GENERAL ACCOUNTING
SECTION 1591
subsidiaries

Basis for Conclusions

Clarifications to Sections 1591 and 3056 (December 2016)

Subsidiaries and Investments, Sections 1591 and 3051 (December 2016)

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PURPOSE AND SCOPE

.01 This Section establishes standards for subsidiaries in the general purpose financial statements. This Section is closely related to:

(a) BUSINESS COMBINATIONS, Section 1582, which sets out the basis of accounting for transactions by which businesses are acquired;

(b) CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, which describes the preparation of consolidated financial statements and also deals with combined statements; and

(c) NON-CONTROLLING INTERESTS, Section 1602, which describes accounting for a non-controlling interest in a subsidiary subsequent to the subsidiary's acquisition.

.02 This Section applies to interests in other entities, with the following exceptions:

(a) It does not deal with accounting for investments (see INVESTMENTS, Section 3051, INTERESTS IN JOINT ARRANGEMENTS, Section 3056, and FINANCIAL INSTRUMENTS, Section 3856).

(b) It does not deal with accounting by investment companies (see ACCOUNTING GUIDELINE AcG-18, Investment Companies).

(c) It does not deal with an employer's accounting for an employee benefit plan subject to the provisions of EMPLOYEE FUTURE BENEFITS, Section 3462.

(d) It does not deal with accounting for a qualifying special-purpose entity by a transferor of financial assets or its affiliates, as set out in Appendix B in FINANCIAL INSTRUMENTS, Section 3856. A transferor reports its rights and obligations related to the qualifying special-purpose entity according to the requirements of that Section.

(e) It does not deal with accounting for an enterprise's interests in a qualifying special-purpose entity, unless that enterprise has the unilateral ability to cause the entity to liquidate or to change the entity so that it no longer meets the conditions set out in Appendix B in FINANCIAL INSTRUMENTS, Section 3856. When the entity is not consolidated, the enterprise reports its rights and obligations related to that entity in accordance with the applicable Section.

(f) It does not deal with accounting for contractual arrangements between enterprises under common control. In its consolidated or non-consolidated financial statements, each such enterprise reports its rights and obligations related to another enterprise under common control in accordance with the applicable Section.

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) A **subsidiary** is an enterprise controlled by another enterprise (the parent) that has the right and ability to obtain future economic benefits from the resources of the enterprise and is exposed to the related risks.

(b) **Control** of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.

.04 A subsidiary may take many forms, including a corporation, trust, partnership or unincorporated enterprise.

.05 The right and ability of the parent to obtain future economic benefits from the resources of an enterprise 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.

.06 A parent may have obligations associated with a subsidiary that exceed the resources of the subsidiary, possibly as a result of continuing operating losses of the subsidiary or a decline in the value of its assets. In such circumstances, when the parent continues to have control and the right and ability to obtain future economic benefits and exposure to the related risks, the parent-subsidiary relationship is maintained.

.07 A parent's control over a subsidiary and its exposure to risks and rewards associated with the subsidiary's resources, though typically acquired through an equity interest in the subsidiary, such as an acquisition of common shares, may be acquired by other means such as contractual arrangements or a combination thereof. The form in which a parent controls a subsidiary and receives economic benefits from it does not determine the substance of their relationship. All facts and circumstances of a business relationship are evaluated to determine whether an enterprise has a subsidiary.

.08 Strategic operating, investing and financing policies establish the fundamental basis for the conduct of an enterprise's business and the deployment of its resources, including distributions out of its equity (for example, the payment of dividends). Such policies may be set directly by the owners of the enterprise, but are more commonly set by the board of directors or other similar body entrusted by the owners with the responsibility for the direction of the enterprise. The right to elect the majority of the members of an enterprise's board of directors usually allows the holder of that right to determine the enterprise's strategic policies. This right to elect the majority of an enterprise's board is typically held in conjunction with ownership of an equity interest.

.09 The level of equity interest in one enterprise held by another leads to a presumption regarding control. An enterprise is presumed to control another enterprise when it owns, directly or indirectly, an equity interest that carries the right to elect the majority of the members of the other enterprise's board of directors, and is presumed not to control the other enterprise without such ownership. In a particular situation, these presumptions may be overcome by other factors that clearly demonstrate that control exists or does not exist. The greater the difference in an enterprise's voting interest from the 50 percent level, the more persuasive these other factors must be in overcoming the applicable presumption.

