exposure draft

ACCOUNTING STANDARDS BOARD
PROPOSED ACCOUNTING STANDARDS
FOR PRIVATE ENTERPRISES

Consolidations

August 2013

COMMENTS TO THE AcSB MUST BE RECEIVED BY NOVEMBER 11, 2013

This Exposure Draft reflects proposals made by the Accounting Standards Board (AcSB).

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AcSB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

To be considered, comments to the AcSB must be received by November 11, 2013, addressed to:

Peter Martin, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

A PDF response form has been posted with this document to assist you in submitting your comments to the AcSB. Alternatively, you may send comments by email (in Word format), to: ed.accounting@cpacanada.ca

Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to replace SUBSIDIARIES, Section 1590 in Part II of the CICA Handbook – Accounting, with new Section 1591, as part of its program of major improvements to accounting standards for private enterprises.

Main features of the Exposure Draft

The proposals focus on withdrawing ACCOUNTING GUIDELINE AcG-15, Consolidation of Variable Interest Entities, and replacing it with guidance in SUBSIDIARIES, Section 1591, that requires the use of judgment to determine when control is obtained through means other than equity interests. The proposals are based on the concepts in IFRS 10 Consolidated Financial Statements. The guidance in Section 1590 on accounting for subsidiaries controlled through equity interests is being retained. Proposed revisions to the guidance on equity interests are limited, to minimize the extent of change private enterprises need to consider.

For an analysis of the effects of these proposals, see "Basis for Conclusions." A Table of Concordance summarizes the changes from Section 1590. The substantive changes are as follows:

Scope

- Section 1591 would include the scope exemptions in AcG-15 relating to an employer's accounting for an employee benefit plan and accounting for a qualifying special purpose entity.
- Section 1591 would exclude accounting for contractual arrangements between enterprises under common control. Each enterprise would report its rights and obligations related to other enterprises under common control in accordance with the other applicable Sections.

Definitions

- Section 1591 would include guidance explaining how to apply the existing definitions of a subsidiary and control of an entity when the rights of equity interests may not be the dominant factor in determining who controls an enterprise. In those circumstances, control of an enterprise may be obtained through statute, contractual arrangements or ownership of financial instruments that, if converted or exercised, either individually or in combination would give another enterprise control. For example, an enterprise might be able to appoint the board of directors of another enterprise through such other means of control.
- Control of an enterprise would be assessed by giving consideration to:
    - o involvement in the inception of the other enterprise and decisions made at that time in determining its purpose and design;

- how decisions are made about the strategic policies that could affect the right and ability to obtain future economic benefits and related risks; and
- the risks to which the other enterprise was designed to be exposed.

- An enterprise would be required to review contractual arrangements to consider all facts and circumstances, including 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.
- Rights that are designed to protect the interest of the enterprise holding those rights without giving it control would need to be distinguished from rights that do confer control.

Recognition and presentation

- When an enterprise chooses to prepare non-consolidated financial statements, the enterprise would continue to be permitted to account for subsidiaries controlled through voting interests and/or potential voting interests using the equity or cost method. Subsidiaries controlled through contractual arrangements alone or in combination with equity interests would be accounted for according to the nature of the contractual arrangements in accordance with the applicable Section.
- When an enterprise prepares non-consolidated financial statements and control is the only basis of the relationship with another enterprise, 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 and/or potential voting interests that would otherwise have been eliminated on consolidation.

Disclosure

- The requirement in AcG-15 for a reporting enterprise to disclose significant restrictions on access to the assets of subsidiaries would be carried forward into Section 1591 for application by enterprises preparing consolidated financial statements.

Transition

- Retrospective application of Section 1591 would be required in accordance with ACCOUNTING CHANGES, Section 1506, except as permitted by the transition provisions. The transition provisions would provide relief to an enterprise that prepares consolidated financial statements for the first time or prepared consolidated financial statements previously when adopting Section 1591. The key transition provisions include the following options:
    - An enterprise would be permitted to measure the assets, liabilities and non-controlling interests of a subsidiary that was not consolidated previously using either the acquisition method in accordance with BUSINESS COMBINATIONS, Section 1582, or the

carrying amounts of the assets and liabilities of the previously unconsolidated enterprise, based on the information available. In addition, an enterprise would be permitted to measure any item of property, plant and equipment at fair value as at the beginning of the comparative period.

