct different relevant activities. Under such circumstances AASB 10 states the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power. [AASB 10.13, B13]

The assessment of control and determining how decisions are made is performed on a continuous basis and the investor reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

For more information regarding how to apply the new control model please refer to **Appendix A** of this update.

Key areas covered in the not-for-profit implementation guidance

The guidance covers aspects of the three criteria of the definition of control as set out above. It does not propose to change this definition but to rather provide additional guidance around its application to not-for-profit entities. It applies to both private and public sector not-for-profit entities. At a high level the guidance addresses the following:

- under what circumstances rights arising from statutory arrangements may give rise to power
- what impact, if any, economic dependence and power over the composition of the board has on the control assessment
- guidance on substantive and protective rights[1] and whether regulatory powers and statutory arrangements would be considered protective or substantive in nature
- the requirement to apply the general control principles contained within AASB 10 when assessing whether State or Territory governments control local governments and whether governments control Universities
- what impact the role of management/the board, together with the nature of returns received, of a trust established by a for-profit charity has on the control conclusion
- what constitutes a return and whether congruent objectives is sufficient to conclude whether a not-for-profit investor controls an investee (assuming power and linkage are present)
- the concept of delegated power and what principles to apply when determining whether a not-for-profit investor is a principal or an agent
- guidance on how to apply the definition of a ‘structured entity’ from the perspective of a not-for-profit entity.

[1] Refer to **Appendix A** of this update for further discussion relating to substantive and protective rights

Key areas not covered in the guidance

The AASB has decided to adopt a staged approach when considering control in the not-for-profit sector and this guidance forms part of the first stage. It is expected that later stages will address the following associated fundamental issues which have not been addressed in the guidance:

- the nature of government departments as reporting entities
- the role that disclosure of disaggregated information in whole of government financial reports might play in providing relevant information to users
- control of assets (i.e. controlled versus administered items).

Key differences from current practice

The revised definition of control may result in a different control conclusion for certain not-for-profit entities. The purpose of this section is not to cover off the general differences between the old and the new control model (refer to **Appendix A** of this update for a discussion on this aspect) but rather to focus on the key differences between existing specific not-for-profit control guidance, contained within the superseded AASB 127 *Consolidated and Separate Financial Statements* (AASB 127) and the revised guidance contained within AASB 10.

Public sector issues

Whilst the specific guidance in AASB 127 on control in the public sector has not been fully reproduced in the guidance, in general the principles are similar – many of the examples in the guidance are based on the examples in AASB 127. However, there are three areas where differences may arise.

Do State and Territory governments control local governments?

AASB 127 states that under existing legislative arrangements, State and Territory governments do not control local governments [AASB 127 Aus17.9(e)]. The guidance does not conclude whether State and Territory governments control local governments but rather proposes that such a conclusion is dependent on the facts and circumstances and an analysis is required. The guidance includes a detailed example [Example IG3] which illustrates how to address this question and emphasises a principles based approach, involving an analysis as to the nature of the rights held by the various parties and a requirement to use judgement. The key is determining which rights are substantive and which rights are protective in nature. Similar considerations would apply when assessing whether governments control Universities. The guidance includes a detailed example which illustrates how to address this question [Example IG4].

KPMG Comment

IG 3 of the guidance indicates that the not-for-profit examples apply by analogy to other types of not-for-profits, however, it also highlights that it is the facts and circumstances, and not simply the type of not-for-profit entity that needs to be assessed in determining whether one entity controls another entity. Furthermore, distinguishing substantive and protective rights requires an analysis of the specific circumstances, including consideration of the reasons for different investors holding various rights in relation to the investee. Therefore, caution should be exercised when applying these examples by analogy to different fact patterns to ensure that inappropriate conclusions are not reached.

Do governments and government departments control statutory authorities?

