

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** New York, USA

**Meeting Date:** December 3–6, 2012

## Agenda Item 10

For:

- Approval
- Discussion
- Information

### Update of IPSASs 6–8

#### Objective(s) of Agenda Item

1. The objectives of this agenda item are to
  - (a) **Discuss** and **provide feedback** on:
    - (i) ED X, based on IFRS 10, *Consolidated Financial Statements*;
    - (ii) ED X, based on IFRS 11, *Joint Arrangements*; and
    - (iii) ED X, based on IFRS 12, *Disclosure of interests in Other Entities*;
  - (b) **Note** that the IASB has concluded its Investment Entities Project; and
  - (c) **Confirm** agenda items for the March 2012 meeting.

#### Material(s) Presented

Agenda Item 10.1	Issues Arising from Exposure Drafts
Agenda Item 10.2	Draft ED X, <i>Consolidated Financial Statements</i>
Agenda Item 10.3	Draft ED X, <i>Joint Arrangements</i>
Agenda Item 10.4	Draft ED X, <i>Disclosure of interests in Other Entities</i>
Agenda Item 10.5	Update on IASB Investment Entities Project
Agenda Item 10.6	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

#### Background

2. The objective of this project is to develop IPSASs based on:
  - (a) IFRS 10, *Consolidated Financial Statements*;
  - (b) IFRS 11, *Joint Arrangements*;
  - (c) IFRS 12, *Disclosure of Interests in Other Entities*;
  - (d) IAS 27, *Separate Financial Statements* (2011); and
  - (e) IAS 28, *Investments in Associates and Joint Ventures* (2011).

3. At its meeting in June 2012 the IPSASB noted the differences between current IPSASs and the new and revised IFRSs and gave directions on the approach to this project.
4. At its meeting in September 2012 the IPSASB considered opportunities for closer alignment with statistical reporting and a draft of an ED based on IFRS 10, *Consolidated Financial Statements*. Amongst other matters the IPSASB agreed that it wanted more emphasis on the types of situations that commonly occur in the public sector and less emphasis on issues associated with voting rights. The IPSASB agreed to consider a revised version of that ED, together with two further EDs at this meeting. The draft minutes for September 2012 are included in the agenda at item 1.

#### **Issues Arising from Exposure Drafts**

5. The issues arising from the development of the three EDs are set out in agenda item 10.1. Members are asked to provide direction on these issues.

#### **IASB Investment Entities Project**

6. The IPSASB has been monitoring the IASB's Investment Entities project. This project was finalized in October and has resulted in amendments to IFRS 10, *Consolidated Financial Statements*, IFRS 12, *Disclosure of Interests in Other Entities* and IAS 27, *Separate Financial Statements*. An update on this project is included as agenda item 10.5 and a copy of the amendments is included as agenda item 10.6.

#### **Project Milestones and Next Meeting**

7. The major project milestones are set out below.

<b>Major Project Milestones</b>	<b>Expected Completion</b>
Discussion of issues	June 2012
Consider Exposure Drafts	Sep 2012–Mar 2013
Approve EDs (4 month comment period)	June 2013
Review of responses to EDs and development of IPSASs	Dec 2013–Mar 2014
Approve Final IPSASs	2014

8. In order to meet the aim of approving EDs in June 2013 milestone, project staff is working to the following schedule.

<b>December 2013</b> Develop EDs	<b>March 2013</b> Develop EDs	<b>June 2013</b> Approve EDs
<i>Consolidated Financial Statements</i> (IFRS 10)		<i>Consolidated Financial Statements</i> (IFRS 10)
<i>Joint Arrangements</i> (IFRS 11)	<i>Joint Arrangements</i> (IFRS 11)	<i>Joint Arrangements</i> (IFRS 11)
<i>Disclosure of Interests in Other Entities</i> (IFRS 12)	<i>Disclosure of Interests in Other Entities</i> (IFRS 12)	<i>Disclosure of Interests in Other Entities</i> (IFRS 12)
	IPSAS 6, <i>Separate Financial Statements</i> <sup>1</sup>	IPSAS 6, <i>Separate Financial Statements</i>
	IPSAS 7, <i>Investments in Associates and Joint Ventures</i>	IPSAS 7, <i>Investments in Associates and Joint Ventures</i>

9. Working drafts of the EDs to revise IPSAS 6 and 7 are currently being developed and are available on request from project staff. In considering the amount of work required to finalize these EDs it may be helpful to note that ED X, *Consolidated Financial Statements* is by far the longest and most complex standard in the project. The revised IPSAS 6 is a very short document as it contains only those requirements relating to separate financial statements. The revised IPSAS 7 will be very similar to the current IPSAS 7. The main changes to IPSAS 7 will be to update the standard for changes in other standards, including the movement of disclosure requirements to a separate standard.

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<sup>1</sup> The numbering sequence for these standards has yet to be considered by the IPSASB. One option would be to issue five new standards.

## ISSUES ARISING FROM EXPOSURE DRAFTS

### Objectives of this Session

1. The objectives of this session are to seek feedback from the IPSASB on issues arising during the development of:
  - (a) ED X, *Consolidated Financial Statements* (based on IFRS 10);
  - (b) ED X, *Joint Arrangements* (based on IFRS 11); and
  - (c) ED X, *Disclosure of Interests in Other Entities* (based on IFRS 12).

### Structure of the Paper

2. This issues paper has a number of sections, as shown below. The *Matters for Consideration* are set out at the end of each issue. Issues previously discussed in September 2012 are repeated only if further review is required.

#### ED X, Consolidated Financial Statements

Issue 1.1: Exemptions–Intermediate Controlled Entities

Issue 1.2: Exemptions–Temporary Control

Issue 1.3: Terminology

Issue 1.4: Uniform Reporting Dates

Issue 1.5: Franchises

Issue 1.6: Examples

Issue 1.7: Flowcharts

#### ED X, Joint Arrangements

Issue 2.1: Types of Joint Arrangements

Issue 2.2: Removal of Accounting Option

Issue 2.3: Examples

#### ED X, Disclosure of Interests in Other Entities

Introduction

Issue 3.1: Significant Judgments and Assumptions

Issue 3.2: Definition of Structured Entity

Issue 3.3: Consolidated Structured Entities

Issue 3.4: Unconsolidated Structured Entities

Issue 3.5: Controlled Entities with Material Non-Controlling Interests

Issue 3.6: Joint Arrangements and Associates

Appendix 1: Public Sector Specific Paragraphs in IPSAS 6

## ED X, Consolidated Financial Statements

### Issue 1.1: Exemptions – Intermediate Controlled Entities

3. Paragraph 4 of the ED sets out the circumstances in which an intermediate controlled entity need not present consolidated financial statements. In September 2012 the IPSASB:
- (a) agreed to apply the same scope requirements to both wholly-owned and partially-owned controlled entities. This means that in order to qualify for an exemption from consolidation, both wholly owned and partially owned entities must meet the condition in paragraph 4(a)(i): “the information needs of users are met by its controlling entity’s consolidated financial statements”; and
  - (b) requested that project staff consider whether all the conditions in paragraph 4 are necessary.
4. Table 1 below shows the proposed text of paragraph 4 and comments on the proposed conditions in that paragraph.