- o If an enterprise lacks the information to prepare financial statements of the subsidiary in accordance with the standards in Part II of the Handbook, the enterprise would measure the assets, liabilities and non-controlling interests of the previously unconsolidated enterprise by applying the acquisition method in accordance with Section 1582, without recognizing any goodwill or intangible assets, as at the beginning of the comparative period.

Consequential amendments

Section 1590 contains statements explaining the rationale for its key requirements because separate background information and basis for conclusions documents were not issued when the Section was first developed. Those statements would be moved to the basis for conclusions for Section 1591 to the extent that they remain applicable.

FIRST-TIME ADOPTION, Section 1500
Section 1500 would be amended to allow an enterprise that is preparing financial statements under Part II of the Handbook for the first time to apply the transition provisions from Section 1591 if it chooses to consolidate it subsidiaries for the first time. Accordingly, an enterprise would be able to measure the assets, liabilities and non-controlling interests of a subsidiary based on the methods described above.

CONSOLIDATED FINANCIAL STATEMENTS, Section 1601
The AcSB noted that paragraphs 1590.17-.22 provide guidance on how to consolidate a subsidiary. CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, also provides guidance on how to consolidate. The proposal is to move the Section 1590 guidance into Section 1601, so that all guidance on how to consolidate is contained in one Section. Duplicated guidance would be deleted. See the table of concordance for details of the relocation of the respective paragraphs.

Plans for finalizing the proposals

The AcSB, in consultation with its Private Enterprise Advisory Committee, will redeliberate the proposals to take into account comments received. The AcSB will provide updates about its redeliberations on its Consolidations project page.

The AcSB plans to issue the final standard in a package with other major improvements to accounting standards for private enterprises in the second half of 2014. The effective date of the standards included in these improvements will be no earlier than fiscal years beginning on January 1, 2016.

Comments requested

The proposed new guidance in Section 1591 would apply to private enterprises that choose to prepare consolidated financial statements and have contractual arrangements that provide the enterprise with control over other enterprises. Section 1591 carries forward much of the text from Section 1590 that was not within the scope of the current project. Therefore, the AcSB requests comments only on the changes discussed in the Highlights and summarized in the Table of Concordance.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative supported by specific reasoning.

While the AcSB welcomes comments on all new guidance proposed in Section 1591, it particularly welcomes comments on the following:

1. Do you agree that AcG-15 is problematic to apply and should be replaced with qualitative guidance that involves the application of judgment to determine when an enterprise has a subsidiary?

2. Do you think that control can be conveyed through means other than equity interests, such as through contractual arrangements either separately or in combination with equity interests?

3. Do you think the proposed guidance would be operational in practice (see paragraphs 1591.15-.20)? Please provide a description of the scenarios considered to assess whether the guidance is operational.

4. Do you agree with the disclosure requirements in paragraph 1591.34?

5. Do you think that the transition provisions would enable an enterprise to apply the new guidance retrospectively in a cost-effective manner (see paragraphs 1591.38-.45)?

6. Do you agree that exemptions should be included in Section 1500 to provide enterprises adopting accounting standards for private enterprises for the first time with relief when preparing their first set of consolidated financial statements?

7. Do you agree with the consequential amendments, including the proposed changes to Section 1601?

For your convenience, a PDF response form has been posted with this document. You can save the form both during and after its completion for future reference. Alternatively, written comments may be submitted by email (Word format preferred) to: ed.accounting@cpacanada.ca.

Basis for Conclusions

Introduction

This Basis includes the expected effects that were considered by the AcSB in developing the proposals in this Exposure Draft. The AcSB considered a simpler approach to identify and account for enterprises controlled through means other than equity interests in practice. In developing these proposals, the AcSB considered the consequences of adopting new guidance relative to the objective of financial statements and the benefit versus cost constraint, as described in FINANCIAL STATEMENT CONCEPTS, Section 1000. The purpose of financial reporting is to "communicate information that is useful to investors, creditors and other users in making their resource allocation decisions and/ or assessing management stewardship."