.10 The existence of control in a particular situation is a question of fact. The following paragraphs address factors to be considered in determining whether control exists in specific situations.

.11 In assessing whether it has control over another enterprise, an enterprise considers its continuing power to determine the strategic policies of the other enterprise without the co-operation of others. This power need not be exercised to exist, nor does it require active participation in the implementation of policies; consequently, a parent may control a subsidiary without managing its activities on a day-to-day basis.

.12 Brief interruption of the power to determine strategic policies is not a loss of control. For example, a receiver appointed pursuant to a default by a subsidiary under a loan arrangement with a third party may seize a specific asset in satisfaction of the loan but permit the subsidiary to continue in business under the direction of the parent.

.13 An enterprise may acquire control of another enterprise through factors other than or in addition to the ownership of an equity interest.

.14 The continuing power to determine the strategic operating, investing and financing policies of an enterprise without the co-operation of others may be obtained through statute, contractual arrangements, or ownership of financial instruments that, if converted or exercised, either individually or through a combination thereof, would give the other enterprise control. The following are examples of such situations:

(a) Ownership of less than the majority of voting shares combined with an irrevocable arrangement with other owners to exercise voting interests collectively may result in majority voting power and, therefore, may confer control. Control is not conferred solely by the holding of proxies or participation in a limited voting arrangement that is temporary in nature, provides for joint control or is cancellable by other parties to the arrangement. In the absence of other factors, such limited voting arrangements force an enterprise to rely on the continuing co-operation of other owners.

(b) Control may exist when an enterprise does not own the majority voting interest if it has the continuing ability to elect the majority of the members of the board of directors through ownership of rights, options, warrants, convertible debt, convertible non-voting equity such as preferred shares, or other similar instruments that, if converted or exercised, would give the enterprise the majority voting interest. In such circumstances, the enterprise 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 barriers or other costs are not so high as to make them unlikely for the foreseeable future. In the absence of an existing majority voting interest, an existing right to acquire such an interest or an arrangement or statute that confers a majority voting interest, an enterprise's ability to elect the majority of the members of the board of directors of another enterprise is usually dependent on the co-operation of others and would, therefore, not constitute control.

.14A When assessing the continuing power to determine the enterprise's strategic operating, investing and financing policies, only substantive rights relating to another enterprise are considered. For a right to be substantive, the enterprise (the holder) must have the practical ability to exercise that right over the other enterprise.

.14B Determining whether rights are substantive requires judgment, 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 other) 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 a subsidiary 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 (e.g., the absence of other managers willing or able to provide specialized services or provide the services and take on other interests held by the incumbent manager); or

(vii) legal or regulatory requirements that prevent the holder 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.

.14C To be substantive, rights also need to be exercisable when decisions about the direction of the strategic operating, investing or financing policies need to be made. Generally, to be substantive, the rights need to be currently exercisable. However, sometimes rights can be substantive, even though the rights are not currently exercisable.

.14D Substantive rights exercisable by other parties can prevent a party from controlling another party 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 paragraph 1591.21), substantive rights held by others may prevent one party from controlling the other party even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities.

.15 In some circumstances, rights of equity interests may not be the dominant factor in determining control, such as when the equity interests do not provide the continuing power to determine the strategic operating, investing and financing policies of the enterprise. In those circumstances, control may exist through contractual arrangements that confer on the enterprise the right and ability to affect both the future benefits of and risks from the other enterprise. Contractual arrangements come in various forms, such as supply arrangements, management contracts, lease agreements, license agreements, royalty contracts, other sales contracts, and finance arrangements. An enterprise reviews its contractual arrangements with another enterprise and considers all facts and circumstances when determining whether it controls that other enterprise.

.16 An enterprise has control through contractual rights when:

(a) it holds rights that are sufficient to direct the strategic operating, investing and financing policies of the other enterprise without the co-operation of others; and

(b) it has the right and ability to obtain the future economic benefits and is exposed to the related risks of the other enterprise.

.17 In evaluating whether contractual rights are sufficient to give an enterprise control over another enterprise, the enterprise would consider the following facts and circumstances:

(a) The degree of involvement in and decisions made at inception in determining the purpose and design of the other enterprise.

(b) How decisions are made about the strategic policies that could affect:

(i) the right and ability to obtain future economic benefits and related risks;

(ii) who has the continuing ability to direct the activities of the other enterprise; and

(iii) who receives economic benefits and is exposed to the related risks from those activities.

