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Research on the Scope of Consolidated Statements of Commercial Banks

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Abstract*—Whether in the theoretical research or practical operations of accounting, the consolidation of financial statements has always been a difficult problem. For commercial banking business processing, matters related to consolidated statements are more difficult to achieve consistency and unification in practice. In order to promote the development of enterprises and realize the gradual integration of China's corporate accounting standards with international financial reporting standards, the Ministry of Finance issued a new "Enterprise Accounting Standards No. 33 — Consolidated Financial Statements" in February 2014. In 2015, the Ministry of Finance issued the "Corporate Accounting Standards Interpretation No. 8", which clarified the interpretation of accounting standards related to wealth management products of commercial banks. The new accounting standards have led to the thinking that the issuing or entrusted management should merge various structured entities. Based on the changes in the scope of the consolidated statements of Shanghai Pudong Development Bank from 2013 to 2015, this paper analyzes the impact of the new accounting standards on the scope of consolidated statements of commercial banks. First, the article studies the changes in the scope of the consolidated statements in the new standard. Secondly, based on the perspective of commercial banks, it analyzes the impact of the new standards on the scope of consolidation. It discusses the rationality of the scope of the consolidated financial statements in combination with the case of Shanghai Pudong Development Bank; finally, the relevant conclusions of the scope of the consolidated statements of commercial banks are obtained, which provides guidance for practice.

***Keywords*—new accounting standards; consolidated statements; commercial banks; Shanghai Pudong Development Bank; structured entities**

I. INTRODUCTION

In response to the financial crisis, in May 2011, the International Accounting Standards Board (IASB) issued IFRS 10 — Consolidated Financial Statements (IFRS 10), which provides guidance on controls and mergers. IFRS10 requires a unified accounting treatment model for all mergers, that is, control as a benchmark for consolidation, which resolves the shortcomings of the original IAS27 standard on the scope of consolidation, and improves the consistency of the guidelines; IFRS10 also provides additional guidance to supplement IAS27 is not regulated under the control of majority voting rights. The control-based merger model is more in line with the principle, which is conducive to better reflect the economic substance between different subjects. IFRS10 came into effect on January 1, 2013. China also issued a draft for the consolidated financial statements of the company in November 2012. Finally, in February 2014, the "Accounting Standards for Business Enterprises No. 33 — Consolidated Financial Statements (CAS33) was promulgated and implemented in July of the same year. CAS33 further standardizes the preparation and presentation of China's consolidated financial statements, maintains the continuous convergence of China's corporate accounting standards and IFRS10, re-examines the scope of application of the consolidated financial statements, and clarifies that the scope of consolidation should be determined based on control and control. The definition has changed into making the determination of the scope substantive.

With the rapid development of China's economy, commercial banks, as an important part of the financial industry, have become an important engine for the growth of the national economy. Especially in the current imperfect development of China's capital market and unbalanced structure, the role played by commercial banks in the allocation of national economic resources and financial resources is irreplaceable. The history of the development of various countries shows that a country's sound commercial banking system requires different scales and different types of banks to cooperate and develop in an all-round way. According to the statistics of the China Banking Regulatory Commission, as of the end of 2015, the number of legal entities in China's urban commercial banks totaled 134, and the total assets reached 21.45 trillion Yuan. The proportion of total assets in the banking industry also increased year by year, from 5.29% in 2003 to 11.38%. As the scale of commercial banks expands and the level of influence on economic development increases, the accuracy of data in commercial banks' financial reports becomes more and more important. At the same time, the types of wealth management products of commercial banks are becoming more and more abundant, and the amount of assets is growing. Commercial bank wealth management products are nominally off-balance sheet business, but in essence they are inextricably linked to the assets in the table. Whether to merge financial products into commercial banks' financial statements has a great impact on the accuracy of commercial bank financial data.

The new accounting standards have revised the guidelines on the scope of the consolidated financial statements, clarifying that the scope of consolidation should be determined on the basis of control and changes to the definition of control, which will have a significant impact on the determination of the scope of consolidated statements of commercial banks. Before and after the publication of the guidelines, the determination of whether the structural entities such as commercial banks' invested companies and wealth management products will be included in the merger will have an impact. In order to study the specific impact of the guidelines on the consolidated statements of commercial banks, this paper analyzes the impact based on the case of Shanghai Pudong Development Bank and draws corresponding conclusions.