The AcSB thinks that the proposals will result in a more consistent application of the general consolidation requirements and, therefore, benefit users of financial statements by providing relevant information about the assets and liabilities an enterprise controls, and more comparable consolidated financial statements.

AcG-15 is a quantitative assessment that requires extensive work to understand and evaluate. The proposed guidance is based on professional judgment and is intended to be easier to understand and more cost-effective to apply.

Effects analysis

Based on these proposals, enterprises that prepare consolidated financial statements may identify new subsidiaries that would need to be consolidated and some other enterprises that were consolidated previously may no longer qualify as subsidiaries. Such changes could have a significant effect on the financial statements of enterprises. Based on the information available, this could involve extensive work effort during transition to the new Section. Therefore, the AcSB has proposed transition relief to assist in the initial preparation of consolidated financial statements and to minimize the costs involved.

Background

When the standards in Part II were developed, AcG-15 was identified as causing significant difficulty for private enterprises. AcG-15 is based on parts of U.S. GAAP that were recognized as needing improvement and that have been replaced subsequent to the adoption of AcG-15 by the U.S. Financial Accounting Standards Board Interpretation 46(R), *Consolidation of Variable Interest Entities*. In addition, the International Accounting Standards Board (IASB) has recently revised its consolidation standard to replace the guidance previously in International Financial Reporting Standards (IFRSs) on broadly the same issue as that addressed by AcG-15. Therefore, the AcSB committed to taking on a project to replace the AcG-15 guidance once the

IASB's work was completed, so that the AcSB could benefit from both the work of the IASB and the U.S. FASB. Implementing multiple changes in the short term, or coming to final conclusions that are not converged, would not serve the needs of private enterprise stakeholders.

Input received from stakeholders during the development of the standards in Part II supported reviewing IFRSs for potential changes to accounting standards for private enterprises, as this minimizes confusion in the marketplace and the educational and training burden for those who need to work with both sets of standards.

The AcSB, with the advice of the Private Enterprise Advisory Committee, reviewed IFRS 10 to determine how appropriate it would be for Canadian private enterprises. The AcSB considered adopting IFRS 10; however, substantive modifications would be required to make the standard appropriate for Canadian private enterprises. For example, the AcSB thinks that the accounting policy choice to account for subsidiaries using the cost or equity method should be retained. The AcSB understands that the accounting policy option is widely used in practice and that the cost/benefit rationale for providing those options remains unchanged. Therefore, the AcSB decided to propose modifying Section 1590 by incorporating adapted guidance from IFRS 10.

The AcSB also conducted additional outreach to determine the issues stakeholders are facing with AcG-15 in practice. Several stakeholders suggested that the AcSB consider adding an accounting policy choice to allow enterprises to consolidate subsidiaries based on voting interests and excluding variable interest-type arrangements. Those stakeholders thought that an additional policy choice would simplify and, therefore, improve financial reporting. The AcSB did not agree with providing such a policy choice because such a set of financial statements would be incomplete, as enterprises would only be consolidating part of the picture. The use of multiple types of consolidated financial statements would also be confusing to users of financial statements, as they would have to identify the differences between each type.

Scope

The proposals include retaining scope exemptions from AcG-15 relating to an employer's accounting for an employee benefit plan and accounting for a qualifying special purpose entity as the accounting for those arrangements is provided in other Sections.

In discussions, the AcSB agreed with the advice from the Private Enterprise Advisory Committee that the proposals should not apply to contractual arrangements between enterprises under common control. In most circumstances, equity interests are the key factor for determining control when considering common control scenarios. In these situations, the controlled enterprises within a single control group are controlled from the top and not through relationships lower down in the organizational structure. For example, the controlling party could direct the activities of its controlled enterprises so that one of the enterprises appears to control several others at one point in time and another enterprise appears to control those same enterprises at another point in time. Stakeholders also observed that, on these occasions, combined financial statements might provide useful information to the financial statement users.