(c) The risks to which the other enterprise was designed to be exposed, the risks it was designed to pass on to the parties involved with it and whether the enterprise is exposed to some or all of those risks. These risks could include operating risk, price risk, credit risk, liquidity risk and interest rate risk.

(d) Whether the investor has the continuing ability in a contractual arrangement to direct the strategic policies of the other enterprise without the co-operation of others.

.18 Being involved in the design of another enterprise is not sufficient to give an enterprise control. However, involvement with the design may indicate that the enterprise had the opportunity to obtain rights that are sufficient to give it control over the other enterprise. In some circumstances, the other enterprise may be designed so that the direction of its activities and its future economic benefits and exposure to related risks are predetermined unless and until particular circumstances arise or events occur. In this case, only the decisions about the other enterprise's activities when those particular circumstances or events occur can significantly affect the enterprise's ability to obtain future economic benefits and exposure to the related risks from the other enterprise and confer control. The circumstances or events need not have occurred for an enterprise with the ability to make those decisions to have control.

.19 An enterprise reviews contractual arrangements to identify rights over the activities of the other enterprise, such as call rights or put rights related to the activities of the other enterprise, liquidation rights and rights to make decisions about activities that affect the enterprise's ability to obtain future benefits. When those contractual arrangements provide power over activities that are closely related to the other enterprise, then those activities are, in substance, an integral part of the other enterprise's overall activities, even though they may occur outside its legal boundaries and may confer control.

.20 An enterprise may have given an explicit or implicit commitment to ensure that another enterprise continues to operate as designed. Such a commitment may increase the enterprise's exposure to variability of future economic benefits and its exposure to related risks and, thus, increase the incentive for the enterprise to obtain rights sufficient to give it power. Therefore, a commitment to ensure that another enterprise operates as designed may be a factor that indicates that the enterprise has control, but does not of itself give an enterprise control, nor does it prevent another party from having control.

.21 An enterprise considers whether the rights that it holds over another enterprise are protective as such rights do not confer control onto the holder. Some rights designed to protect the interest of the enterprise holding those rights do not give it the power to make decisions about the other enterprise's activities but can affect its ability to obtain future economic benefits and its exposure to the related risks. Rights that are designed to protect the interest of the enterprise holding those rights but do not give it power to make decisions about the enterprise's activities may include:

(a) approval or veto rights that allow the enterprise to participate in or prevent events or transactions that are not in the normal course of the other enterprise's operations, such as amendments to the articles of incorporation, or acquisitions or sales that do not occur as part of its ongoing business activities;

(b) rights that allow the enterprise to participate in determining financial and operating decisions regarding business transactions between the other enterprise and others that have a financial interest in the other enterprise but do not confer on the holder the right to make decisions without the co-operation of others; and

(c) rights that allow the enterprise to direct or restrict the other enterprise's activities relating to use of the enterprise's brand or similar type asset but do not affect the other enterprise's ability to make decisions about its activities that affect its ability to obtain future benefits.

Some rights might be more than protective if the other enterprise's operations depend on the enterprise, such as when the enterprise guarantees a significant portion of the other enterprise's operations.

.22 Normal business restrictions, whether placed on a parent directly or on the resources of a subsidiary, do not preclude control by the parent. Restrictions that are commonly encountered and do not normally prevent control include those contained in a debt covenant or set by a regulatory body. A parent may pledge to a creditor as collateral the voting shares that give it control of a subsidiary. In many circumstances, the parent is able to continue to exercise the right to vote the shares and thereby retain control. However, in the case of default by the parent, the creditor may exercise its right to take the voting shares and the parent may, consequently, lose control of the subsidiary. Regulation of the business activities of an enterprise, such as a pipeline or other public utility, does not normally prevent its directors from managing its business and, in the same way, does not normally prevent the holder of the majority of voting shares from controlling the enterprise.

.23 Even when an enterprise has majority voting interests or contractual arrangements that confer control, either individually or through a combination thereof, the application of statute or arrangement imposing severe long-term restrictions on the ability of another enterprise to distribute its earnings or undertake other transactions with the enterprise may preclude control. For example, the imposition of severe foreign exchange or currency export restrictions over a foreign subsidiary may indicate that control has been lost.