Existing requirements of AASB 127 state that a government will usually control the statutory authority or corporation that it has established, because the legislation will normally address the financial and operating policies necessary to enable the entity to work with government in achieving its objectives. Whilst this guidance has not been explicitly carried forward into the guidelines, the examples provided regarding ability to appoint directors/key management personnel (KMP) and congruence of objectives in Example IG5 and paragraph IG10 of the guidance indicate that generally it would be expected that governments do control statutory authorities and statutory offices (such as that of an auditor-general or the judiciary).

As noted above, the guidance does not change the existing requirement to treat a government department as a reporting entity (rather than a branch or segment of government). Accordingly, when preparing government department financial statements an assessment must be made of whether the government department controls any associated statutory authority. In addition to the examples and guidance highlighted above in relation to objectives and appointment of KMP, the appendix provides guidance regarding delegated power and whether the investor is acting as principal or agent [IG21 - IG24, Example IG5]. The appendix states that when a department is merely authorised by the Minister to act on the Ministers behalf it is acting as an agent versus scenarios whereby the department exercises its own discretion, not subject to specific direction by the Minister. Accordingly, the scope of the decision making authority is key when determining whether the department is acting as principal or agent. The department would need to assess whether the delegated powers give it the current ability to direct the relevant activities of the investee and whether the other control criteria are satisfied in deciding whether the department controls the investee and should consolidate it [IG24].

Private sector issues

Trustees

Currently AASB 127 Aus 17.9(b) indicates trustees are generally not considered to control a trust where they are not beneficiaries as they are expected to act in the best interests of the beneficiaries (fiduciary responsibility). However, under AASB 10, provided the trustee cannot be replaced at the discretion of another party, generally a trustee will have the power to govern the operations of the trust and accordingly, the level of benefits become key to assessing control. Under AASB 10 and the appendix, when considering power the assessment requires consideration of the scope of the trustee's decision making authority and the extent to which rights of other entities/bodies (e.g. management committees) limit this authority.

IG22 includes an example of a charity that establishes a trust. In this example the trustee is regarded as an agent of the charity by virtue of the fact that the charity can replace the trustee at its own discretion. While the trustee may have the power it will not use this power to receive variable returns from the trust, i.e. in this case the link between power and returns is not present. The charity would have control of the trust by virtue of its ability to replace the trustee and the trustee's day-to-day powers to affect the trust's returns.

Other key aspects of the guidance

Does economic dependence of an investee on the investor lead to the investor having power over the investee?

Under the guidance and consistent with AASB 10 [AASB 10.B19], economic dependence on its own will not result in the investor having power over the investee. This guidance is consistent with existing not-for-profit guidance contained within AASB 127. For example, a government may not have power over an investee that is financially dependent on government funding, where the governing bodies of those entities have discretion with respect to whether they will accept resources from the government. In this scenario the deployment of resources would be the most relevant activity when assessing power. For example, assume a charity receives funding for low income housing from the government, however, the charity is the one who determines whether to accept the funding or not, which houses to purchase, who is eligible to benefit from the housing etc. In applying the guidance the mere fact that the charity is financially dependent on the government does not lead to the government having control over the charity.

Does the ability to enact or change legislation give the investor the power?

No, the guidance clarifies that the power to enact or change legislation by itself does not give the investor the current ability to direct relevant activities. However, rights specified in substantively enacted legislation would be substantive rights that need to be considered by the investor in assessing control of an investee if the rights are assessed as exercisable when decisions about the direction of the relevant activities need to be made [IG.14]. This is broadly consistent with existing guidance which specifies that the power to be able to amend legislation is not considered to be presently exercisable and consequently does not give the government control [AASB 127 Aus 17.3(d)].

Is a financial benefit in the form of fair value changes in ownership interest and dividends necessary in order for an entity to conclude that it has exposure to variable returns?

No, one of the three criteria for control is that the investor has exposure, or rights, to variable returns from its involvement with the investee. From the perspective of a not-for-profit entity, the scope of the nature of returns is broad and encompasses financial, non-financial, direct and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor's objectives. However, the existence of congruent objectives alone is insufficient for a not-for-profit entity to conclude that it controls an investee.