**Table 1**

<b>ED X, Consolidated Financial Statements Paragraph 4</b>	<b>Comment</b>
4. An entity that is a controlling entity shall present consolidated financial statements. This Standard applies to all entities, except as set out in this paragraph and paragraphs 4.1 to 4.3:	
(a) A controlling entity need not present consolidated financial statements if it meets all the following conditions:	
(i) It is itself a controlled entity and the information needs of users are met by its controlling entity’s consolidated financial statements;	As per feedback from the IPSASB in September 2012, this condition now applies to both fully controlled and partially controlled entities.  Does the IPSASB consider that this is appropriate, having regard to the information needs of a non-controlling interest? The alternative would be to limit condition (i) to fully controlled entities.
(ii) Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);	Propose to keep the condition in paragraph 4(a)(ii) because there will be some public sector entities that have traded debt and equity instruments and which should be required to produce consolidated financial statements.
(iii) It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and	Propose to keep the condition in paragraph 4(a)(iii) because there could be public sector entities that fall into this category and which should be required to produce consolidated financial statements.
(iv) Its ultimate or any intermediate controlling entity produces consolidated financial statements that are available for public use and comply with IPSASs.	Propose to keep the condition in paragraph 4(a)(iv) because the availability of consolidated financial statements for a higher level controlling entity is the main justification for exempting intermediate controlled entities from preparing consolidated financial statements.

**Matter(s) for Consideration**

1. The IPSASB is asked to:
  - (a) Confirm the circumstances in which an intermediate controlled entity need not present consolidated financial statements, as set out in paragraph 4(a) of the ED; and
  - (b) Confirm that conditions 4(a)(i) and 4(a)(ii) are likely to be sufficient to protect the rights of a non-controlling interest for consolidated financial statements.

**Issue 1.2: Exemptions – Temporary Control**

*Background on Temporary Control*

5. IPSAS 6, paragraph 21, contains a scope exclusion for entities that are under temporary control and where management is actively seeking a buyer. The scope exclusion in IPSAS 6 is based on the December 2003 version of IAS 27.

**Extract from IPSAS 6**

21. **A controlled entity shall be excluded from consolidation when there is evidence that (a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition, and (b) management is actively seeking a buyer.**
6. There is no equivalent exemption in IFRS 10. An entity applying IFRS to a temporarily controlled investment would consider whether the investment met the “held for sale” criteria in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under IFRS 5, a non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

*IPSASB Discussion September 2012*

7. In September 2012 the IPSASB had a preliminary discussion on whether there should continue to be an exemption from consolidation where control is temporary. The IPSASB agreed to discuss this further at this meeting, and agreed that the discussion should focus on the following three options:
  - (a) Option A: Remove the temporary control exemption;
  - (b) Option B: Make the temporary control exemption more restrictive; and
  - (c) Option C: Require equity accounting of temporarily controlled entities.
8. Each of these options is considered below. Members will be asked to give direction on which option they support, for the purposes of issuing an ED on consolidated financial statements.

*Option A: Remove the temporary control exemption*

9. Arguments in favour of removing the exemption include the following:
  - (a) It is difficult to prevent abuse of such exemptions. Abuse of the exemption means that users are not receiving consolidated information about the total resources at the disposal of the group, or the commitments and risks of the group. If temporarily controlled investments are large in relation to the group they may have a significant effect on the future operations of the entity.

- (b) In the public sector a controlling entity may intend to dispose of an entity within a year, but the holding period will often be longer than a year, because of the time needed to make the entity ready for sale, obtaining regulatory and legislative approvals, and the illiquid nature of the market for public sector operations. The risk with allowing a longer time period is that an entity may end up accounting permanently or semi-permanently on a basis that doesn't reflect the accountability of the consolidated entity.
  - (c) A controlling entity may intend to dispose of an entity within a year, but it is possible that there will be a change in intent, often due to changing political fortunes, but also often due to reappraisals of the market. The risk here is that the temporary control exclusion impairs comparability, with the accounting requirements changing between consolidation and non-consolidation.
  - (d) The IPSAS and IFRS would be aligned.
  - (e) Concerns about combining assets and liabilities that are of differing natures (see Option B arguments) could be addressed by additional disclosure of the assets and liabilities of temporarily controlled entities. Such disclosures would help users to make informed assessments about the impact of disposing of interests in such controlled entities.
10. Possible presentation options and disclosures about entities that have been consolidated but where control is expected to be temporary include the following:
- (a) Disclose a description of those entities where control is expected to be temporary.
  - (b) Disclose a description of the facts and circumstances leading to the acquisition of temporarily controlled entities, the expected manner and timing of the disposals and a description of the facts and circumstances leading to decisions not to dispose of such entities.
  - (c) Disclose, in the notes, the assets, liabilities etc of all temporarily controlled entities. This could be done for major components such as current and non-current assets.
11. If the IPSASB supports Option A, there would be no discussion of temporary control in the scope section of the ED.

*Option B: Make the temporary control exemption more restrictive*

12. Arguments in favour of keeping the temporary control example include:
- (a) The consolidated information would be misleading because the assets and liabilities of the temporarily controlled entity differ in nature from the assets and liabilities of the remainder of the group. The group does have access to these resources and is exposed to risks from the holding of the investment, but this is expected to be for a short time only.
  - (b) The nature and size of the temporarily controlled entities (for example, large financial institutions) could distort the reported performance of the controlling entity.
13. The temporary control exemption could be made more restrictive in a number of ways. Possible restrictions are set out in Table 2 below.