II. Major Changes in the Scope of Consolidation of the New Corporate Accounting Standards

The 2014 edition of the new accounting standards made relevant amendments to the consolidated statement requirements after getting fully in line with the provisions of the International Accounting Standards. The amendments are mainly reflected in the concept of the merger entity and the redefinition of the scope of the consolidated statements.

A. Subject Difference of the Scope

The new guidelines have changed the concept of the parent company and the concept of the subsidiary.

The original consolidated financial statement standard under the old accounting standards before 2014 stipulates that the concept of “parent company” is a large enterprise with one or more subsidiaries, and emphasizes that the definition of control is the control in the actual sense, requiring all being Subsidiaries controlled by the parent company should be included in the scope of consolidation by the parent company. The new standard emphasizes that the parent company refers to the entity that controls one or more entities (including the divisible part of the enterprise, the invested entity, and the structured entity controlled by the enterprise, etc.).

In the old standard, the subsidiary refers to the enterprise controlled by the parent company; the new standard emphasizes the concept of the subject, and the scope of the subsidiary has become wider, not only refers to the enterprise, but also includes the divisible part of the invested entity.

The concept of “investment subject” is introduced in the new standard. The parent company that meets the following conditions is an investment entity: (1) The company obtains investment management services from investors and obtains from one or more investors. (2) The sole business purpose of the company is to obtain investors' returns through capital appreciation, investment income or both. (3) The company considers and evaluates the performance of almost all investments according to fair value. If the parent company is an investment entity and there is no subsidiary that provides related services for its investment activities, the consolidated financial statements should not be prepared. The parent company measures its investment in all subsidiaries at fair value, and the fair value change Enter the current profit and loss.

B. Changes in the Scope of the Consolidated Report

The 2014 new standard has changed the scope of the business combination very much. Although compared with the old one, the scope of the merger is determined on the basis of control. Although the new standard sets the meaning of the control more detailed and specific, Operational aspects have yet to be improved.

“Control” in the old standard refers to the right of an enterprise to determine the financial and operating policies of another enterprise and to obtain benefits from the business activities of another enterprise. The control in the new standard refers to the investor's right to the investee, enjoys variable returns by participating in the relevant activities of the investment, and has the ability to influence the return of the investee's rights. Related activities here refer to activities that have a significant impact on the return of the investee, including but not limited to the sale or purchase of goods, the management of financial assets, the purchase and processing of assets, research and development activities, and financing activities. Specifically, when investigating whether or not to control the investee, the investor should consider all facts and circumstances. If and only if the investor has the above three elements, the investor can control the investee, if facts and circumstances. Indicates that one or more of the above three elements of control change, and the investor must re-determine whether it controls the investee. To sum up, there are several changes:

- The concept of substantive rights and protective power was introduced in the new guidelines. Based on the original guidelines, the new standard adds the concept of substantive rights, stipulating that investors should only judge whether they have the power to the investee based on the enforceable rights (substantive rights) they are currently capable of exercising. When judging whether a right is a substantive right, all relevant factors should be considered comprehensively, including whether the rights holder has the financial, price, terms, mechanism, residence, operation, laws and regulations, etc. when exercising the right; When the rights are held by multiple parties or the exercise rights require multiple parties' consent, is there a practical mechanism for these rights holders to exercise unanimous power if they wish, and whether the rights holders can profit from exercise rights. Protective rights refer to a right that protects the rights holder's interests but does not give the holder the right to make decisions on related activities. Only investors with protective rights do not have the right to the investee. Protective rights can usually only be exercised when the investee has a fundamental change or certain exceptions. It does not give its holders power over the investee, nor does it prevent other parties from owning the investee [1].