Not for profit private sector issues

Certain entities in Australia, for example, companies limited by guarantee, are prohibited from paying dividends to their members but may provide financial benefits in other forms (for example, below or above market interest loans, ability to direct the company to make payments the members would otherwise have paid to a third party) or provide non-financial benefits (for example, congruent objectives). Investors in these types of entities will need to consider the impact of the broader definition of returns contained within AASB 10. If the investor can control where the distribution goes, even though they are not entitled to a dividend, under the new guidance it is likely to constitute exposure to variable returns for the investor. However, when considering this right in the context of the power analysis, IG17(e) of the guidance indicates that this type of right would likely be considered to be a protective right and not contribute to the assessment of whether power exists. It should be noted that for many companies limited by guarantee it is generally determined upfront where any proceeds on liquidation need to go. In such circumstances it may be argued that where the returns go or who determined where they should go may not be regarded as a relevant activity and accordingly not a relevant factor in determining who has power.

AASB 12

AASB 12 contains specific disclosure requirements for consolidated and unconsolidated structured entities. A structured entity is defined in Appendix A of AASB 12 as follows:

'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.'

For many not-for-profit entities, voting rights may not be the dominant factor in deciding who controls an entity and accordingly application of the above definition would result in many of these entities being classified as structured entities. The AASB's view is that the principle underlying this definition is intended to capture entities whereby less conventional means are the dominant factors in determining who controls the entity and is intended to be a limited class of entity. Accordingly, the guidance stipulates that the reference in the definition to 'similar rights' encompasses administrative arrangements and statutory provisions, as these are often the dominant factor in determining control of not-for-profit entities. Therefore, not-for-profit entities designed so that voting rights, including administrative arrangements or statutory provisions are not the dominant factor in determining control of an entity would not be captured by the definition of 'structured entity' contained within AASB 12.

For more information regarding AASB 12 please refer to our First Impressions: *Consolidated financial statements* publication.

Effective date

AASB 10, AASB 12 and the related implementation guidance apply to annual reporting periods beginning on or after 1 January 2014 (i.e. one year later than for profit entities will apply AASB 10). Early application is permitted for not-for-profit entities for annual reporting periods beginning on or after 1 January 2013.

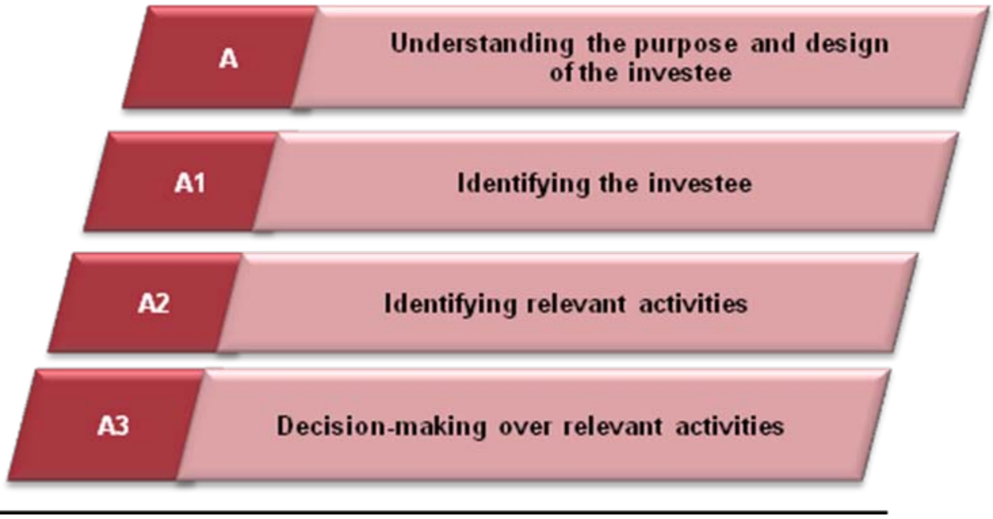
For those entities that do not early adopt these amendments AASB 127 continues to apply. Entities may elect to early adopt these standards effective for the 31 December 2013 financial reporting period should they wish to.