One standard for consolidation

The objective in proposing to issue Section 1591 is to improve the usefulness of consolidated financial statements by developing guidance to apply to situations in which it has proved difficult to assess control in practice. The proposals provide additional guidance for enterprises to evaluate whether contractual arrangements confer control over another enterprise and the ability to obtain future economic benefits from it. The AcSB does not want to modify the voting control model as it has been working well in practice. Therefore, the definition of control and a subsidiary remain unchanged, and the changes proposed provide guidance on when enterprises are controlled through mechanisms other than equity interests.

The AcSB evaluated different approaches to determine the most effective and efficient way of describing enterprises that are controlled through a mechanism other than equity interests. For example, the AcSB considered referring to these arrangements as "special purpose enterprises" and requiring a two-step assessment. The first step would be to identify special purpose enterprises to narrow the number of enterprises that would be assessed to determine if the reporting enterprise controls the special purpose enterprise in the second step. The AcSB does not propose this approach because it could exclude some enterprises that would not qualify as a special purpose enterprise but are subsidiaries.

When equity interests are not the dominant factor in determining control

The proposals focus on when the rights of equity interests may not be the dominant factor in determining who controls an enterprise, such as when the equity interests do not provide the holder with the continuing power to determine the strategic operating, investing and financing policies of the enterprise. An enterprise considers situations in which it has equity interests in and contractual arrangements with another enterprise, as well as when the enterprise only has contractual arrangements with the other enterprise.

The AcSB focused on identifying circumstances in which contractual arrangements can confer on the enterprise the right and ability to obtain future economic benefits from another enterprise and exposure to the related risks of that enterprise. The proposals reinforce the need to consider all facts and circumstances and apply judgment when assessing whether an enterprise is a subsidiary.

The AcSB also considered adding guidance on franchise arrangements based on the guidance found in IFRS 10. However, the AcSB proposes guidance on protective rights, rather than guidance on specific fact patterns such as franchises, in order to make the guidance broadly applicable. The guidance would help to distinguish rights that provide control from those that protect an enterprise's interest in another enterprise but do not confer control.

Recognition and presentation

The proposals clarify that when enterprises prepare non-consolidated financial statements, subsidiaries controlled through contractual arrangements, or in combination with voting interests, would be accounted for according to the nature of the contractual arrangement in accordance with the applicable Section. That is, if the enterprises are parties to a lease agreement, the guidance in LEASES, Section 3065, would be applicable. The AcSB thinks that this clarification would reflect how such arrangements are commonly accounted for in practice.

The AcSB also decided that the requirements in Section 3840 should not apply to intercompany transactions between an enterprise and subsidiaries controlled through means other than voting interests when the enterprise is preparing non-consolidated financial statements and control is the only basis of the related party relationship. This scope exclusion is proposed to prevent enterprises preparing non-consolidated financial statements from having to complete a control assessment in order to comply with Section 3840 when it would not be required to comply with Section 1591. This scope exclusion would result in permitting a practice the AcSB understands occurs today given that enterprises preparing non-consolidated financial statements are exempted from applying AcG-15 and identifying enterprises controlled through means other than voting interests.

The measurement guidance in Section 3840 requires an enterprise to account for monetary transactions or non-monetary transactions that have commercial substance at the exchange amount when done in the normal course of operations. Typically, this amount would be similar with the amount determined by following the guidance in other Sections.

Disclosure

The AcSB evaluated the disclosure required by AcG-15 to identify any requirements that should be retained. The AcSB thinks that the disclosure of significant restrictions on assets of a subsidiary should be required for enterprises preparing consolidated financial statements. Disclosing information about those assets in the notes to the financial statements would enable users to identify the nature and risks of those assets. For enterprises preparing non-consolidated financial statements, other applicable Sections require such disclosures.

Transition

The AcSB proposes transition guidance to provide relief for enterprises that prepared consolidated financial statements previously and those that choose to prepare consolidated financial statement for the first time when applying the proposed standard.

The proposals provide a choice of methods to measure the assets, liabilities and non-controlling interests in each previously unconsolidated enterprise on a subsidiary-by-subsidiary basis, when the information is available. The option to apply the acquisition method in BUSINESS COMBINATIONS, Section 1582, would result in an enterprise preparing the most complete set of consolidated financial statements. It would result in comparable statements between enterprises and provide the most faithful representation of the assets and liabilities of a subsidiary. However, the AcSB recognizes that applying the acquisition method can be time consuming and costly for some enterprises. Therefore, the proposals include the option to use the carrying amounts of the assets and liabilities of the previously unconsolidated enterprise. When applying those options, the AcSB also proposes to permit an enterprise to measure any item of property, plant and equipment at fair value at the beginning of the comparative period, to be consistent with the option provided in FIRST-TIME ADOPTION, Section 1500.