**Table 2**

<b>Possible restrictions on a temporary control exemption</b>	<b>Comment</b>
Require a formal plan to dispose of or cede control of another entity	Required by IPSAS 6.23
Require that the disposal or ceding of control occur within a set time limit	IPSAS 6.23 example uses twelve months. IFRS 5.8 requires sale to be completed within one year.
Management must be committed to the plan	Required by IFRS 5.8
Implementation of the plan must have begun	Required by IFRS 5.8
Unlikely that there will be significant changes to the plan	Required by IFRS 5.8
No realistic possibility of withdrawal from that plan	Required by IPSAS 6.23
Set time period: two years, three years? Allow more time if in the process of seeking regulatory approval Allow more time if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to the plan	IPSAS 6.23 gives 12 months as an example IPSAS 6.25  Permitted by IFRS 5.9
Require consolidation from date of acquisition if conditions cease to be met	Required by IPSAS 6.23
Require that the entity be available for immediate sale in its present condition	Required by IFRS 5.7
Require that the disposal or ceding of control be highly probable: <ul style="list-style-type: none"> <li>• Require that sale price be realistic</li> <li>• Require that all approvals, including regulatory approval, be probable</li> </ul>	Required by IFRS 5.7 and 8
In the case of shares held as 'stock-in-trade', require that all the shares held as 'stock-in-trade' are acquired and held exclusively with a view to their subsequent disposal in the near future: i.e., merely holding the shares as 'stock in trade' is not sufficient to qualify for the exemption.	From Accounting Standards Interpretation (ASI) 251, <i>Exclusion of a subsidiary from consolidation</i> which refers to Accounting Standard (AS) 21, <i>Consolidated Financial Statements</i> (Institute of Chartered Accountants of India)

14. Project staff have developed wording for a temporary control exemption, based on that currently in IPSAS 6, and including some of the additional restrictions from IFRS 5. The current requirements in IPSAS 6 and the proposal put forward for consideration by the IPSASB are set out in the right hand column of Table 3 below. The proposal extends the time period for disposal to two years but requires more criteria to be met regarding the likelihood of implementing the plan. The proposal does not provide any extension of time for sales/disposals that are in progress at the end of the two years.
15. In considering the proposed temporary control exemption members are asked to consider which of the proposed restrictions they consider should be required and whether any further restrictions should be required.

**Table 3**

IPSAS 6 Temporary Control Exemption	Proposed Temporary Control Exemption (for discussion)
<p>21. <b>A controlled entity shall be excluded from consolidation when there is evidence that (a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition, and (b) management is actively seeking a buyer.</b></p> <p>22. Such controlled entities are classified and accounted for as financial instruments. IPSAS 28, <i>Financial Instruments: Presentation</i>, IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i>, and IPSAS 30, <i>Financial Instruments: Disclosures</i> provide guidance on financial instruments.</p> <p>23. An example of temporary control is where a controlled entity is acquired with a firm plan to dispose of it within twelve months. This may occur where an economic entity is acquired, and an entity within it is to be disposed of because its activities are dissimilar to those of the acquirer. Temporary control also occurs where the controlling entity intends to cede control over a controlled entity to another entity – for example a national government may transfer its interest in a controlled entity to a local government. For this exemption to apply, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject to temporary control. An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so, and there is no realistic possibility of withdrawal from that plan.</p> <p>24. When a controlled entity previously excluded from consolidation in accordance with paragraph 21 is not disposed of within twelve months, it shall be consolidated as from the acquisition date (guidance on the acquisition date can be found in the relevant international or national accounting standard dealing with business combinations). Financial statements for the periods since acquisition are restated.</p> <p>25. Exceptionally, an entity may have found a buyer for a controlled entity excluded from consolidation in accordance with paragraph 21, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The entity is not required to consolidate such a controlled entity if the</p>	<p>4.1. <b>A controlled entity shall be excluded from consolidation when there is evidence that:</b></p> <p>(a) <b>control is intended to be temporary because the controlled entity is held exclusively with a view to its disposal, including the ceding of control, within a period of two years from acquisition; and</b></p> <p>(b) <b>there is a formal plan in place for the disposal;</b></p> <p>(c) <b>implementation of the plan within two years is highly probable having regard to:</b></p> <p>(i) <b>the likelihood of obtaining regulatory or other approvals required to implement the plan;</b></p> <p>(ii) <b>the commitment of management to the plan;</b></p> <p>(iii) <b>the entity is available for sale in its current condition;</b></p> <p>(iv) <b>the likelihood of finding a buyer;</b></p> <p>(v) <b>the likelihood of obtaining the price sought by management; and</b></p> <p>(d) <b>implementation of the plan has begun prior to the end of the reporting period.</b></p> <p>4.2. When a controlled entity previously excluded from consolidation in accordance with paragraph 4.1 is not disposed of within two years, it shall be consolidated as from the acquisition date (guidance on the acquisition date can be found in the relevant international or national accounting standard dealing with public sector combinations). Financial statements for the periods since acquisition are restated.</p>

IPSAS 6 Temporary Control Exemption	Proposed Temporary Control Exemption (for discussion)
sale is in process at the reporting date, and there is no reason to believe that it will not be completed shortly after the reporting date.	

*Option C: Require equity accounting of temporarily controlled entities*

16. Possible arguments for requiring equity accounting of temporarily controlled entities are set out below.<sup>1</sup>

- (a) Although the entity has a controlling interest in the other entity, it is not intending to control the individual assets or activities of that other entity in the way that a controlling entity normally would.
- (b) If the entity is intending to dispose of the other entity in its entirety it could be argued that it has control over an *investment*, rather than control over the assets of the other entity.
- (c) The nature of the control relationship is different from the usual concept of control. Some distinctive presentation, measurement or disclosure may be required to fairly present the nature of temporary control in the controlling entity's financial statements. If it is in a category of its own, then the methods used to account for investments (as financial instruments) or controlled entities (consolidation) may not be appropriate.
- (d) Equity accounting is a form of accounting that has been commonly used by standard setters to provide information about interests that are on the spectrum between non-controlling interests and controlling interests.
- (e) Presenting information on the entity's share of the other entity's surplus or deficit as one line in the statement of financial performance provides users with clearly identifiable information about the impact of the temporarily controlled investment on the financial performance of the entity.

17. The arguments in support of Option A (remove the temporary control exemption) can also be used as arguments against equity accounting temporarily controlled entities. In addition it may be argued that equity accounting is a pragmatic rule that lacks a conceptual basis. Having regard to possible future developments, it is possible that the IASB will reconsider the use of the equity method of accounting (as signalled in the recent IASB agenda consultation).

**Matter(s) for Consideration**

- 2. In respect of temporary control, the IPSASB is asked to decide which of the three options for dealing with temporary control it supports. The three options are:
  - (a) Option A: Remove the temporary control exemption

<sup>1</sup> Some arguments are based on a discussion on the merits of equity accounting for joint ventures in the following paper (to the extent that they were relevant): *Reporting Interests in Joint Ventures and Similar Arrangements*, J Alex Milburn and Peter D Chant, 1999. The Basis for Conclusions to IFRS 11 *Joint Arrangements* was not used as a source because in developing IFRS 11 the IASB did not seek to debate the merits of equity accounting. Rather, the IASB's focus was on eliminating options.

- (b) Option B: Make the temporary control exemption more restrictive
  - (c) Option C: Require equity accounting of temporarily controlled entities.
3. If the IPSASB supports Option B, the IPSASB is asked to provide feedback on the proposed wording of a temporary control exemption, as set out in Table 3 above.