Appendix A

How to apply the new model - a four step approach

As highlighted above, the new control model can be summarised into a four step approach. The purpose of this Appendix is to provide some additional background as to how to apply each of the four steps in the model.

A - Understanding the purpose and design of the investee



A1 – Identifying the investee

The term investee is not defined in AASB 10. However, it is used throughout AASB 10 as an entity or a deemed entity that is or may be a subsidiary of the investor.

A2 – Identifying relevant activities

An analysis of the purpose and design of the investee helps determine what the relevant activities of the investee are. In addition to assisting in determining what the relevant activities are it is also considered so as to identify [AASB 10.B5]:

- how decisions about such activities are made
- who has the current ability to direct those activities
- who receives returns.

DEFINITION	Relevant activities are the activities of the investee that significantly affect the investee's returns	
EXAMPLES	Not-For-Profit	For Profit
	• reviewing and selecting applications for a low-cost housing program • day-to-day operations of a low-cost housing program • determination of the type of training courses to provide in a community • planning for and providing services and facilities for the local community • employing academic, teaching and administrative staff • determining fees and charges for courses provided to students	• sale of goods • managements of financial assets • acquisition and disposal of operating assets • management of R&D activities • determination of funding structure
MULTIPLE INVESTORS AND RELEVANT ACTIVITIES	When different relevant activities are linked to different investors, we identify the relevant activity that most significantly affects the returns of the investee	

A3 – Decision making over relevant activities

Determining how decisions about the relevant activities are made is key in the AASB 10 approach and represents a 'gating' question in the control analysis. This gating question seeks to determine whether voting rights are relevant in assessing whether the investor has power over the investee, i.e. the investee is controlled by means of voting instruments; or voting rights are not relevant in assessing whether the investor has power over the investee, i.e. the investee is controlled by means of other rights. [AASB 10.B6]

Depending on the answer to this gating question, a different analysis will be performed to assess which investor has power over the investee. However, this guidance relating to the gating question is more relevant for a for-profit entity since voting rights granted by equity instruments and rights arising from contractual arrangements will often be the source of power for for-profit sector entities. For certain not-for-profit entities voting rights would also be relevant in assessing who has power over the relevant activities. In such cases determining who has power via voting rights is important for this step in the control analysis. For other not-for-profit entities, power will frequently arise through different sources, for example, for many not-for-profit entities, rights arising from administrative arrangements or statutory provisions will often be the source of power [IG 6]. In such cases, consideration should be made of the purpose and design of the investee including consideration of:

- the risks that the investee was designed to create
- the risks that the investee was designed to pass on to the parties involved in the transaction
- whether the investor is exposed to some or all of these risks.

The consideration of risks includes both downside risk and the potential for upside return.

Other items to consider may include: [AASB 10 B51-B54]

- involvement and decisions made at the investee’s inception
- contractual arrangements such as call rights, put rights or liquidation rights established at the investee's inception
- circumstances in which the relevant activities occur only when particular circumstances arise or events occur
- the investor's commitment to ensuring that the investee continues to operate as designed.

B – Power over relevant activities

An investor has power over an investee when the investor has existing rights that give it the current ability to direct the activities that significantly affect the investee's returns. [AASB 10.10]

Power arises from rights. Different types of rights, either individually or in combination, can give an investor power over the significant activities of an investee. Those include current and potential voting rights, rights to appoint or remove members of the investee's key management personnel or governing body, and decision-making rights arising from a management contract or other contracts. [AASB 10.11,B14,B15]

For the purpose of assessing power, only substantive rights held by the investor and other parties are considered. An investor is explicitly required to consider both substantive rights that it holds and substantive rights held by others. While in many cases this will lead to a similar conclusion as the current practice of evaluating substantive participating rights, in some cases it could differ from current practice, e.g. in respect of kick-out rights. [AASB 10.B22] Consideration of the ability of the government to replace key management personnel of an investee would likely be considered to be a substantive participative right in the control analysis.