Some enterprises that choose to prepare consolidated financial statements for the first time when applying the proposals might have subsidiaries that have not prepared financial information in accordance with accounting standards for private enterprises previously and may lack the information to do so. In those situations, the proposals permit the enterprise to measure the assets, liabilities and non-controlling interests by applying the acquisition method in accordance with Section 1582 without the recognition of any goodwill and intangible assets, as of the beginning of the comparative period. The AcSB proposes to exclude those assets because internally generated goodwill and intangible assets would not otherwise have been reported, and it would be difficult to distinguish between assets that were purchased and those that were internally generated.

The AcSB also proposes relief for enterprises that would no longer be required to consolidate an enterprise that it consolidated previously. This guidance is consistent with the amendments being proposed in the Exposure Draft, "Joint Arrangements and Investments," and is practical for enterprises to apply given the information they will have available.

Statements within Section 1590 explaining the rationale of the AcSB

As background information and basis for conclusions documents were not issued when Section 1590 was first developed, statements explaining the rationale for requirements would be moved to the basis for conclusions to Section 1591 or removed if the statements would be no longer applicable, as described below.

Definition of a subsidiary
Paragraph 1590.06 clarifies that the definition of a subsidiary based on control is consistent with the view that an objective of financial reporting is to report on those resources controlled by the parent. This statement would not be carried forward into Section 1591 but, instead, would be included in the basis for conclusions for that Section.

Disclosure
In the requirements for consolidated financial statements, paragraph 1591.31 requires an enterprise to provide disclosures when it does not own, directly or indirectly through subsidiaries, an equity interest but nevertheless controls the subsidiary. The guidance included previously a statement (see paragraph 1590.28) that those circumstances are not commonly encountered and are contrary to the presumptions described in paragraph 1591.09. Those circumstances would be more common as the proposals focus on when contractual arrangements alone or in combination with equity interests can lead to control. Therefore, the statement would no longer be applicable and would not be carried forward into Section 1591.

Consequential amendments

The withdrawal of AcG-15 and the changes that are being proposed would have an effect on other Sections. The rationale for the more significant amendments is described below.

FIRST-TIME ADOPTION, Section 1500
The AcSB reviewed the current exemptions available in Section 1500 when an enterprise adopts accounting standards for private enterprises for the first time. The AcSB thinks that the relief for business combinations in Section 1500 is sufficient for enterprises that have prepared consolidated financial statements previously, as the information necessary to apply proposed Section 1591 is available. However, for enterprises that did not prepare consolidated financial statements previously, the AcSB has proposed allowing these enterprises to use the transition relief in Section 1591 to measure the assets, liabilities and non-controlling interests based on the options provided. This would provide relief that would make it practicable for more enterprises to prepare consolidated financial statements when they first adopt accounting standards for private enterprises.

The AcSB also proposes to add an exemption from IFRS 1 *First-Time Adoption of International Financial Reporting Standards* for circumstances in which a subsidiary becomes a first-time adopter later than its parent. The AcSB thinks that this exemption is necessary as the proposals might lead to enterprises changing their accounting policy and choosing to consolidate subsidiaries that might not have applied Part II of the Handbook previously.

The proposals also contain an exemption for circumstances in which a parent becomes a first-time adopter later than its subsidiaries. This exemption would provide additional relief as it allows the enterprise to measure the assets, liabilities and non-controlling interests at the subsidiary's carrying amounts after adjusting for consolidation and equity accounting and for the effects of the business combination in which the enterprise acquired the subsidiary.

Conclusion

Having considered the effects of the changes proposed in Section 1591 as discussed above, the AcSB thinks that the positive effects of the proposals will outweigh any negative effects and that the proposals will result in significant improvements to financial reporting for subsidiaries.

