



Solution 20.3

Component	Control, joint control and significant influence
Index	What is control?
Short title	Control via agreement that gives the right to control the votes

Attention: This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005.

Issue

There is a presumption that the acquisition of more than one half of another entity's voting rights confers control [IAS27.13 (R.05)]. However, factors other than ownership can also hand control to a parent that does not own more than half the voting rights.

How might an agreement lead to an entity gaining control over another without acquiring a majority of the voting rights?

Background

Entity A owns 45% of entity X's voting shares. Entity A also has an agreement with another shareholder, bank B, which owns a further 20% of the voting shares. Under the provisions of this agreement Bank B will always vote in the same way as entity A.

Solution

The agreement between A and B provides entity A with control over 65% (45%+20%) of X's voting rights. Entity A therefore controls entity X.

Bank B has entered into the agreement with A. Entity A and Bank B form a control group which will vote according to A's instructions.