Accounting Standards for Private Enterprises (ASPE)

November 2015

Subsidiaries on a page

This publication is intended to provide readers with a summary of the main recognition, presentation and disclosure requirements for Section 1591 *Subsidiaries* in the Accounting Standards for Private Enterprises (ASPE) in Part II of the CPA Canada Handbook—Accounting. Readers are always encouraged to refer to the specifics in the Handbook section before making any decisions.

For more information about this topic, please contact your Grant Thornton adviser. If you do not have an adviser, please contact us. We are happy to help.

About Grant Thornton in Canada

Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. Together with the Quebec firm Raymond Chabot Grant Thornton LLP, Grant Thornton in Canada has approximately 4,000 people in offices across Canada. Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd, whose member firms operate in close to 100 countries worldwide.

The information in this publication is current as of November 13, 2015.

We have made every effort to ensure information in this publication is accurate as of its issue date. Nevertheless, information or views expressed herein are neither official statements of position, nor should they be considered technical advice for you or your organization without consulting a professional business adviser.

SCOPE

Section 1591 *Subsidiaries* applies to interests in other entities, **EXCEPT** for:

- accounting for contractual arrangements between enterprises under common control
- investments (Section 3051 *Investments* or Section 3856 *Financial Instruments*)
- interests in joint arrangements (Section 3056 *Interests in Joint Arrangements)*
- accounting by investment companies (AcG-18 *Investment Companies*)
- an employer's accounting for an employee benefit plan (Section 3462 *Employee Future Benefits*)
- accounting for a qualifying special-purpose entity (SPE) by a transferor of financial assets or its affiliates, or an interest in a SPE, with an exception (Section 3856 Appendix B)

DEFINITIONS AND BASIC PRINCIPLES

Control: The continuing power to determine the strategic operating, investing and financing policies of an enterprise without the cooperation of others

Subsidiary: 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

An entity (the potential parent) has control over another entity (the potential subsidiary) when it:

1. holds sufficient rights to direct the strategic operating, investing and financing policies of the potential subsidiary without the co-operation of others

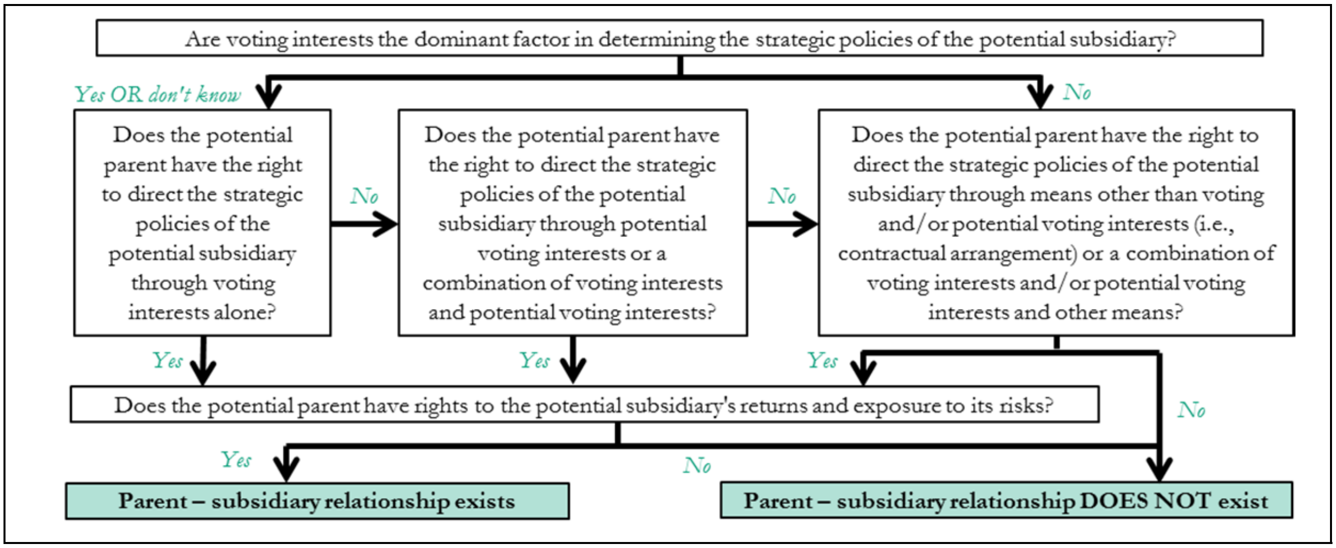
AND

2. has the right and ability to obtain future economic benefits **AND** is exposed to the related risks of the potential subsidiary

