ASPE 1591 *Subsidiaries*

Last updated: August 2015

Note: ASPE 1591 is effective for annual financial statements related to fiscal years beginning on/after Jan 1/16; earlier adoption is permitted.

SCOPE

- **Covers** accounting for subsidiaries in general purpose financial statements (FS).
- **Does NOT cover** accounting for**:**
  - Investments (refer to ASPE 3051 *Investments,* ASPE 3056 *Interests in Joint Arrangements,* and ASPE 3856 *Financial Instruments*).
  - Investment companies (refer to AcG-18 *Investment Companies*).
  - Employee benefit plans (refer to ASPE 3462 *Employee Future Benefits*).
  - Qualifying special-purpose entities (refer to Appendix B of ASPE 3856).
  - Contractual arrangements between entities under common control.
- **Related sections:**
  - ASPE 1582 *Business Combinations* — sets out the basis of accounting for transactions by which subsidiaries are acquired.
  - ASPE 1601 *Consolidated Financial Statements* - describes preparation of consolidated FS.
  - ASPE 1602 *Non-controlling Interests* — describes the accounting for a non-controlling interest in a subsidiary subsequent to a business combination.

DEFINITIONS

Subsidiary: entity controlled by another entity (the parent) that has the right and ability to obtain future economic benefits from the resources of the entity and is exposed to the related risks.

- A subsidiary may take many forms, including a corporation, trust, partnership or unincorporated entity.
- Future economic benefits include cash flows generated by the subsidiary and received by the parent (e.g. dividends, interest, fees, royalties, profits on intercompany sales).
- Risks include exposure of subsidiary's resources to business losses or direct exposure of parent to loss.

Control: continuing power to determine strategic operating, investing and financing policies without co-operation of others.

- Power to control need not be exercised to exist, nor requires active participation in implementation of policies.

Protective rights: rights designed to protect the interest of the entity holding those rights without giving it the power to make decisions about the other entity's activities.

ASSESSING CONTROL

- Factors to assess whether control exists:
  - Level of equity interest owned, directly or indirectly, is 50% or greater.
  - Statute or arrangement that allocates the power to determine the strategic policies of the entity.
  - Contractual arrangements that grant rights to direct the strategic policies and the right and ability to affect both the future benefits and risks of another entity.
    - E.g. supply arrangements, management contracts, lease agreements, license agreements, royalty contracts, other sales contracts, finance arrangements, etc.
  - Right to elect the majority of members of entity's board of directors.
  - Ownership of financial instruments that, if converted or exercised, gives the acquiring entity the majority voting interest.
- When rights of equity interests are not the dominant factor in determining control, the entity should assess whether control exists through contractual arrangements. The following facts and circumstances should be considered by the entity in evaluating whether contractual rights are sufficient to give it control over another entity:
  - The degree of involvement in and decisions made at inception in determining the purpose and design of the other entity.
  - How decisions are made about the strategic policies that could impact all of the following:
    - The right and ability to obtain future economic benefits, and who receives such benefits and is exposed to the related risks.
    - Who has the continuing ability to direct the activities of the other entity.
  - The risks to which the other entity was designed to be exposed, the risks designed to be passed to parties involved with it and whether the entity is exposed to some or all of those risks.
    - Risks could include operating, price, credit, liquidity and interest rate risk.
  - Whether the contractual arrangement provides the entity with the continuing ability to direct the strategic policies of the other entity without the cooperation of others.
- When the rights held over another entity are protective, such rights do not confer control onto the holder.

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RECOGNITION AND PRESENTATION

- An entity shall make an accounting policy choice to either:
  a) Consolidate its subsidiaries (refer to ASPE 1601); or
  b) Account for its subsidiaries that are:
    i. Controlled through voting interests, potential voting interests, or a combination thereof, using the equity or cost method (refer to ASPE 3051); and
    ii. Controlled through contractual arrangements or in combination with voting interests, potential voting interests, or a combination thereof, according to the nature of contractual arrangements in accordance with the applicable Section (e.g. a lease under ASPE 3065 *Leases*, a financial asset or liability under ASPE 3856) or voting interest in item (i).

  This accounting policy choice does not need to meet the criteria listed in paragraph 1506.06(b) *Accounting Changes*.
- All subsidiaries shall be accounted for using the same method and the chosen method shall be applied consistently (i.e., an entity that accounts for its subsidiaries using the cost method shall apply that method in accounting for a change in its ownership in a subsidiary).
- When a subsidiary's equity securities are quoted in an active market, the investment is accounted for using the equity method or at its quoted amount, with changes recorded in net income. The cost method cannot be used.
- An entity that accounts for its subsidiaries using the cost or equity method shall apply the following accounting:
  - Contingent consideration: measured at fair value and included in the carrying amount of the investment at acquisition and subsequently measured in accordance with ASPE 1582.
  - Acquisition-related costs: recognized as expenses in the periods in which the costs are incurred and the services are received.
    - **EXCEPTION:** The costs to issue debt and equity securities shall be recognized in accordance with ASPE 3856, and ASPE 3610 *Capital Transactions*, respectively.

PRESENTATION AND DISCLOSURE

NON-CONSOLIDATED FS

Presentation:

- When applying the equity or cost method, describe the FS as being prepared on a non-consolidated basis, and label each statement accordingly.
- Investments in non-consolidated subsidiaries controlled through voting interests, potential voting interests, or a combination thereof, and the income or loss from those investments, shall be presented separately from other investments on the Balance Sheet and Income Statement, respectively.
  - **EXCEPTION:** Such investments, and income from those investments, may be presented with interests in joint arrangements that are accounted for using the same method (cost, equity or fair value).
- ASPE 3840 *Related Party Transactions* applies to intercompany transactions that would otherwise have been eliminated on consolidation when an entity applies the equity or cost method.
- ASPE 3840 *Related Party Transactions* **does 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 both of the following criteria are met:
  a) The entity is preparing non-consolidated FS.
  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:

- For subsidiaries controlled through voting interests, potential voting interests, or a combination thereof, disclose:
  - Basis used to account for such subsidiaries.
  - The fair value of any such subsidiaries accounted for using the equity method when it is quoted in an active market.
  - A listing and description of significant subsidiaries including their names, carrying values and % ownership interest held in each.

CONSOLIDATED FS

Presentation:

- Refer to the ASPE 1601 and 1602 snapshot for presentation requirements related to consolidated FS.

Disclosure:

- When the entity does not own, directly or indirectly, an equity interest that gives it control, disclose:
  - Basis for the determination that a parent-subsidiary relationship exists.
  - The name of the subsidiary.
  - The % ownership, if any.
- When the entity owns, directly or indirectly, an equity interest carrying the right to elect the majority of board members of an entity that is not a subsidiary, disclose:
  - Basis for the determination that a parent-subsidiary relationship does not exist.
  - The name of the investee.
  - The % ownership.
- An entity choosing the cost or equity method must also provide the disclosures required by ASPE 3051.
- Refer to the ASPE 1601 and 1602 snapshot for other disclosure requirements related to consolidated FS.