RECOGNITION

.23A An enterprise that chooses, under paragraph 1591.24(b), not to consolidate its subsidiaries is not required to evaluate its contractual arrangements for evidence of control over another enterprise. An enterprise making such an accounting policy choice accounts for all of its interests in accordance with other applicable Sections depending on their nature, such as a lease (see LEASES, Section 3065), a financial asset or a financial liability (see FINANCIAL INSTRUMENTS, Section 3856) or an investment subject to significant influence (see INVESTMENTS, Section 3051).

.24 *An enterprise shall make an accounting policy choice to either:*

- *(a)* *consolidate its subsidiaries* (see CONSOLIDATED FINANCIAL STATEMENTS, Section 1601)*; or*
- *(b)* *account for subsidiaries that it controls through:*
  - *(i)* *voting interests, potential voting interests, or a combination thereof, using the cost method* (see paragraphs 1591.26A-.26B) *or the equity method* (see paragraph 1591.27)*;*
  - *(ii)* *contractual arrangements according to the nature of contractual arrangements in accordance with the applicable Section, such as a lease* (see LEASES, Section 3065)*, a financial asset or a financial liability* (see FINANCIAL INSTRUMENTS, 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 interests, potential voting interests, or a combination thereof, and in accordance with item (ii) for the contractual arrangements.*

All subsidiaries shall be accounted for using the same method. In making this accounting policy choice, the enterprise need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06*(b).*

.25 *An enterprise choosing the cost or equity method shall apply the chosen method consistently. For example, an enterprise that accounts for its subsidiaries using the cost or equity method shall apply the chosen method in accounting for a change in its ownership interest in a subsidiary.*

.26 *When a subsidiary's equity securities are quoted in an active market, the enterprise shall consolidate the subsidiary, or account for the subsidiary using the equity method or at its quoted amount, with changes recorded in net income. Under these circumstances, the subsidiary shall not be accounted for using the cost method.*

MEASUREMENT

Cost method

.26A *When a subsidiary controlled through voting interests, potential voting interests, or a combination thereof, is subsequently accounted for using the cost method, the initial measurement shall be determined on a basis that is similar to other business combinations* (see BUSINESS COMBINATIONS, Section 1582)*. The following accounting shall be applied:*

- *(a)* *A subsidiary transferred between enterprises under common control shall be accounted for in accordance with this paragraph when:*
  - *(i)* *the transaction is a monetary transaction, or a non-monetary transaction that has commercial substance* (see RELATED PARTY TRANSACTIONS, paragraph 3840.19)*;*
  - *(ii)* *the change in the ownership interests in the item transferred is substantive; and*
  - *(iii) the amount of consideration paid or received as established and agreed to by related parties is supported by independent evidence.*

  Otherwise, the acquiring enterprise initially measures its interest in the subsidiary at the carrying amount as defined in paragraph 3840.03(a).
- *(b)* *Cost shall be measured at the acquisition-date fair value of the consideration transferred to the other party in exchange for the interest in the subsidiary* (see BUSINESS COMBINATIONS, paragraphs 1582.39-.40)*. Cost includes consideration transferred on the acquisition date and any consideration transferred before or after the acquisition date. Consideration includes monetary and non-monetary consideration as well as any contingent consideration* (see paragraphs 1582.41-.42)*. When a subsidiary is acquired by an exchange of only equity interests, the acquisition-date fair value of the subsidiary's equity interests may be more reliably measurable than the acquisition-date fair value of the enterprise's equity interests. If so, the enterprise shall determine the fair value of the consideration transferred by using the acquisition-date fair value of the subsidiary's equity interests instead of the acquisition-date fair value of the enterprise's equity interests transferred.*
- *(c)* *Acquisition-related costs shall be recognized as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt and equity securities shall be recognized in*

accordance with FINANCIAL INSTRUMENTS, Section 3856, *and CAPITAL TRANSACTIONS, Section* 3610, *respectively.*

