

KEY TIPS

1. Understand purpose of INVESTEE and INVESTMENT.
2. Follow a line-by-line approach when commenting on the case study fact pattern.

DEFINITION

When an investor is exposed / has rights to variable returns from its involvement in the investee and had the ability to affect those returns through its power over the investee.

RETURNS

When the returns vary as a result of the investee's performance. More than 1 party can share in the returns.

RIGHTS GIVING POWER

- Substantive
- Rights must grant decision making over KEY relevant activities.
- Consider voting and contractual rights

POWER

- Existing rights giving current ability to direct relevant activities.
- Protective rights does not indicate control.

CONTROL

RELEVANT ACTIVITIES

- Consider who makes operational and capital decisions
- Consider who appoints and remunerates key management personnel

PURPOSE AND DESIGN OF INVESTEE

- Identify relevant activities
- Identify contractual arrangements
- Identify who makes decisions concerning relevant activities.

LINKING POWER AND RETURNS

- Ability to use power to affect returns.
- Agents do not control investee's