- Substantial control refers to the situation in which an investor can still obtain control without holding more than 50% of the voting rights of the investee. That is, although the investor holds less than 50% of the voting rights, it must consider the size of the voting rights owned by the other parties, the dispersion of the voting rights of other parties, the potential voting rights, other contractual arrangements, and the investment. After all the factors and conditions of the previous voting rights, the party can still be controlled [2].
- Investors usually assess whether the investee's overall level of control is controlled, but in rare cases, a part of the investee can be considered as a divisible part of the investee to conduct a separate assessment, and then to determine whether to control the part can be controlled Separate entities should be included in the scope of consolidation.
- Variable return means that the return of the investor from the investee may change with the performance of the investee, which may include, but is not limited to, direct returns from the investee, such as dividends, interest, service fees, changes in the fair value of the investment. Profit and loss, tax benefits, credit/liquidity income, etc., also include synergistic benefits such as scale effect, future liquidity acquired, cost savings, and patent knowledge acquired from investment activities. Since the remuneration of the investor varies with the performance of the investee, it can be positive or negative, or both, so it is called variable return.
- The new standard introduces judgments about whether an investor with decision-making rights is a principal or an agent. The standard requires that investors who have decision-making rights be judged to determine whether the investor is an agent or a principal. If the agent only exercises the decision-making power on behalf of the primary responsible person, the investor is not controlled. The investor has the right to invest and enjoy variable returns, but does not necessarily apply the power to influence the variable return. That is to say, if the manager of the asset (decision maker) is the agent, the power cannot affect the return, i.e., if control is not achieved, it will not be included in the scope of consolidation [3].

III. SHANGHAI PUDONG DEVELOPMENT BANK CASE STUDY

A. *Company Profile*

Shanghai Pudong Development Bank (referred to as: Shanghai Pudong Development Bank) was established on August 28, 1992 with the approval of the People's Bank of China, opened on January 9, 1993, and listed on the Shanghai Stock Exchange in 1999 (stock transaction code: 600,000). The joint-stock commercial bank is headquartered in Shanghai.

Shanghai Pudong Development Bank's products and services cover four main areas: main business, personal business, corporate business and red envelope business. The business scope involves the absorption of public deposits: the issuance of short-term, medium-term and long-term loans; settlement; handling of discounted bills; issuance of financial bonds; agency issuance, agency redemption, underwriting of government, trading of government bonds; interbank lending; provision of letter of credit services and guarantees; Receiving and receiving insurance and agency insurance services; providing safe deposit box services; foreign exchange deposits, foreign exchange loans, foreign exchange remittances, foreign currency exchange; international settlement; inter-bank foreign exchange lending; acceptance and discounting of foreign exchange bills; foreign exchange loans, foreign exchange guarantees; foreign exchange settlement and sales; Buying, selling and selling foreign currency securities other than stocks; trading in self-operated and valet foreign exchange; engaging in bank card business; credit investigation, consulting, witness business, etc.

In 2015, Shanghai Pudong Development Bank's asset size and operating income both achieved double-digit growth. Among them, the asset size increased by 20.19% from the end of 2014 to 5.04 trillion Yuan; the operating income was 146.543 billion Yuan, an increase of 18.97%. In terms of the poor rate of concern, Shanghai Pudong Development Bank's non-performing loan ratio at the end of 2015 was 1.56%, up 0.5 percentage points from the beginning of the year. The asset quality was generally good and maintained a strong anti-risk capability. In August 2016, Shanghai Pudong Development Bank ranked 49th among the “2016 Top 500 Chinese Enterprises”.

B. *Bank Structured Financial Products*

According to the definition of structured wealth management products by BNP Paribas, one of the world's top ten banks, structured wealth management products are a new type of fixed-income products such as deposits and zero-coupon bonds combined with financial derivatives such as options and forwards. Usually, the income structure of a product consists of two parts, a fixed income part and an option part. The fixed income part can protect part of the investor's principal or all principal from loss, and the option part adds extra income on the basis of the financial income. The various parameters of the domestic and international financial markets are linked to meet the risk-return preferences of some special investors, so that the smaller cost inputs can obtain higher future returns than the traditional deposits, but usually reach the expected maximum return probability of the small issuer.

Bank management products are a type of wealth management products designed and issued by commercial banks. They are invested in relevant financial markets. The purchased related financial products according to the product contract, and obtained investment income, and distributed to investors according to the contract. In recent years, the scale of wealth management business of commercial banks has grown steadily, and the number of participating entities has continued to expand. The scale of wealth management ranks first among all types of asset management businesses [4].