- *(d)* *The enterprise and the subsidiary may have a pre-existing relationship or other arrangement that existed before negotiations for the acquisition of the subsidiary began, or they may enter into an arrangement during the negotiations that is separate from the acquisition of the subsidiary, including the remuneration of employees or former owners of the acquiree for future services or reimbursement of the acquiree or its former owners for paying the acquirer's acquisition-related costs. In such situations, the requirements in BUSINESS COMBINATIONS, paragraphs* 1582.53-*.54 and* 1582.A44-*.A56, shall be applied.*
- *(e)* *An enterprise applying the cost method to the acquisition of a subsidiary does not recognize and measure the assets acquired, liabilities assumed or any non-controlling interest in the subsidiary. Consequently, a bargain purchase gain shall not be recognized.*
- *(f)* *An enterprise sometimes obtains control over another enterprise in which it held an interest in the other enterprise immediately before acquiring control, referred to here as a step acquisition (or control achieved in stages). In a step acquisition, the cost of the interest in the subsidiary shall be the carrying amount of the enterprise's interest in the other enterprise immediately before the date on which control was acquired plus the cost of the additional interest acquired, measured in accordance with this paragraph. In addition, the following accounting shall be applied:*
  - *(i)* *The previously held interest in the other enterprise shall not be remeasured.*
  - *(ii)* *Acquisition-related costs on the previously held interest capitalized in accordance with FINANCIAL INSTRUMENTS, paragraph* 3856.07*, shall not be expensed but shall continue to be included in the carrying amount of the interest in the subsidiary. However, acquisition-related costs on the additional interest that results in the enterprise acquiring control shall be recognized as an expense in accordance with (c) above.*

  The enterprise shall assess whether the cost of the additional interest acquired indicates that the carrying amount of the interest in the subsidiary may be impaired (see INVESTMENTS, paragraphs 3051.23-.27).
- *(g)* *If the initial accounting for a subsidiary in accordance with (b)-(f) above is incomplete by the end of the reporting period in which the acquisition occurs because of, for example, a working capital adjustment clause, the carrying amount of the interest in the subsidiary at the end of the reporting period in which the acquisition occurs shall be based on provisional amounts.*

.26B *In subsequent periods, an enterprise that accounts for its subsidiaries controlled through voting interests, potential voting interests, or a combination thereof, using the cost method shall apply the following accounting:*

- *(a)* *Earnings from subsidiaries shall be recognized only to the extent received or receivable.*
- *(b)* *At the end of each reporting period, the requirements on impairment in INVESTMENTS, paragraphs* 3051.23-*.27, shall be applied to each subsidiary.*
- *(c)* *Contingent consideration shall be remeasured when the contingency is resolved, on the same basis as required by BUSINESS COMBINATIONS, paragraph* 1582.60*.*
- *(d)* *The initial accounting for a subsidiary may have been incomplete at the end of the reporting period in which the acquisition occurs* (see paragraph 1591.26A(g))*. The provisional carrying amount of the interest in the subsidiary shall be adjusted in the period in which the provisional amounts are finalized to reflect new information obtained in the subsequent period about facts and circumstances that existed as of the acquisition date and, if known, would have affected the initial measurement of the interest in the subsidiary. This measurement period shall not exceed one year from the acquisition date. The enterprise shall not retrospectively adjust the provisional amounts recognized in the prior period. After the measurement period ends, the enterprise shall revise the accounting for a subsidiary only to correct an error in accordance with ACCOUNTING CHANGES, Section* 1506*.*
- *(e)* *When an ownership interest in a subsidiary increases as a result of an additional acquisition in the subsidiary, the cost of the subsidiary shall be the carrying amount of the interest in the subsidiary immediately before the acquisition plus the cost of the additional interest acquired, measured in accordance with paragraph* 1591.26A*. The enterprise shall assess whether the cost of the additional interest acquired indicates that the carrying amount of the interest in the subsidiary may be impaired* (see INVESTMENTS, paragraphs 3051.23-.27).
- *(f)* *When an ownership interest in a subsidiary decreases as a result of a sale of a portion of the interest in the subsidiary, the measurement of the retained interest in the subsidiary or the retained interest in the former subsidiary when control is lost shall be a proportionate share of the carrying amount of the interest in the subsidiary immediately prior to the reduction in interest. Any resulting gain or loss shall be recognized in income. The enterprise shall assess whether proceeds from the sale indicates that the carrying amount of the interest in the subsidiary may be impaired* (see INVESTMENTS, paragraphs 3051.23-.27)*. If the enterprise loses control of the subsidiary as a result of a sale of a portion of the interest in the subsidiary, the retained*

interest held in the former subsidiary shall be accounted for in accordance with INVESTMENTS, Section 3051, or FINANCIAL INSTRUMENTS, Section 3856*, as appropriate.*

(g) *When an ownership interest in a subsidiary decreases as a result of a dilution in the enterprise's interest in the subsidiary (for example, through the issuance of additional shares by the subsidiary to third parties), the enterprise shall assess whether the dilution indicates that the carrying amount of the interest in the subsidiary may be impaired* (see INVESTMENTS, paragraphs 3051.23-.27). *If the enterprise loses control of the subsidiary as a result of dilution, the retained interest held in the former subsidiary shall be accounted for in accordance with INVESTMENTS, Section 3051, or FINANCIAL INSTRUMENTS, Section* 3856*, as appropriate.*