Table of Concordance

The following table indicates the correspondence between the proposed new Section and the existing Section on Consolidations. Comments have been included for changes, as appropriate. Minor changes include updates for terminology and editorial changes.

Paragraph(s) in proposed Section 1591	Paragraph(s) in Section 1590	No change	Changes		Comments
			Minor	Substantive	
PURPOSE AND SCOPE					
.01	.01		X		Includes reference to combined financial statements
.02	.02		X		Carry forward exceptions from the Guideline
DEFINITIONS					
.03	.03	X			
.04	—		X		Examples of forms a subsidiary can take
.05-.06	.04-.05	X			
.07	.06		X		Remove a basis type statement and require an enterprise to consider all facts and circumstances
.08-.12	.07-.11		X		
.13-.14	.12		X		
.15-.19	—			X	Guidance on assessing control when equity interests are not a dominant factor
.20	—			X	Guidance on assessing rights designed to protect the interest of the enterprise holding those rights
.21	.13	X			
.22	.14		X		

Paragraph(s) in proposed Section 1591	Paragraph(s) in Section 1590	No change	Changes		Comments
			Minor	Substantive	
RECOGNITION AND PRESENTATION					
.23-.24	.15		X		Clarify that an enterprise that accounts for their subsidiaries using cost or equity method, would account for subsidiaries controlled through contractual arrangements in accordance with the applicable Section
.25-26	.16-.16A		X		
—	.17		X		Explanatory material would be included in the basis for conclusions for Section 1591.
—	.18		X		Move to 1601.06A under Preparation of Consolidated Financial Statements as this guidance is on how to consolidate
—	.19		X		Delete as this requirement is contained in paragraph 1601.01(d)
—	.20		X		Move to 1601.33A under a new heading Prospective Consolidation as this guidance is on how to consolidate
—	.21-22		X		Move to 1601.34A-B under a new heading Cessation of Consolidation as this guidance is on how to account for an enterprise that ceases to be a subsidiary
Non-consolidated financial statements					
.27	.23	X			
.28	.24	X			
.29	.25		X		
.30	—		X		Exception to applying RELATED PARTY TRANSACTIONS, Section 3840
DISCLOSURE					
Consolidated Financial Statements					
.31-.32	.26-.27		X		
—	.28		X		Explanatory material that is no longer relevant.
.33	.29		X		
.34	—			X	Carry forward disclosure requirement from paragraph 28 of AcG-15
Non-consolidated financial statement					
.35-.37	.30-.32		X		

Paragraph(s) in proposed Section 1591	Paragraph(s) in Section 1590	No change	Changes		Comments
			Minor	Substantive	
EFFECTIVE DATE AND TRANSITION					
—	.33-.34				Not relevant to new Section 1591
.38-.45	—			X	Effective date and transition

Subsidiaries, Section 1591

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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 VENTURES, Section 3055, 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 may be obtained through statute, contractual arrangements, or ownership of financial instruments that, if converted or exercised, either individually or 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 cost is 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.

.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. For example, the enterprise may be able to appoint the board of directors of another enterprise through contractual arrangements rather than through ownership of equity interests. Many factors need to be considered, including the purpose and design of the enterprise and rights that are closely related to the operations of the other enterprise (for example, a call or a put right).

.16 An enterprise assesses control of another enterprise by considering the following 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.

.17 Being involved in the design of another enterprise may indicate that the enterprise had the opportunity to obtain rights that are sufficient to give it control over the other enterprise. For instance, 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.

.18 An enterprise reviews contractual arrangements with the other enterprise and considers all facts and circumstances, 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 influence 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.

.19 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.

.20 There are rights designed to protect the interest of the enterprise holding those rights that do not give it the power to make decisions about the other enterprise's activities and can affect its ability to obtain future economic benefits and be exposed to the related risks. Those 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. Rights that are designed to protect the interest of the enterprise holding those rights 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; and

(c) rights that allow the enterprise to direct or restrict the other enterprise's activities relating to use 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.

.21 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.