To be substantive, rights need to be exercisable when decisions about the relevant activities need to be made, and the holder needs to have a practical ability to exercise those rights. [AASB 10.B24]

Substantive rights exercisable by other parties can prevent an investor from controlling the investee, even if they only give their holders the ability to approve or block decisions that relate to the investee's relevant activities. This also can apply when other parties hold potential voting rights, kick-out rights or similar rights. [AASB 10.B25, BC106]

Determining whether rights are substantive requires judgement taking into account all available facts and circumstances. Factors to consider include: [AASB 10.B23]

- whether there are barriers that prevent the holder from exercising the rights
- whether several parties need to agree for the rights to become exercisable or operational
- whether the party that holds the rights would benefit from their exercise.

Protective rights are related to fundamental changes in the activities of an investee or are rights that apply only in exceptional circumstances, and as such cannot give the holder power or prevent other parties from having power and therefore control over the investee. Not all rights contingent on future events are protective.

C – Variable returns

In assessing whether an investor controls an investee, the investor considers whether it is exposed, or has rights, to variability in returns from its involvement with the investee. [AASB 10.7(b)] Returns vary as a result of the performance of an investee and can be only positive, only negative or wholly positive and negative.

In application to not-for-profit entities, the broad scope of the nature of returns encompasses financial, non-financial, direct and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor’s objectives.

D – Link between power and variability

In order to have control, in addition to power and exposure or rights to variable returns from its involvement with the investee, an investor needs to have the ability to use its power over the investee to affect its returns.

AASB 10 introduces the concept of delegated power. The decision maker needs to assess whether it is acting as a principal or as an agent on behalf of other investors when directing the activities of an investee. If it has the power to direct the activities of an entity that it manages to generate returns for itself, then it is a principal. If it is engaged to act on behalf and for the benefit of another party or parties, then it is an agent and does not control the investee when exercising its decision-making authority.

A decision maker is not an agent simply because other parties can benefit from the decisions it makes.

Unless a single party holds substantive rights to remove the decision maker without cause, the decision maker considers the overall relationship between itself and other parties, and all of the following factors to determine whether it is an agent: [AASB 10.B60, B61]

- the scope of its decision-making authority over the investee
- the rights held by other parties, including substantive removal rights not held by a single party
- its remuneration (level of linkage with the investee's performance)
- its exposure to variability of returns because of other interests that it holds in the investee.

Different weightings are applied to each of the factors depending on particular facts and circumstances. [AASB 10.B60, B61]

The last two factors, i.e. remuneration and other interests held sometimes are considered in aggregate in AASB 10 and referred to as the decision maker's 'economic interests'. The greater the magnitude of and variability associated with its economic interests, the more likely the decision maker is a principal. The guidance includes limited additional guidance on linkage – it does state that an investor would have the ability to use its power over the investee when it can direct the investee to work with the investor to further the investor's objectives. Discussion on delegated power and an example of a charity that establishes a trust is also included within the guidance.

Effective date and transitional requirements

Effective date

As highlighted above, AASB 10, AASB 12 and the related implementation guidance apply to annual reporting periods beginning on or after 1 January 2014, with early application permitted for not-for-profit entities for annual reporting periods beginning on or after 1 January 2013. For those entities that do not early adopt these amendments AASB 127 continues to apply. Entities may elect to early adopt these standards effective for the 31 December 2013 financial reporting period should they wish to.

Transitional requirements

For each investee, an entity tests the consolidation conclusion - i.e. whether the investee should be consolidated - at the beginning of the annual period in which AASB 10 is applied for the first time. For an entity with a 30 June year end that has not adopted AASB 10 early, then this date is 1 July 2014.