Equity method

.27 *An enterprise that accounts for its subsidiaries using the equity method shall apply that method in accordance with INVESTMENTS, Section* 3051*. In addition, the enterprise shall apply the following accounting:*

(a) *Contingent consideration for the acquisition of a subsidiary shall be measured at fair value at the date of acquisition and included in the carrying amount of the investment. In subsequent periods, contingent consideration shall be measured on the same basis as required by BUSINESS COMBINATIONS, paragraph* 1582.60*.*

(b) *Acquisition-related costs shall be recognized as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt and equity securities shall be recognized in accordance with FINANCIAL INSTRUMENTS, Section* 3856*, and CAPITAL TRANSACTIONS, Section* 3610*, respectively.*

PRESENTATION

.28 *When an enterprise applies the accounting policy choice as set out in paragraph* 1591.24*(b), it shall describe its financial statements as being prepared on a non-consolidated basis, and each statement shall be labelled accordingly.*

.29 *Non-consolidated subsidiaries controlled through voting interests, potential voting interests, or a combination thereof, shall be presented separately from other investments in the balance sheet. Income or loss from interests in subsidiaries shall be presented separately in the income statement. Subsidiaries controlled through voting interests, potential voting interests, or a combination thereof, and income from those interests may be presented with interests in joint arrangements that are accounted for using the same method (cost, equity or fair value).*

.30 The requirements of RELATED PARTY TRANSACTIONS, Section 3840, and FINANCIAL INSTRUMENTS, Section 3856, apply to intercompany transactions that would otherwise have been eliminated on consolidation when an enterprise applies one of the alternative methods permitted by paragraph 1591.24(b)(i).

.31 The requirements of RELATED PARTY TRANSACTIONS, Section 3840, would not apply to intercompany transactions between the parent and subsidiaries controlled through means other than voting interests, potential voting interests, or a combination thereof, that would otherwise be eliminated on consolidation when:

(a) the enterprise is preparing non-consolidated financial statements; and

(b) control through means other than voting interests, potential voting interests, or a combination thereof, is the only basis of the relationship with the other party.

DISCLOSURE

Consolidated financial statements

.32 W*hen an enterprise does not own, directly or indirectly through subsidiaries, an equity interest that gives the enterprise control of the subsidiary, the enterprise shall disclose:*

(a) *the basis for the determination that a parent-subsidiary relationship exists;*

(b) *the name of the subsidiary; and*

(c) *the percentage ownership (if any).*

.33 *When an enterprise owns, directly or indirectly through subsidiaries, an equity interest carrying the right to elect the majority of the members of the board of directors of an investee that is not a subsidiary, the enterprise shall disclose:*

(a) *the basis for the determination that a parent-subsidiary relationship does not exist;*

(b) *the name of the investee; and*

(c) *the percentage ownership.*

.34 *An enterprise shall provide a listing and description of significant subsidiaries including their names and the proportion of ownership interests held in each subsidiary.*

.35 *An enterprise shall disclose significant restrictions on access to the assets of subsidiaries, including such matters as:*

(a) *limits on access to the consolidated enterprise's assets by its owners or the enterprise, such as pledges of assets of the subsidiary as collateral for the liabilities of the subsidiary; and*

(b) *limits on recourse by the creditors or owners of a subsidiary against the enterprise itself.*

Non-consolidated financial statements

.36 *An enterprise that prepares non-consolidated financial statements shall disclose the basis used to account for its subsidiaries controlled through voting interests, potential voting interests, or a combination thereof.*

.37 *An enterprise that elects to account for its subsidiaries controlled through voting interests, potential voting interests, or a combination thereof, using the equity method shall disclose the fair value of its interest in a subsidiary when it is quoted in an active market.*

.38 *An enterprise that prepares non-consolidated financial statements shall provide a listing and description of significant subsidiaries controlled through voting interests, potential voting interests, or a combination thereof, including their names, carrying values and the proportion of ownership interests held in each subsidiary.*

.38A *When a subsidiary is acquired during the current reporting period and an enterprise prepares non-consolidated financial statements, the enterprise shall also provide the disclosures required by BUSINESS COMBINATIONS, paragraphs* 1582.61-*.62,* 1582.63 *and* 1582.65*.*

.38B *When the equity method is used to account for a subsidiary and the fiscal periods of an enterprise and the subsidiary are not coterminous, events relating to, or transactions of, the subsidiary that have occurred during the intervening period and significantly affect the financial position or results of operations of the enterprise shall be disclosed. This disclosure is not necessary if these events or transactions are recorded in the financial statements.*

.38C *An enterprise choosing the cost or equity method to account for a subsidiary shall disclose:*

(a) the carrying amount of an impaired interest in the subsidiary and the amount of any related allowance for impairment; and

(b) the amount of any impairment loss or reversal of a previously recognized impairment loss that is included in net income.