### Issue 1.3: Terminology

18. In September 2012 the IPSASB proposed further changes to terminology. The IPSASB agreed to:
- (a) Use the term “benefits” rather than “returns”, with returns being viewed as a subset of benefits;
  - (b) Create a definition of benefits;
  - (c) Consider alternative terms for “investor” and “investee”. The IPSASB considered that a neutral term should be used until an entity has decided that it does control another entity; and
  - (d) Further consider whether the definition of “relevant activities” is required. There was a concern that focusing solely on activities could be inappropriate where an entity has multiple sets of activities and reports to different entities in respect of those activities. The IPSASB noted that any change to the definition of relevant activities would also affect the definition and discussion of “power”.
19. Each of these issues is discussed below.

#### *Benefits and Returns*

20. In accordance with the directions given by the IPSASB in September, project staff has replaced most references to returns with references to benefits and included a definition of benefits. The term returns has been kept in some places where it is clear that the returns are financial in nature.
21. A definition of benefits has also been developed. In developing this definition, project staff were conscious that the definition of benefits in ED X needed to be narrower than the ordinary usage of the term. The ordinary usage is “Something that promotes or enhances well-being; an advantage”. In this ED, we want to focus on the types of benefits associated with ownership interests, whilst acknowledging that those ownership interests may have been deliberately acquired or may be a consequence of the arrangements that govern the operations of an entity and the environment in which it operates.
22. One theory about ownership rights, being the residual rights of control, occur when it is too costly to identify all the specific rights that one party has over another party’s assets (Grossman and Hart, 1986).<sup>2</sup> It may therefore be helpful to think of benefits flowing from a broad range of rights, with the IPSASB’s interest being in the subset of rights that arise from specific ownership interests or which are akin to those rights.

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<sup>2</sup> Grossman, S J, and O D Hart (1986) “The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration.” Journal of Political Economy 94: 691-719.

23. Project staff considered the definition of benefits in general language. The aspects of the dictionary definitions which are relevant to the ED are (i) an advantage or profit gained from something; or (ii) something that promotes or enhances well-being. The proposed definition of benefits in paragraph 4.8 of ED X is:

**Benefits are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. Financial benefits include returns on investment such as dividends. Non-financial benefits include advantages arising from scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the entity. Benefits can be positive or negative, or a combination of positive and negative.**

24. As background, extracts from IPSAS 6 and IFRS 10 are shown below. ED X proposes significant changes to the discussion of returns in IFRS 10 (refer paragraphs 15–18 of ED X).

**Extracts from IPSAS 6 (paragraphs 29, 39 and 40 – Benefits)**

29. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity (a) may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend), and (b) is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a GBE may provide a controlling entity with a dividend, and also enable it to achieve some of its social policy objectives.

39. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

...

*Benefit Conditions*

- (a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.
- (b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

40. When one or more of the circumstances listed in paragraph 39 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

...

*Benefit Indicators*

- (a) The entity holds direct or indirect title to the net assets/equity of the other entity, with an ongoing right to access these.
- (b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation, or in a distribution other than a liquidation.
- (c) The entity is able to direct the other entity to cooperate with it in achieving its objectives.
- (d) The entity is exposed to the residual liabilities of the other entity.

**Extract from IFRS 10 (paragraphs 15 and 16) – Returns**

- 15 An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or wholly positive and negative.
- 16 Although only one investor can control an investee, more than one party can share in the returns of an investee. For example, holders of non-controlling interests can share in the profits or distributions of an investee.

*Investor and Investee*

25. The IPSASB requested that the terms investor and investee not be used in this ED. Some members noted that the terms implied that there was a formal equity instrument giving rights over the other entity when this may not be the case. In addition, the terms might be seen as implying the existence of control before this had in fact been established.
26. In response to this request project staff has replaced nearly all references to investor with references to “the entity”. Most IPSASs simply refer to an entity when they establish requirements. It is clear to the reader that the entity is the entity in respect of which the financial statements are being prepared. There are one or two instances where staff considered that the term investor was appropriate and have kept that term (for example when a group of investors is referred to).
27. Project staff has replaced the term investee with the terms “another entity”, “other entity” or “controlled entity” as appropriate. Project staff considers that, in context, it is clear which entities are being referred to.
28. Project staff has used the same approach in developing the other EDs that form part of this project. However, it could be argued that the terms investor and investee are appropriate in the context of an IPSAS dealing with investments in associates and joint ventures. IPSAS 7 currently uses the terms investor and investee.

*Relevant Activities*

29. The definition of relevant activities has been modified to include reference to financial and operating policies. This modification is consistent with paragraph AG36. However, guidance on assessing the existence of power through voting rights has been kept because, if voting rights exist, it seems sensible to examine them first. The revised definition in the ED is:

**Relevant activities (for the purpose of this IFRS Standard), relevant activities** are activities of the **potentially controlled entity**~~investee~~ that significantly affect the **nature or amount of the benefits that an entity receives from its involvement with that other entity**~~investee's~~.

30. The discussion of power and rights in the Standard (see paragraphs 10 and AG36 onwards) have been revised to explicitly acknowledge that, in the public sector, power may exist, despite there being no formal equity instrument. It is proposed that the changes to the discussion of power and rights be considered as the IPSASB works through the draft ED (at agenda item 10.2).

**Matter(s) for Consideration**

4. The IPSASB is asked to confirm the proposed definition of benefits and the use of the terms benefits and returns in this ED.
5. The IPSASB is asked to confirm the use of the term “entity” rather than “investor” and the use of the terms “another entity”, “other entity” or “controlled entity” as appropriate, rather than “investee” in this ED.

**Issue 1.4: Uniform Reporting Dates**

31. In September 2012 the IPSASB agreed to modify the guidance on uniform reporting dates. The IPSASB noted that there may be instances in the public sector where certain entities have different

reporting dates from the controlling entity and it is not possible to change these reporting dates. Currently IPSAS 6 (paragraph 48) acknowledges that there may be differences in reporting dates and provides guidance on the adjustments to be made to such financial statements before they are consolidated. However, IPSAS 6 (and IFRS 10) also limit the time difference to three months. The IPSASB agreed to remove this restriction and noted that all the guidance on reporting dates would need to be reviewed to ensure it was consistent.

32. The proposed text dealing with reporting dates is set out in paragraph 21.7 of the ED. This paragraph is shown below.

21.7 Unless it is impracticable to do so, the financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements shall be prepared as at the same reporting date. When the end of the reporting period of the controlling entity is different from that of a controlled entity, the controlled entity either:

- (a) prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the controlling entity ; or
- (b) uses the most recent financial statements of the controlled entity adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. [Based on IFRS 10, B92 and B93]

**Matter(s) for Consideration**

6. The IPSASB is asked to confirm the proposed text on reporting dates (paragraph 21.7 of the ED).

**Issue 1.5: Franchises**

33. In September 2012 the IPSASB expressed the view that franchise arrangements are rare in the public sector and suggested that the guidance on franchise arrangements be deleted. The IPSASB is asked to confirm the deletion of this section of the ED.