- this means that there is no need to perform the consolidation assessment at an earlier date, which avoids the need to consolidate and then deconsolidate a controlling interest that was disposed of in the comparative period, for example, assume an investor disposes of an investee in August 2013; the investee is not consolidated under the current standards but would be required to be consolidated under AASB 10. The fact that the consolidation test need only be performed at 1 July 2014 (for a 30 June year end entity) means that the investor would not consolidate and then deconsolidate the investee in the 30 June 2015 comparative reporting period
- an entity does not change its previous accounting if there is no change in the consolidation conclusion.

Restatement limited to one year

- If there is a change in the consolidation conclusion and the investee is:
  - consolidated for the first time, then the mandatory restatement of comparatives is limited to one year; or
  - deconsolidated, then the mandatory restatement of comparatives is again limited to one year.
- This means that entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged.

The table below provides a summary of the key changes between AASB 127 and AASB 10.

Key changes – AASB 127 versus AASB 10		
Single control model for all entities	No distinction between structured/non-structured entities	AASB 10 provides a new control model to be applied in the consolidation analysis for all investees, including special purpose entities (SPEs) previously in the scope of SIC-12 *Consolidation – Special Purpose Vehicles* (SIC-12). There is no distinction between structured and non-structured entities. The consolidation conclusion could change for SPEs currently in the scope of SIC-12. For example, entities in the banking and infrastructure sector are likely to be impacted by this change as typically SPEs are common in these sectors.
Expanded control concept	Based on ability to control which is broader than legal control	Control involves exposure to variability in returns, ability to affect those returns (power) and a linkage between the two. Exposure to risks and rewards does not, on its own, determine that the investor has control. It is one factor of the control analysis.
Continuous assessment required	Even if no change in contractual arrangements of investor	Control is assessed on a continuous basis, i.e. it is reassessed as facts and circumstances change. A change in market conditions does not trigger a reassessment of the consolidation conclusion unless it changes one or more of the three elements of control.
Agent/principal relationships/silo concept/defacto control and kick-out rights	Concepts formalised, additional guidance provided, potentially different from existing accounting policies	Potentially different from existing accounting policies.
Substantive rights vs. protective rights	Assessment required, protective rights on their own don't give control, removal rights held by a sole 3rd party will preclude control	For the purpose of assessing power, only substantive rights held by the investor and others are considered. To be substantive, rights need to be exercisable when decisions about the relevant activities need to be made, and the holder needs to have a practical ability to exercise those rights. Protective rights are related to fundamental changes in the activities of an investee or only apply in exceptional circumstances. They cannot give their holder power or prevent others from having power.

Qualitative focus, avoids bright line tests, weighted judgements have significant role	Bright lines removed. Judgement to be applied, however, significant activities likely to require quantitative assessment	AASB 10 contains more guidance on how the control model should be applied compared to the current standards (IAS 27 and SIC 12) The approach contains many indicators but no hierarchy or bright lines are provided: preparers are required to analyse all facts and circumstances and apply their judgement in making the consolidation conclusion. The standard for instance emphasises the need to "understand the purpose and design of an investee" and stresses the need to take into account "evidence of power", which are likely to be highly judgemental areas.
Potential voting rights	Substantive (versus currently exercisable) potential voting rights would be taken into account when assessing control	Substantive potential voting rights (vs. currently exercisable potential voting rights under AASB 127) are taken into account when assessing control. This is likely to change the consolidation conclusion in some cases: currently exercisable potential voting rights may not be considered substantive and vice versa. Determining whether rights are substantive under AASB 10 will require more judgement than determining whether they are currently exercisable under AASB 127. It seems that intent of the party writing or purchasing the potential voting right would for instance be taken into account. Management will need to regularly monitor potential voting rights to analyse whether they are substantive, and will for instance need to check practical ability to exercise those rights.
Additional disclosure requirements	Enhanced disclosure requirements for investees that are not consolidated	AASB 12 includes a number of additional disclosure requirements for subsidiaries, joint ventures, associates as well as entities which the investor is involved with but does not consolidate.

For **more** information regarding AASB 10 please refer to our First Impressions: *Consolidated financial statements* publication.

KPMG contacts

If you would like to discuss any of the points raised in this report, please contact your KPMG advisor.