.38D *If the acquisition date is after the end of the reporting period but before the financial statements are completed, the enterprise shall disclose the information required by BUSINESS COMBINATIONS, paragraphs* 1582.62 *and 1582.63, unless the initial accounting for the subsidiary is incomplete at the time the financial statements are completed. In that situation, the enterprise shall describe which disclosures could not be made and the reasons why they cannot be made.*

.38E *If the initial accounting for a subsidiary is incomplete and the amount recognized in the financial statements for the interest in the subsidiary has been determined using provisional amounts, an enterprise shall disclose the reasons why the initial accounting for the business combination is incomplete and what is subject to change.*

.38F *For the reporting period after the acquisition date, an enterprise shall disclose the nature and amount of any measurement period adjustments recognized in accordance with paragraph* 1591.26B*(d) and the reasons for those adjustments.*

EFFECTIVE DATE AND TRANSITION

.39 Except as specified in paragraphs 1591.39A-.39B and 1591.39D, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2016. An enterprise applies this Section retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, except as specified in paragraphs 1591.40-.47. Earlier application is permitted.

.39A New paragraphs 1591.23A and 1591.41A and amended paragraph 1591.42, issued in December 2016, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2017. Earlier application is permitted.

.39B Amendments to paragraphs 1591.24-.26 and 1591.27 and new paragraphs 1591.26A-.26B and 1591.38A-.38F, issued in December 2016, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2018. An enterprise applies these amendments prospectively as defined in ACCOUNTING CHANGES, paragraph 1506.05(g), except as specified in paragraph 1591.39C. Earlier application is permitted.

.39C Paragraph 1591.26B(d) does not apply when accounting for the acquisition of a subsidiary that is incomplete when the acquisition occurred prior to the date the amendments specified in paragraph 1591.39B are applied.

.39D Amendments to paragraphs 1591.14 and 1591.30 and new paragraphs 1591.14A-.14D, issued December 2018, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

.40 When an enterprise applies the accounting policy choice set out in paragraph 1591.24(b) and accounts for its subsidiaries using the cost or equity method, paragraphs 1591.41-.47 do not apply.

.41 When an enterprise applies the accounting policy choice to consolidate its subsidiaries as set out in paragraph 1591.24(a) and applies this Section for the first time, the enterprise is not required to make retrospective adjustments to the previous accounting for its involvement with either:

(a) enterprises that were consolidated previously and continue to be consolidated in accordance with this Section; or

(b) enterprises that were not consolidated previously and are not consolidated in accordance with this Section.

Consolidate a subsidiary that was not consolidated previously

.41A An enterprise can only apply paragraphs 1591.42-.47 when preparing its annual financial statements relating to the first fiscal year in which Section 1591 is effective.

.42 When an enterprise applies an accounting policy to consolidate its subsidiaries, and concludes on the date at which this Section is first effective that it has subsidiaries that were not consolidated previously, the enterprise uses the methods set out below to measure the assets, liabilities and non-controlling interests in previously unconsolidated subsidiaries. For each previously unconsolidated subsidiary, the enterprise selects one method to measure the assets, liabilities and non-controlling interests of that subsidiary and uses financial information prepared in accordance with this Part of the Handbook:

(a) The enterprise applies the acquisition method in accordance with BUSINESS COMBINATIONS, Section 1582, as if the previously unconsolidated enterprise had been consolidated from the date when the enterprise obtained control on the basis of the requirements in this Section, when the information is available. If the enterprise is not a business (as defined in paragraph 1582.03(d)), the enterprise applies the acquisition method without recognizing goodwill for the previously unconsolidated enterprise. When the date control was acquired is before the beginning of the immediately preceding period, the enterprise recognizes, as an adjustment to opening retained earnings at the beginning of the immediately preceding fiscal year, any difference between:

(i) the amount of assets, liabilities and non-controlling interests recognized; and

(ii) the previous carrying amount of the enterprise's interest in the other enterprise.