- Control is typically acquired through an equity interest, but it may be acquired through other means such as potential voting interests (e.g., rights, options, warrants, convertible debt, convertible non-voting preferred shares) or contractual arrangements (e.g., supply arrangements, management contracts, lease agreements, license agreements, royalty contracts, sales contracts, finance arrangements).
- There is a **general presumption** that the level of equity interest that an investor holds in an investee determines whether control exists. It is possible to **overcome this general presumption** if other factors exist which clearly demonstrate that control exists or does not exist.
- Potential voting rights are taken into consideration when performing a control assessment only when the economic cost is not so high as to make exercise/conversion of the potential voting rights unlikely for the foreseeable future.
- Typically, equity interests provide an entity with rights to future economic benefits through dividends and distributions and risks through losses, BUT it is possible for a potential parent to have rights to a potential subsidiary's future benefits and exposure to its risks (e.g., operating, price, credit, liquidity and interest rate risk) through other means (e.g., contractual arrangements).
- Protective rights are designated to protect the interest of the enterprise that holds them, but do not give the enterprise power to make decisions about the other enterprise or give it exposure to risks and rewards. Such rights should not be considered as part of the control assessment.

* The form in which a parent controls a subsidiary does not determine the substance of their relationship. Consider all facts and circumstances of a business relationship when performing a control assessment!

CONTROL ASSESSMENT



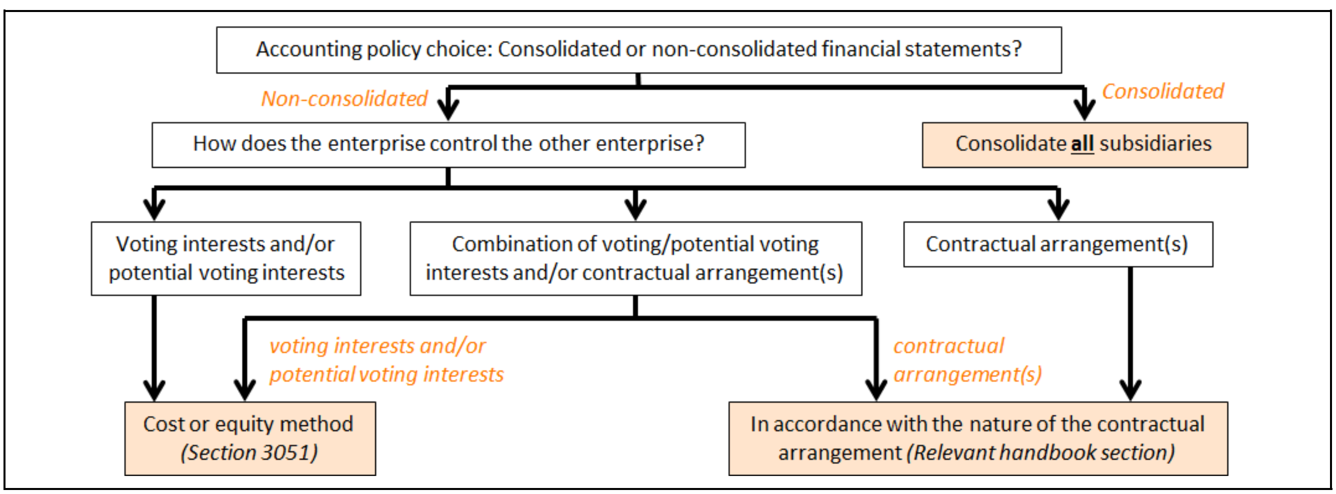
Facts and circumstances to consider when evaluating whether contractual rights are sufficient to confer control include:

- how decisions are made about strategic policies that could affect:
  - the right and ability to obtain future benefits and their related risks;
  - who has the continuing ability to direct activities of the potential subsidiary; and
  - who receives the benefits / is exposed to the risks from those activities;
- the degree of the potential parent's involvement in determining the purpose / design of the potential subsidiary at inception; and
- whether the potential parent has the continuing ability to direct strategic policies of other enterprise without cooperation of others.

When the outcome of the assessment is not clear, additional factors to consider include: the design of the potential subsidiary, the ability to direct activities closely related to the potential subsidiary's operations and the incentive to obtain control (e.g., a commitment to ensure the potential subsidiary operates as designed).

A parent or potential parent reassesses whether it controls a subsidiary or potential subsidiary when facts and circumstances change; at a minimum, the assessment should occur **at each reporting period end**!

RECOGNITION



OTHER

Section 1591 is effective for fiscal years beginning on or after January 1, 2016. Early adoption is permitted.
Transitional guidance is included in Section 1591 pertaining to:

- consolidation of a subsidiary that was not previously consolidated; and
- accounting for a subsidiary that was previously consolidated, but will no longer be consolidated.