.22 Even when an enterprise has majority voting interests or contractual arrangements that confer control, either individually or 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 AND PRESENTATION

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

(a) consolidate its subsidiaries (see CONSOLIDATED FINANCIAL STATEMENTS, Section 1601)*; or*

(b) account for its subsidiaries that are:

(i) controlled through voting interests and/or potential voting interests using the equity method (see INVESTMENTS, Section 3051) *or the cost method* (see INVESTMENTS, Section 3051)*; and*

(ii) controlled through contractual arrangements or in combination with voting interests and/or potential voting interests 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) *or voting interest* in item (i)*.*

In making this accounting policy choice, the-enterprise need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b).

.24 ♦ *An enterprise choosing the cost or equity method shall apply the chosen method consistently to all enterprises controlled through voting interests and/or potential voting interests. For example, an enterprise that accounts for its subsidiaries using the cost or equity method shall apply that method in accounting for a change in its ownership in a subsidiary. An enterprise choosing the cost or equity method shall provide the disclosures required by INVESTMENTS, Section 3051.*[1]

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

.26 ♦ *An enterprise that accounts for its subsidiaries using the cost method or the equity method 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 in BUSINESS COMBINATIONS, Section 1582.

(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.

Non-consolidated financial statements

.27 ♦ *When an enterprise applies the accounting policy choice as set out in paragraph 1590.23(b)(i), it shall describe its financial statements as being prepared on a non-consolidated basis, and each statement shall be labelled accordingly.*

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[1] The double underlined text was proposed in the Exposure Draft, "2013 Improvements to Accounting Standards for Private Enterprises," issued in March 2013. The wording may change after the AcSB deliberates the comments received on that Exposure Draft.

.28 ♦ *Investments in non-consolidated subsidiaries controlled through voting interests and/or potential voting interests shall be presented separately from other investments in the balance sheet. Income or loss from those investments shall be presented separately in the income statement. Investments in subsidiaries controlled through voting interests and/or potential voting interests and income from those investments may be presented with interests in joint ventures that are accounted for using the same method (cost, equity or fair value).*

.29 The requirements of RELATED PARTY TRANSACTIONS, Section 3840, apply to intercompany transactions that would otherwise have been eliminated on consolidation when an enterprise applies one of the alternative methods permitted by paragraph 1591.23(b)(i).

.30 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 and/or potential voting interests that would otherwise be eliminated on consolidation when:

(a) the enterprise is preparing non-consolidated financial statements; and
(b) control is the only basis of the relationship with the other party.

DISCLOSURE

Consolidated financial statements

.31 ♦ *When 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).

.32 ♦ *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.

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

.34 ♦ *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

.35 ♦ *An enterprise that prepares non-consolidated financial statements shall disclose the basis used to account for its subsidiaries controlled through voting interests and/or potential voting interests.*

.36 ♦ *An enterprise that elects to account for its subsidiaries controlled through voting interests and/or potential voting interests using the equity method shall disclose the fair value of the investment when it is quoted in an active market.*

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

EFFECTIVE DATE AND TRANSITION

.38 This Section applies to annual financial statements for fiscal years beginning on or after January 1, 201X. An enterprise applies this Section retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, except as specified in paragraphs 1591.39-.45. Earlier application is permitted.

.39 When an enterprise applies the accounting policy choice set out in paragraph 1591.23(b)and accounts for its subsidiaries using the cost or equity method, paragraphs 1591.39-.45 do not apply.

.40 When an enterprise applies the accounting policy choice to consolidate its subsidiaries as set out in paragraph 1591.23(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

.41 When an enterprise applies, or chooses to apply for the first time, an accounting policy to consolidate its subsidiaries, and concludes that it has subsidiaries that were not consolidated previously, the enterprise selects, separately for each subsidiary, one of the following methods to measure the assets, liabilities and non-controlling interests in each previously unconsolidated enterprise and uses financial information prepared in accordance with Part II of the Handbook:

(a) 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 previously unconsolidated enterprise does not meet the definition of 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 involvement with the other enterprise.

(b) 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 that date. In addition, 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, 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.

.42 An enterprise applying one of the options in paragraph 1591.41 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.

.43 If the enterprise does not have information to prepare financial statements of the previously unconsolidated enterprise in accordance with Part II 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.