C. Bank Structured Wealth Management Product Classification

There are many different classification methods for financial products issued by banks. For example, they can be classified according to currency, duration, investment direction, etc. In view of the fact that this paper is to determine the scope of consolidation, banks in practice usually rely on risk factors for wealth management products. Therefore, this paper is based on the classification of bank financial products' principal and income.

According to the degree of guarantee of the principal and income, the bank management products can classify into a fixed-guaranteed, a guaranteed floating type and a non-guaranteed type. Generally speaking, the risk is directly proportional to the income. The risks faced by the customers corresponding to the above three wealth management products are gradually increased. Accordingly, the possible profit rate of the customers is also inclined to gradually increasing.

When judging the scope of consolidation of bank management products, the bank generally classifies the above three wealth management products into two categories, namely, the principal-guaranteed type and the non-guaranteed-type. The former includes a fixed-guaranteed type and a guaranteed-guaranteed floating type, and the latter is a non-guaranteed type [5].

D. Shanghai Pudong Development Bank's Wealth Management Products

By reading the annual report of Shanghai Pudong Development Bank from 2013 to 2015, we have compiled the judgments of the 2013-2015 Shanghai Pudong Development Bank's wealth management products and their inclusion in the scope of consolidation into “Table I”.

TABLE I. THE SITUATION OF THE FINANCIAL PRODUCTS OF SHANGHAI PUDONG DEVELOPMENT BANK FROM 2013 TO 2015 AND ITS JUDGMENT IN THE SCOPE OF CONSOLIDATION

Property	**Whether to incorporate or not (Y/N)**		
	2013	***2014***	***2015***
Non-guaranteed floating income	N	N	N
	N	N	N
	N	N	N
	N	N	N
	N	N	N
	N	N	N
Guaranteed income	Y	Y	Y
	Y	Y	Y
	Y	Y	Y
	Y	Y	Y
	Y	Y	Y
	Y	Y	Y

It can be seen from "Table I" that from 2013 to 2015, the wealth management products of Shanghai Pudong Development Bank are included in the consolidation scope of wealth management products such as Huihuicai and Lexiangying Financial Planning, which are generally less than one year, and there are many short-term financial planning plans. Among them, the wealth management plan and the profit-seeking wealth management plan are the guaranteed wealth management products. The expected yield is lower than that of the non-guaranteed floating income, but the risk is lower for investors. In the past three years, Shanghai Pudong Development Bank has included the principal-guaranteed wealth management products in the “Other Liabilities” account on the balance sheet.

The structured entities not included in the scope of consolidation are mainly wealth management products issued and managed by Shanghai Pudong Development Bank as an agent; the structured entities included in the scope of consolidation are mainly wealth management products issued and managed by Shanghai Pudong Development Bank. Due to the revision of the accounting standards in 2014, the guaranteed-type wealth management products are regarded as the main person in charge of the bank. Therefore, the wealth management products included in the scope of consolidation are mainly the wealth management products issued and managed by Shanghai Pudong Development Bank as the main person in charge, and the risk-bearer is Shanghai Pudong Development Bank.

Based on the analysis of potential target customer groups, Shanghai Pudong Development Bank designs and sells capital investment and management plans to specific target customer groups, and invests the raised wealth management funds into relevant financial markets or investment-related financial products according to the contract of the product. After obtaining the investment income, it is allocated to the investor according to the contract. As an asset manager, Shanghai Pudong Development Bank obtains sales income such as sales expenses and management fees. Shanghai Pudong Development Bank believes that its variable returns related to these structured entities (financial products) are not significant. At the same time, the maximum loss risk exposure of Shanghai Pudong Development Bank that is not included in the consolidated wealth management products is the handling fee for such wealth management products. The amount is not significant. Therefore, it has not been included in the scope of consolidation.

In addition, according to the 2013-2015 annual report, the company does not include the wealth management products issued and managed by independent third parties (purchasing other bank wealth management products), and the group does not include the category in the scope of consolidation. The structured entities are classified into available-for-sale financial assets or loans and receivables.

IV. JUDGING THE SCOPE OF MERGER OF SHANGHAI PUDONG DEVELOPMENT BANK

According to Article 7 of the “Accounting Standards for Business Enterprises No. 33 — Consolidated Financial Statements” (hereinafter referred to as “Consolidated Financial Statements Standards”), the scope of consolidation of consolidated financial statements shall be determined based on control, including not only voting rights (or similar). Subsidiaries identified by themselves or in combination with other arrangements, including structured entities based on one or more contractual arrangements.