(b) The enterprise uses the carrying amounts of the assets and liabilities in the financial statements of the previously unconsolidated enterprise at the beginning of the fiscal year immediately preceding the date at which this Section is applied for the first time. If control was obtained after the beginning of the immediately preceding fiscal year and before the date at which this Section is applied for the first time, the enterprise uses the carrying amounts at the date control was acquired. The enterprise uses the carrying amounts, when they are determinable, as the deemed cost at the beginning of the fiscal year immediately preceding the date at which this Section is applied for the first time, or at the subsequent date control was acquired, as applicable. At that date, the enterprise:

(i) measures any non-controlling interest in the previously unconsolidated enterprise at the non-controlling interest's proportionate share of the previously unconsolidated enterprise's reported net assets;

(ii) tests long-lived assets, goodwill and intangible assets reported in the financial statements of the unconsolidated enterprise for impairment in accordance with IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, and GOODWILL AND INTANGIBLE ASSETS, Section 3064;

(iii) deems any cumulative translation differences related to the unconsolidated enterprise to be zero; and

(iv) recognizes, as an adjustment to opening retained earnings or retained earnings, as applicable, any difference between the net amount added to the balance sheet of the enterprise and the amount of any previously recognized interest in the previously unconsolidated enterprise.

.43 An enterprise applying one of the options in paragraph 1591.42 may elect to measure any item of property, plant and equipment at its fair value at the beginning of the fiscal year immediately preceding the date at which this Section is first applied or the date at which control was obtained when that date is after the beginning of the immediately preceding fiscal year and before the date at which this Section is applied for the first time. The enterprise uses that fair value as its deemed cost.

.44 If the enterprise does not have information to prepare financial statements of the previously unconsolidated enterprise in accordance with this Part of the Handbook, the enterprise measures the assets, liabilities and non-controlling interests in the previously unconsolidated enterprise by applying the acquisition method in accordance with Section 1582, except that the enterprise:

(a) does not recognize any goodwill and intangible assets in the previously unconsolidated enterprise;

(b) measures any non-controlling interest in the previously unconsolidated enterprise at the non-controlling interest's proportionate share of the net assets of the unconsolidated enterprise after applying the acquisition method; and

(c) recognizes any difference between the net amount added to its balance sheet and the amount of any previously recognized interest in the previously unconsolidated enterprise as an adjustment to opening retained earnings.

.45 The enterprise applies the requirements in paragraph 1591.44 at the beginning of the fiscal year immediately preceding the date at which this Section is first applied or at the date control was obtained when that date is after the beginning of the immediately preceding fiscal year and before the date at which this Section is applied for the first time.

No longer consolidate a subsidiary that was previously consolidated

.46 When an enterprise applies an accounting policy choice to consolidate its subsidiaries and concludes on the date at which this Section is first applied that it will no longer consolidate an enterprise that was consolidated previously, the enterprise determines its interest in the previously consolidated enterprise as at the beginning of the fiscal year immediately preceding the date at which this Section is applied for the first time. If the interest in the other enterprise was obtained after the beginning of the immediately preceding period and before this Section was applied for the first time, the date the interest was obtained is used. At this date, the enterprise measures that interest as the aggregate of the carrying amounts of the assets, liabilities and non-controlling interests that the enterprise had previously consolidated, including any goodwill arising from acquisition and uses this balance as the deemed cost. In addition, the enterprise:

(a) tests the net investment for impairment in accordance with INVESTMENTS, Section 3051, at the beginning of the immediately preceding fiscal year; and

(b) accounts for other rights and obligations in accordance with the applicable Section(s), such as a lease (see LEASES, Section 3065) or a financial liability (see FINANCIAL INSTRUMENTS, Section 3856).

.47 If the aggregate of the previously consolidated assets, liabilities and non-controlling interest results in negative net assets, an enterprise assesses whether it has legal or constructive obligations in relation to the negative net assets and, if so, the enterprise recognizes the corresponding liability. If the enterprise concludes that it does not have legal or constructive obligations in relation to the negative net assets, it does not recognize the corresponding liability but it adjusts opening retained earnings at the beginning of the fiscal year immediately preceding the date at which this Section is applied for the first time or at the date the interest was acquired when that date is after the beginning of the immediately preceding fiscal year and before the date at which this Section is applied for the first time.