34. In order to assist the IPSASB in forming an opinion as to whether franchise agreements are rare in the public sector, project staff have identified the following examples franchise arrangements:

- (a) A local authority entered into a 30 year franchise agreement for water and wastewater, with a joint-venture. The main partners were UK-based company and a French company.
- (b) A state government contracted the private sector to operate the train and tram system, in the form of franchises, for periods up to 15 years.
- (c) A discussion of franchise arrangements in the US public sector stated that franchise arrangements may be used in food and beverage concessions, solid waste collection, public utilities, airport operations, vehicle towing and storage, and emergency medical services.
- (d) A national government franchised the rail service.
- (e) Franchising has been used in the delivery of health services, with national agencies entering into arrangements with international agencies. The examples identified were in the private not for profit sector but could also occur in the public sector.

**Matter(s) for Consideration**

7. The IPSASB is asked to confirm the deletion of the guidance on franchises (paragraphs AG29 to AG33 of the ED).

**Issue 1.6: Examples**

35. In September 2012 the IPSASB suggested that some examples could be moved from the Application Guidance to the Illustrative Examples Section. Application Guidance is normally an integral part of the Standard while Illustrative Examples are not. IFRS 10 does not have any Illustrative Examples. The advantage of moving some examples is that it would reduce the length of the Standard.
36. Project staff has considered the IPSASB's suggestion to move some examples but have found it difficult to identify good arguments for removing some but not all of the examples. It could be argued that some examples, such as those dealing with voting rights, are likely to be applied less frequently in the public sector. However, public sector entities can, and do, have voting rights in other entities. In such circumstances the examples dealing with voting rights become extremely relevant.
37. One option would be to move all the Application Examples to an Illustrative Examples section. Project staff seek the IPSASB's views on this option.

**Matter(s) for Consideration**

8. The IPSASB is asked to provide feedback on whether it would support moving all the examples from the Application Guidance to a new Illustrative Examples section.

**Issue 1.7: Flowcharts**

38. It has been suggested that flowcharts showing (i) which standard to apply and (ii) how to assess control might be useful. Two flowcharts are presented below for consideration by the IPSASB.

*Flowchart 1 Involvement with Another Entity*

39. Flowchart 1 *Involvement with Another Entity* helps the relevant IPSAS(s), having regard to the nature of an entity's involvement with another entity. If the IPSASB considers that this flowchart is useful it could be included in the ED as implementation guidance. There is a precedent for this. IPSAS 32, *Service Concession Arrangements: Grantor* includes a flowchart in implementation guidance. There is also a precedent for discussing the scope of other standards in implementation guidance. The Implementation Guidance to IPSAS 6 currently discusses the scope of IPSASs 7 and 8.

*Flowchart 2 Assessing Control of Another Entity for Financial Reporting Purposes*

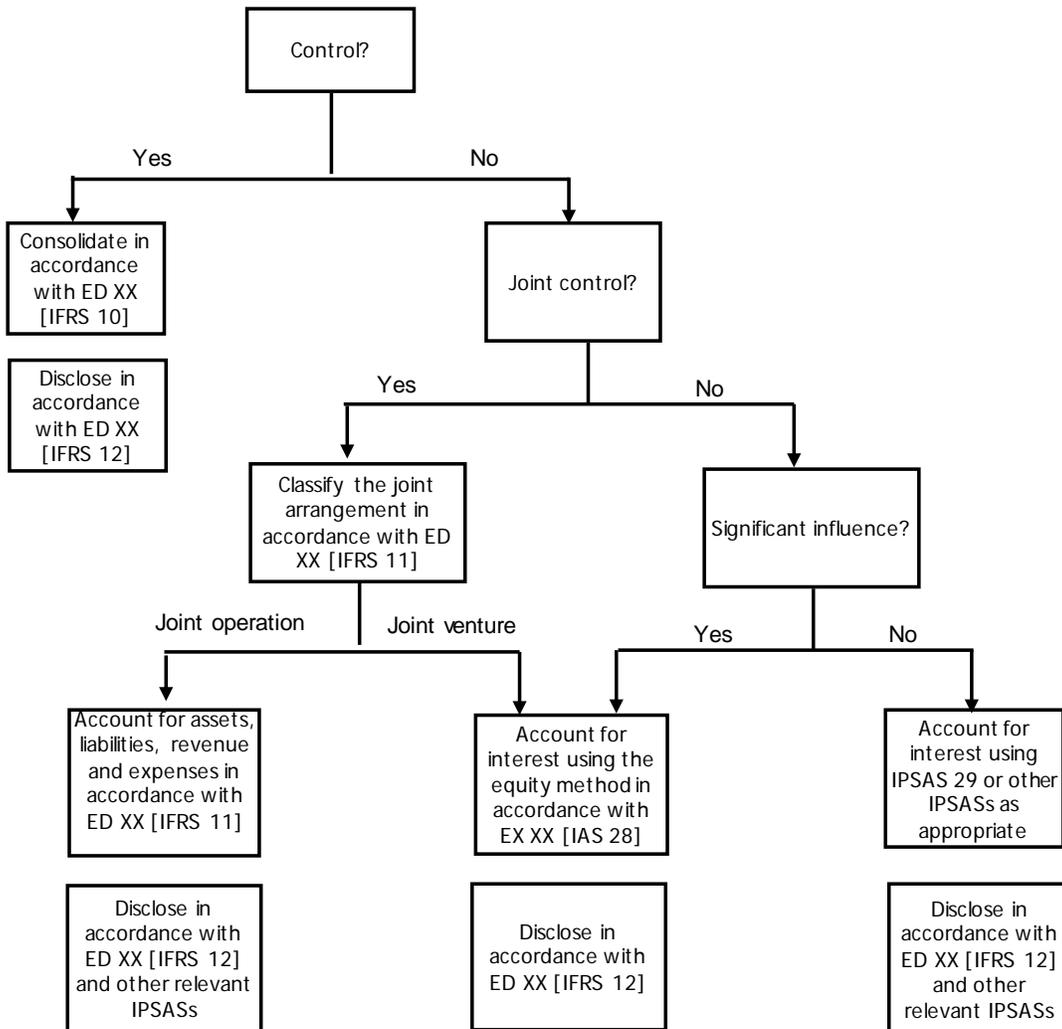
40. Flowchart 2 summarizes the key aspects of ED X, *Consolidated Financial Statements*. If the IPSASB considers that this flowchart is useful it could be (i) included in the ED between the sections on control and accounting requirements or (ii) treated as non-integral and included in a

separate section at the end of the standard (for example, IPSAS 19 Provisions, *Contingent Liabilities and Contingent Assets* has an “Illustrative Decision Tree” which summarizes the key requirements of that standard). The Task Based Group had mixed views on this flowchart.

