**17 April 2013**

Subsidiaries, Quasi Subsidiaries – developing criteria for Property Items and Entity Specific Properties

Reflecting on the Skype message sent just now (see further on) when meditating, got me thinking about what criteria we could apply to help decide how to classify things. Besides the ones already noted in your emails (???), it strikes me that another is simply the pragmatic one of Presentation.

The main objective with revised Bros is to handle Taxonomies. The major changes we have been making over the last couple of months is to de-couple BrosSets from Bros TxIds, and also look at what is involved in handling multiple taxonomies.

So taking the example of Subsidiaries and Quasi Subsidiaries, sensible criteria for me to apply are:

1) In Classification Views, are there ever separate schedules/reports relating to different subsidiary types re UK GAAP

2) As above for other Taxonomies we are interested in e.g. other UK , USA, Australian, Canadian, Irish etc,

3) This whole area only becomes truly valuable if Braiins can do consolidated accounts

4) The above then raises the question of how far Braiins helps in calculating consolidations. So does it just store balances or go further? For example handle calculation such as percentages, fully detailed work sheets

5) Need to also bear in mind the purpose of the Taxonomy. It is only there to provide a semantic machine readable value for any information. They do not get involved in any of the consolidation accounting or calculations. (Need to check this)

Was about to write that we needed was a “macro” version of the “micro” content re Name for Dynamic Items. But now I have finally located the relevant emails (Fwd: RE: Name for Dynamic Item - 9/4/13) realise of course that that this is one of the types already in there, entity data like people, entities (JVs, Subsidiaries, TPAs).

This is good in that it tends to support the conclusions and implications I have been thinking about, but bad that I did not recall or take on board full meaning of Emails.

Below is what I sent on Skype today at 17.30 BST.

Checking back what I wrote re Quasi Subsidiaries. Odd. All the rationale I wrote says not really different to any other Subsidiary, but then put in answer saying make it a separate class. So in a way contracdict myself. Inh your BRL Update + Q you ask the question of Quasi Specific properties. But this could lead on to the question I should have asked in replying, namely why not make the type of Subsidiarys (Quasi, SPE)

Re IFRS 10 (which is will be our main guide)

"The new standard will affect some entities more than others. The consolidation conclusion is not expected to change for most straightforward entities. However, changes can result where there are complex group structures or where structured entities are involved in a transaction. Entities that are most likely to be affected potentially include investors in the following entities:

Entities with a dominant investor that does not possess a majority voting interest, where the remaining votes are held by widely-dispersed shareholders (de facto control).

Structured entities, also known as special purpose entities.

Entities that issue or hold significant potential voting rights.

Asset management entities.

In difficult situations, the precise facts and circumstances will affect the analysis under IFRS 10. IFRS 10 does not provide ‘bright lines’ and requires consideration of many factors, such as the existence of contractual arrangements and rights held by other parties, in order to assess control".

As you can tell from the time taken from starting this quick Skype text to getting this far, I am not 100% sure of best way; but leaning to towards Subsidiary with specific properties.

As we can both tell from the length of this short text, should have done it as an email communication. (Will copy it into an email in in due course, if only for ease finding and reference) Phew.

19/4/2013 Friday

Connected Entities

(Possible alternative descriptions, Entity Connections, Entity Relations, Related Entities)

This comes about by trying think things through from the perspective of an entity.

The entity might be at the top of bottom of a simple hierarchy or even with a more complex network.

So it might have Superior and Subordinate Connected Entities

Vertical - Superior

Parent Company

- Subsidiary (Current Entity)

Vertical – Subordinate

Parent Company (Current Entity)

- Subsidiary

1) This would be

Network

Parent

¦ ¦

Subsidiary 1 Subsidiary 2

¦

Subsidiary 3

In the above case **Subsidiary 1** would have **Parent** as a Superior and **Subsidiary 3** as a Subordinate

Subsidiary 1 and Subsidiary 2 would only be connected by having a common Superior Entity. i.e. there is no need to build in lateral connections within an Entity (this could easily become a nightmare if attempted)

Could use “Parent” and “Child” rather than “Superior” and “Subordinate but it is possible for the “Parent” entity to be a Parent Company and or a Controlling Entity.

I have put together a SS which looks at the various types of Superior Entities and the various types of Subordinate Entities; or more precisely Entity Relationships.

**Superior**

Parent (Largest)

Parent (Smallest)

Controlling Party

Controlling Party Ultimate

**Subordinate**

Subsidiary

Associate

Other Participating Interest

Joint Venture

A JV is interesting in that must have at least two Superior Entities, but these superior entities may have no other connections, or at the other extreme, they may have a plethora of other JVs in common and maybe even an Associate or Other Participating Interest Entity.

In the middle are Associates and OtherPIs which may have one or more superior entities.

I was going to write that at the bottom is a Subordinate which can only have one Superior. But, this is only true insofar as it cannot be the Subsidiary of two or more Superior Entities, but I guess it could be the Subsidiary of one Superior Entity and an Associate or OtherPI for another Superior Entity.

Now what the nature of a Subordinate Entity is to a Superior Entity, or even whether it is one at all, is something that can change from one accounting period to another. So in 2010 Entity A and Entity B have no relationship of any kind. But in 2011, Entity A buys shares in Entity B sufficient to warrant B appearing as an Associate of A in the 2011 accounts. In 20112, A increases its shareholding sufficiently to make B a subsidiary, but states it does not require to include B in its consolidated accounts. In 2013 A decides it will include B in its consolidated accounts.

So what seems best? So have separate Properties for each type of Subordinate Entity, or rationalise these to say one Property, but then split into Property Items, and then further refine with Entity Specific Properties?

**Question of data source in relation to Reporting Entity.**

If the Subordinate Entity is a Subsidiary which is also going consolidated into the Group accounts, then need same full information on the subsidiary as the Parent.

If Subsidiary, but not consolidated, then for reporting purposes it remain a separate reporting entity. The Parent will only require certain figures to be extracted for the unconsolidated accounts.

Same applies for other Subordinates – JVs, Associates and OtherPIs.

Ideally the Accountants/Auditors would post into Braiins the accounts for all these actual or potentially related Entities to improve both the speed and accuracy of producing accounts for each entity.