Control means that the investor has the power to the investee, enjoys variable returns by participating in the relevant activities of the investee, and has the ability to use the power of the investee to influence the amount of the return. The definition of control consists of three basic elements: one is that the investor has power over the investee, the other is variable income due to participation in the relevant activities of the investee, and the third is the ability to use the power of the investee to influence it. In judging whether the investor can control the investee, if and only if the investor has the above three elements, it can indicate that the investor can control the investee.

Commercial banks shall, in accordance with the relevant provisions of the “Guidelines for Consolidated Financial Statements”, determine whether to control the wealth management products they issue. If a commercial bank controls the wealth management product, it shall incorporate the wealth management product into the scope of consolidation in accordance with the provisions of the Consolidated Financial Statements.

International Accounting Standards redefines the concept of “control” in IFRS 10, and China has basically achieved convergence with international accounting standards in merger judgments in the newly revised CAS 33 (2014). The new concept of control emphasizes Power, variable returns, and the relationship between the two, as a combination of judgment criteria applicable to all types of entities, has a high degree of principle, and also begins to emphasize substantive control, clarifying that substantive rights are currently capable of exercising the right to enforce. For the structured subject, its structural design and operation are unique, and the substantial power required to form a substantial control over the structured subject also has certain particularities.

First, the rights required for substantive control must be substantive rights that are currently enforceable and are currently enforceable, rather than protective rights, and include certain potential voting rights. As a kind of power, control has the following three levels: first, the controlling party has the relevant power; second, the controlling party only needs to have the ability to implement the power, and it is not necessary to put it into reality; the third is the general situation of protective rights. It cannot consider as substantial control. Structured entities exist in various entity types, such as some structured entities operating in special ways such as “automatic navigation”. The exercise of daily power is only an unimportant administrative activity, and there may not be any correlation in its actual operation. The entity has the opportunity to exercise decision-making power over the related activities that have significant influence on the structured entity, but the actual power cannot be inferred that it is not the controlling party. The controlling party only needs to have power and can you can exercise control. At the same time, the entity holding the interests of the structured subject, even if the equity share is large, if the power it has is only a protective right, it cannot be judged as the substantive controller.

Second, the party that achieves substantial control over the structured subject needs to make the relevant decision as the primary responsible person, rather than acting as an agent. If the party exercising the power is a substantial agent, then the power is still directly held by the principal, and the principal is still the merging party. Since structured entities are not controlled by equity or voting rights, the factors to be considered when determining whether a decision maker is an agent are more complex, depending on the decision maker's decision-making power, other substantive rights, salary levels and changes, and the A comprehensive analysis of the levels of other risks. In short, who is the ultimate power owner and risk taker, who bears the greatest uncertainty, who is more likely to be the primary responsible person rather than the agent.

Furthermore, substantive rights should be related to related activities that have a significant impact on the structured subject. When the decision-making power is only related to the day-to-day administrative activities of the subject, it cannot be used as a determinant of judgment control, and when the relevant activities are arranged by other contracts. When stipulated, the relevant contractual arrangements shall be analyzed, and the risks and benefits generated by the design of the relevant contractual arrangements, the risks and benefits transferred to other related parties, and the risks and benefits faced by the entities shall be used to judge whether to control the structured entities. That is to say, the decision-making power must be combined with the relevant rights arrangement and risk-return situation to judge whether it constitutes control. Such judgment is more cautious. Contractual arrangements are very important in the judgment of substantive control, because by analyzing the contractual arrangements, it can be evaluated whether the rights they enjoy are sufficient to give them control over the investee, such as important decision-making powers, which is the key to judging control.

At the same time, from the formal point of view, the substantive control shows the weakening of the quantitative requirements, advocates the combination of quality requirements and quantitative constraints, and takes the quality requirements as the first criterion, and emphasizes “substance is more important than form”, for power and return. The ways and means of obtaining are not too much attention, but also the conclusions and essential attributes, which have strong applicability to the merger control judgment of structured subjects.