The enterprise applies these requirements 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

.44 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 or financial asset for impairment in accordance with INVESTMENTS, Section 3051, or FINANCIAL INSTRUMENTS, Section 3856, at the beginning of the immediately preceding fiscal year; or
(b) accounts for the 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).

.45 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 recognizes 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 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.

CONSEQUENTAL AMENDMENTS

The following significant consequential amendments have been identified. Additional text is denoted by underlining and deleted text by strikethrough. Some paragraphs that do not contain changes have been included for context. Other paragraphs that have not been changed have been excluded from this Exposure Draft.

FIRST-TIME ADOPTION, Section 1500

Business combinations

…

.11A When a first-time adopter chooses to apply an accounting policy to consolidate its subsidiaries for the first time when preparing its first financial statements using the standards in Part II of the Handbook, the enterprise can apply the transition provisions in SUBSIDIARIES, paragraphs 1591.41-.43.

Assets and liabilities of subsidiaries, associates and joint ventures

.11B If a subsidiary becomes a first-time adopter later than its parent, when preparing its financial statements, the subsidiary measures its assets and liabilities at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to accounting standards for private enterprises, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or

(b) the carrying amounts required by this Section, based on the subsidiary's date of transition to accounting standards for private enterprises.

.11C The carrying amounts in 1500.11B(b) could differ from those described in 1500.11B(a):

(a) when the exemptions in this Section result in measurements that depend on the date of transition to accounting standards for private enterprises; and

(b) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements.

.11D A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

.11E However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture), in its consolidated financial statements, the entity measures the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.

CONSOLIDATED FINANCIAL STATEMENTS, Section 1601

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

.06 The accounting principles that apply to the preparation of consolidated financial statements can be presented in three segments:

(a) those that apply to the initial preparation of consolidated financial statements at the date of an acquisition;
(b) those that apply to transactions reported in subsequent consolidated financial statements; and
(c) those that apply to miscellaneous transactions or relationships between the parent and subsidiary company.

.06A ♦ *When an enterprise prepares consolidated financial statements, it shall describe these financial statements as being prepared on a consolidated basis and each statement shall be labelled accordingly.*

Miscellaneous

…

Prospective consolidation

.33A Consolidation of a subsidiary commences at the date the parent acquires control and continues as long as control exists. Accordingly, a parent does not retroactively consolidate a subsidiary for periods prior to its acquisition of control.

Statements at different dates

.34 A difference in fiscal periods of a parent and a subsidiary does not of itself justify the exclusion of the subsidiary from consolidation. Normally, for consolidation purposes, the subsidiary can prepare statements for a period that exactly or nearly coincides with the fiscal period of the parent.

Cessation of consolidation

.34A When an enterprise ceases to meet the definition of a subsidiary, the former parent ceases to consolidate the enterprise from that time and determines whether it has:

(a) an investment subject to significant influence accounted for in accordance with INVESTMENTS, Section 3051; or
(b) a financial asset accounted for in accordance with FINANCIAL INSTRUMENTS, Section 3856; or
(c) other rights and obligations accounted for in accordance with the applicable Section(s), such as a lease (see LEASES, Section 3065) or a financial liability (see FINANCIAL INSTRUMENTS, Section 3856).

Amounts reported on a consolidated basis for periods prior to the cessation of consolidation are not retroactively restated on a non-consolidated basis.

34B Subsequent to a decision to dispose of a subsidiary and prior to the disposal date, the provisions of DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, apply to any business of the subsidiary that meets the criteria in that Section to be classified as held for sale. Application of the requirements of Section 3475 does not result in cessation of consolidation.

RELATED PARTY TRANSACTIONS, Section 3840

PURPOSE AND SCOPE

…

.02 This Section does not apply to:

(a) management compensation arrangements, including employee future benefits accounted for in accordance with EMPLOYEE FUTURE BENEFITS, Section 3462, expense allowances and other similar payments, including loans and receivables, to individuals, in the normal course of operations; and

(b) intercompany transactions between an enterprise preparing non-consolidated financial statements and subsidiaries controlled through means other than voting interests and/or potential voting interests ~~rights~~, when control is the only basis for the related party relationship. Transactions with such enterprises are governed by other Handbook Sections, such as CONTRACTUAL OBLIGATIONS, Section 3280.