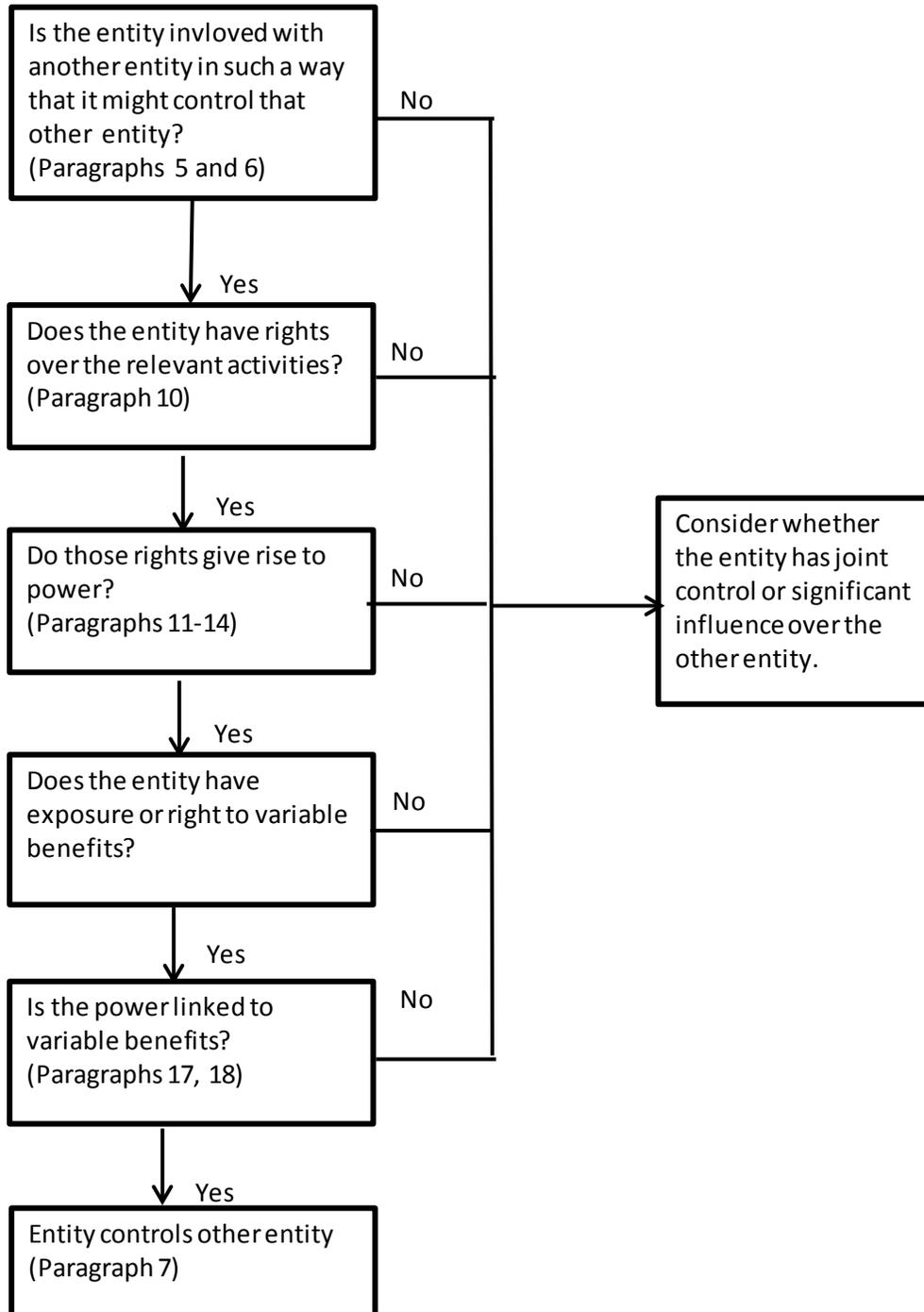
**Matter(s) for Consideration**

9. The IPSASB is asked to provide feedback on Flowchart 1 *Involvement with Another Entity*, including whether the flowchart should be included as implementation guidance to ED X, *Consolidated Financial Statements*.
10. The IPSASB is asked to provide feedback on Flowchart 2 *Assessing Control of Another Entity for Financial Reporting Purposes*, including whether the flowchart should be included in ED X, *Consolidated Financial Statements*, and if so, where.

**Flowchart 1: Involvement with Other Entities**



**Flowchart 2: Assessing Control of Another Entity for Financial Reporting**



## ED X, Joint Arrangements

### Introduction

41. ED X, *Joint Arrangements* is based on IFRS 11, *Joint Arrangements*. The ED would supersede IPSAS 8, *Interests in Joint Ventures*.
42. A joint arrangement is a binding arrangement that binds the parties and gives two or more of those parties joint control of the arrangement. Joint control is the agreed sharing of control of such an arrangement, which exists only when decisions about the 'relevant activities' require the 'unanimous consent' of the parties sharing control.
43. IFRS 11 must be applied by all entities that are a party to a joint arrangement.<sup>3</sup> 'Relevant activities' is a new term in IFRS 10 *Consolidated Financial Statements* and is defined in IFRS 10 as activities that significantly affect the returns of an arrangement. The potential use of terms other than relevant activities in IPSASs is discussed earlier in this memo.
44. The key measurement differences between IPSAS 8 and IFRS 11 are set out in Table 4 below.

**Table 4**

<b>IPSAS 8 <i>Interests in Joint Ventures</i></b>	<b>IFRS 11 <i>Joint Arrangements</i></b>
<b>Jointly Controlled Entities</b> (paragraphs 35 and 43) Proportionate consolidation or Equity method <i>In consolidated financial statements</i>	<b>Joint Ventures (controlled jointly)</b> (paragraphs 16 and 24) Equity method <i>In consolidated financial statements</i>
<b>Jointly Controlled Operations</b> (paragraph 19) Recognize the assets that the entity controls Recognize the liabilities that the entity incurs <i>In the separate financial statements of the venturer</i>	<b>Joint Operations (controlled jointly)</b> (paragraphs 15) Recognise the entity's assets and liabilities (including the entity's share of any jointly held assets or jointly incurred liabilities) etc <i>In the separate financial statements of the venturer</i>
<b>Jointly Controlled Assets</b> (paragraph 25) Recognize the entity's share of jointly controlled assets, any liabilities it incurred, share of jointly incurred liabilities etc <i>In the separate financial statements of the venturer</i>	

45. There are three key differences between IPSAS 8 and IFRS 11:
  - (a) There are only two categories of joint arrangements in IFRS 11. Joint ventures are structured through a separate vehicle and give rights to net assets of an arrangement. Joint operations may or may not be structured through a separate vehicle and they give rights to assets and obligations for liabilities of an arrangement.
  - (b) The classification of joint arrangements as joint ventures or joint operations depends on whether an entity has (i) rights to assets and obligations for liabilities, or (ii) rights to net assets. Some arrangements that were previously classified as joint ventures may now be

<sup>3</sup> The exemption for venture capital entities is now located in ED X, *Investments in Associates and Joint Ventures* (this ED will be considered by the IPSASB in March 2013).

classified as joint operations. These are arrangements structured through a separate vehicle, but where separation is overcome by form, contract or other facts and circumstances.