V. Conclusion

In summary, the merger judgment of structured entities is based on the principle of substantive control. The general process of judgment depends on the comprehensive analysis of the three elements of control. It is necessary to consider the substantive rights, variable returns and whether or not the merger party enjoys in the structured entity. The main responsible person has the power to bear the variable return three factors. At the same time, the combined judgment of the structured subject needs to be grasped as a whole, that is, the grasp of the principle of substantive control.

Since the revision of the Accounting Standards No. 33 in 2014, the scope of consolidation of the financial products of Shanghai Pudong Development Bank needs to be divided into two periods of analysis in 2013 and 2014-2015 in principle, but this is more important for wealth management products. The judgment of the responsible person the agent, and the Shanghai Pudong Development Bank clearly stated in the financial statements before and after the change of the standard that the Shanghai Pudong Development Bank as the main responsible person or third-party agent in the wealth management products does not constitute substantial control, and the standard for the bank management products. The scope of the merger has no effect, so there is no need to split the time for judgment.

The relevant information of the management products included in the scope of consolidation is partly reflected in the detailed accounts of the notes, partly reflected in the description of the merger policy, and a few are reflected in the statement of the annual operating status of the bank disclosure, and also Reflected in the "Financial Product Manual." In summary, there is no uniform information disclosure format and requirements, and statistics are more difficult. On the basis of this, the common information related to the principal-guaranteed wealth management products of Shanghai Pudong Development Bank from 2013 to 2015 is summarized as follows;

Wealth product manual: "SPD Bank can unilaterally terminate this wealth management product in advance", "Investment customers may not partially withdraw or terminate this wealth management product in advance" and other terms. According to this judgment, Shanghai Pudong Development Bank is the issuer of wealth management products. They are responsible for design, Sales, operations. They have unilateral dominance over the financial, price, terms, mechanisms, information and other aspects of wealth management products. According to the "No. 33 Guidelines", due to the particularity of wealth management products, the expression of rights does not apply to voting rights, and it is determined by the contractual arrangement that the Shanghai Pudong Development Bank has power over any financial products in the case.

The bank's income from wealth management products mainly includes two parts: the first part is the fixed rate custodian fee, management fee and handling fee (such as subscription fee, subscription fee and redemption fee, etc.), which is generally charged according to a certain percentage of the raised funds. For example, the custodian fee is 0.05%/year and the fixed management fee is 0.03%/year. The second part is the floating management fee, which is the part of the bank that is retained by the bank after the actual investment income of the wealth management product exceeds the expected maximum return to the customer. This part of the income will change with the actual operation of the wealth management products. Therefore, it can be judged that Shanghai Pudong Development Bank can obtain a variable return from the wealth management products in any case.

Financial Information Disclosure: The structured entities included in the scope of consolidation are mainly wealth management products issued and managed by the Group as the main responsible person. Shanghai Pudong Development Bank announced that it is the main responsible person of the wealth management products. The risk is borne by Shanghai Pudong Development Bank. It can allocate funds to the investment and allocate income distribution clauses, which will ultimately affect the floating management fees obtained from wealth management products. Therefore, Shanghai Pudong Development Bank has the ability to influence variable returns through the management power of wealth management products.

Therefore, it is reasonable for Shanghai Pudong Development Bank to include the three types of control in the case of its guaranteed-guaranteed wealth management products (guaranteed income type and guaranteed principal floating income type).

The non-guaranteed floating-income products of Shanghai Pudong Development Bank are relatively straightforward. If they do not meet any of the three elements of control, they will not have substantial control. Through the benchmarking with a large number of enterprises and accounting firms, the current practice is to measure As the main criterion for the merger of structured entities, if the magnitude is more than 30%, it is usually combined; the magnitude is between 20% and 30%, and other factors are further considered; the magnitude is below 20%. According to the 2014-2015 financial report, "the structured entities that are not managed by the Group are mainly included in the wealth management products issued." The maximum loss risk exposure of the Group's financial products not included in the consolidation scope is the handling fee for such wealth management products, and the amount is not significant." As Shanghai Pudong Development Bank is only an agent on non-guaranteed wealth management products and the profits are not significant. Less than 20% of the judgment, so there is no ability to influence variable returns through power. It is reasonable for Shanghai Pudong Development Bank to not include the non-principal-type floating income wealth management products.

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