- (c) IFRS 11 does not permit the use of proportionate consolidation for joint ventures. One of the IASB's objectives in developing IFRS 11 was to eliminate accounting options.
46. Although IFRS 11 removes the option to proportionately consolidate jointly controlled entities, the accounting required in respect of joint operations could give similar results to proportionate consolidation. The differences are that the recognition of assets and liabilities occurs in the venturer's separate financial statements<sup>4</sup> and that the accounting is based on the contractual rights, rather than the proportion of ownership rights.

### Issue 2.1: Types of Joint Arrangements

47. As discussed above, IFRS 11 classifies joint arrangements as either joint ventures or joint operations. The IPSASB needs to consider whether these terms are appropriate for application to joint arrangements in the public sector.
48. In developing these new terms the IASB chose to focus on the nature of the rights and obligations in an arrangement. In many cases the rights and obligations will be aligned with the structure of the entity, but the mere fact that a joint arrangement has been established as a separate entity does not guarantee that it will be classified as a joint venture. This could lead to some changes in the classification of, and the accounting for, public sector entity interests in joint arrangements. There may be additional costs when the classification of an arrangement changes (for example, from a jointly controlled entity to a joint operation).
49. The new classifications are integral to IFRS 11. The accounting is directly linked to the classification of the arrangement. The proposed definitions are:

**A joint arrangement is an arrangement of which two or more parties have joint control.**

**A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.**

#### Matter(s) for Consideration

11. The IPSASB is asked to confirm the proposed definitions of joint ventures and joint operations.

### Issue 2.2: Removal of Accounting Option

50. This section is intended to assist IPSASB members to form an opinion on whether they support the removal of the option to use proportionate consolidation for joint ventures.
51. Arguments for and against the use of the equity method and proportionate consolidation for joint ventures are outlined in Table 5 below.<sup>5</sup>

#### Table 5

<sup>4</sup> The assets and liabilities recognized in the separate financial statements then flow through to the consolidated financial statements.

<sup>5</sup> Based on Milburn and Chant, 1999 and the Basis for Conclusions to IFRS 11 (paragraphs BC41 to BC45).

<b>Arguments by proponents of the equity method for joint ventures</b>	<b>Arguments by proponents of proportionate consolidation for joint ventures</b>
<p><b>Concepts of assets and liabilities</b></p> <p>Proportionate consolidation is inconsistent with the concepts of assets and liabilities.</p> <ul style="list-style-type: none"> <li>• The venturer does not control its pro rata share of individual assets in a joint venture.</li> <li>• The venturer does not have a present obligation for a pro rata share of the joint venture's debt.</li> </ul> <p>The venture has <i>joint direction</i> of the venture's assets and rights to a collective return on the net assets of the joint venture.</p> <p>Portrayal of the net assets of a joint venture using the equity method is consistent with the concepts of assets and liabilities.</p> <p>The equity method is consistent with the substance of the arrangements – being an interest in the <i>net assets</i> of the joint venture.</p>	<p>The power of joint direction is greater than that shown by equity accounting.</p> <p>Equity accounting is not conceptually valid either (the investor does not have the power to obtain control over a share of the investee's revenue).</p> <p>Proportionate consolidation more faithfully reflects the economic substance of the arrangements.</p>
<p><b>Perceived usefulness</b></p> <p>Users may find proportionate consolidation confusing. It introduces "noise" into the statements.</p> <p>Disclosures required by IFRS 12 will provide users with information about material joint ventures, including information on which to assess future cash flows.</p>	<p>Proportionate consolidation is more useful</p> <ul style="list-style-type: none"> <li>• It portrays a broader and more comprehensive representation of the extent of venture operations, assets and liabilities.</li> <li>• It provides a better basis for predicting future cash flows.</li> </ul>
<p><b>Debt</b></p> <p>Joint venture debt is not the debt of the venturer.</p> <p>The venturer's obligations are affected by guarantees and take or pay contracts.</p>	<p>Proportionate consolidation provides better information on joint venture debt in relation to the size of the investment in the joint venture.</p>

52. As can be seen by looking at the arguments in Table 5, people hold differing views about the conceptual validity and usefulness of equity accounting versus proportionate consolidation. These views reflect differing beliefs. In developing IFRS 11 the IASB acknowledged that there are two schools of thought and that this has led to diversity in practice. It was this diversity that the IASB was attempting to address by removing the option to use proportionate consolidation.<sup>6</sup>

<sup>6</sup> At some point in the future the IASB may initiate a review of the equity method. In its agenda consultation in 2011 the IASB acknowledged that some constituents have queried the appropriateness of the equity method and aspects of its application. The IASB agenda consultation noted that a future project could reconsider when the equity method of accounting is appropriate, and, if so, whether it could be simplified. Alternatively a future project could be of more limited scope focusing just on clarifying and/or simplifying the application of the equity method of accounting. However, this was only one of many possible new projects on which the IASB was seeking feedback.

53. Supporters of the two methods have differing views about the usefulness of information provided under each method. There has been some research in the private sector on the usefulness of different types of information but a brief look at such research suggests that it is not conclusive.
- (a) One study investigated whether the market views the venturers' share of a jointly controlled entity's (JCE) assets and liabilities as assets and liabilities of the venturer or whether the risks and rewards associated with the venturers' share of JCE's assets and liabilities reside with the JCE's.<sup>7</sup> It concluded that investors view the venturer's share of jointly controlled entities assets and liabilities similarly to the assets and liabilities of the venturer and thus support the adoption of proportionate consolidation as a feasible alternative to the equity method.
  - (b) Another study attempted to provide an understanding of how investors respond to the numbers reported on different types of investments.<sup>8</sup> It found that the earnings stream from partially-controlled investments is valued significantly less than controlled earnings. They hypothesised that the enhanced valuation role of book values and the diminished significance of earnings for partially controlled investments, in combination, is consistent with two explanations: investors perceive that such assets remain at a higher risk of liquidation even when they are performing well, and/or that the earnings stream from such assets is not informative about future prospects and book value therefore surrogates for future normal earnings. This study would seem to support the use of equity accounting for any partially controlled investment (although the authors do not actually assert this).
54. The impact of removing the option to use proportionate consolidation in IPSASs is not known. Project staff do not have information on how many entities applying IPSASs account for jointly controlled entities using the proportionate consolidation option in IPSAS 8.

**Matter(s) for Consideration**

12. The IPSASB is asked to provide feedback on the proposal that joint ventures be accounted for using the equity method alone.

**Issue 2.3: Examples**

55. This section considers whether the examples in ED X need to be modified, and whether any further examples are required. In order to provide some context this section includes a brief discussion of the types of joint arrangements that occur in the public sector.
56. Joint arrangements are common in the public sector and a number of governments have established guidelines governing the establishment and operation of joint ventures. The pooling of resources and expertise between government and private sector entities through joint ventures may be regarded as a viable, efficient, and practical way of pursuing the development goals of a government. Joint ventures are often created to manage the extraction and distribution of natural resources such as oil, coal and gas.

<sup>7</sup> Sónia Raquel Baptista Fernandes, 2010, *How does the market view interests in jointly controlled entities?*

<sup>8</sup> Zhen Deng, Nishi Sinha, 2006, *Valuation of Partially-Controlled Investments*

57. The following observations come from a study of joint ventures in Egypt, as at 2011:<sup>9</sup>
- (a) Joint ventures are a growing segment of state-owned enterprises. Joint ventures between Egyptian firms and the government constitute an important part of the publicly traded corporate sector. For example, in the petroleum and petrochemicals sector, all foreign investment must be made through joint ventures in which the state retains at least a 50% ownership.
  - (b) The ownership structure of public sector joint ventures can be complex. They may include ministries, public sector firms (including government owned or JV banks) intergovernmental organisations (jointly owned by multiple governments) and other stakeholders such as unions. Some, but not all, of these entities may be Government Business Enterprises.
  - (c) In 2011 an Egyptian government ministry oversaw 662 joint ventures, including nine holding companies. The majority of the government's interests in joint ventures were held by government owned holding companies. Interests in joint ventures were also held by other Ministries and entities such as public sector banks and public sector insurance firms.
58. There are two examples in the Illustrative Examples which project staff considers need changing.
- (a) Example 1 has been changed so that one entity is a private sector entity and one is a public sector entity.
  - (b) Example 2 has been changed from a joint shopping centre to a joint service centre.
59. ED X does not currently include any public sector specific examples. The public sector is involved in a wide range of joint arrangements so it did not seem appropriate to remove examples. Most of the examples in IFRS 11, both in the Application Guidance and the Illustrative Examples, are generic and, with minor modifications, are applicable to the public sector.

**Matter(s) for Consideration**

13. The IPSASB is asked to confirm the changes to Examples 1 and 2 and provide feedback on whether any further modifications to the examples in ED X, *Joint Arrangements* are required.

<sup>9</sup> *Towards New Arrangements for State Ownership in the Middle East and North Africa*, Chapter 5 Transparency of Egypt's public-private joint ventures, OECD, 2012

## ED X, Disclosure of Interests in Other Entities

### Introduction

60. IFRS 12, *Disclosure of Interests in Other Entities* requires more detailed disclosures in respect of each material interest in controlled entities, associates and joint ventures than current IPSASs. The IASB has stated that the disclosures required by IFRS 12 are expected to lead to better information for users about investees that are consolidated, and also about the risks to which a reporting entity is exposed from its involvement with investees that are not consolidated.
61. The disclosures required by IFRS 12 are likely to be of interest to users of public sector entity financial statements. In considering IFRS 12, the IPSASB is invited to consider the following questions:
- (a) Should less detail be required in some areas (due to views on cost benefit);
  - (b) Should any disclosures be omitted on the grounds that they are inappropriate for public sector entities; and
  - (c) Are there any public sector specific issues that would warrant additional disclosure requirements?
62. The IASB conducted considerable outreach (with preparers, auditors and users) in developing IFRS 12 and formed a view that the more extensive disclosures in IFRS 12 were warranted. The European Financial Reporting Advisory Group (EFRAG) also held meetings with the various groups of constituents and conducted field-testing activities. However, both the IASB and EFRAG assessments were made in the private sector context. At this stage, judgments about the costs and benefits of these disclosures in the public sector are likely to be subjective. Project staff has drawn upon the following two documents to give an overview of the new disclosure requirements and to consider their possible impact:
- (a) IASB Effect Analysis of IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* (September 2011); and
  - (b) The Final Endorsement Advice of the European Financial Reporting Advisory Group on IFRS 10-12 (March 2012).
63. The ED has been drafted on the assumption that the accounting requirements in the final IPSASs will be consistent with the requirements in IFRSs. If the IPSASB decides to change the accounting requirements then this will have an impact on the proposed disclosures. Nonetheless project staff considered that it would be useful to receive feedback at this stage on the proposed disclosures.
64. In commenting on the costs associated with adoption of IFRS 12 the IASB considered that the costs of complying with the standard should be somewhat mitigated because (i) they will apply only to particular subsets of entities and (ii) reporting entities are likely to already have some of the information required. With regard to benefits, the IASB considered that better disclosure of risks would lead to better assessments of risk and a lower cost of capital. These benefits could also apply to public sector entities with information about risks being important for both accountability and decision making.

65. From a preparer perspective complying with the disclosure requirements in IFRS 12 will lead to increased costs, particularly on first-time implementation. New, or more extensive, disclosures are required in the following areas:<sup>10</sup>
- (a) Disclosures about the control assessment;
  - (b) Disclosures about consolidated structured entities;
  - (c) Disclosures about unconsolidated structured entities; and
  - (d) Improved disclosure requirements for subsidiaries with material non-controlling interests.
66. Each of these disclosure areas are considered in more detail below. Project staff considers that the usefulness of the concept of structured entities needs to be explored by the IPSASB (see issues 3.2 to 3.4).

### Issue 3.1: Significant Judgments and Assumptions

67. IFRS 12 (paragraphs 7 to 9) requires that an entity disclose information about significant judgments and assumptions it has made in assessing the existence of control, joint control (and classification of such arrangements) and significant influence. Information about significant judgements and assumptions made in assessing control and significant influence are already required under existing IPSASs, including IPSAS 1, *Presentation of Financial Statements*.
68. Entities that have complex relationships with other entities will incur higher costs because they are likely to have to make more disclosures. However, the additional costs will reflect the effort required to prepare the disclosures not to gather the information (as the entity will already have this information).
69. Project staff considers that these disclosures are appropriate for the public sector. Public sector entities already exercise considerable judgment in assessing the existence of control and other relationships under existing IPSASs. Users will be interested in information about the facts and circumstances and the level of judgement and assumptions made to determine control and other relationships. However, the IFRS 12 disclosures focus on voting rights. Public sector entities are often required to assess control in situations where there are no ownership instruments or voting rights. Users would be expected to also be interested in the judgments and assumptions involved in these assessments. Project staff therefore recommends an additional disclosure to capture situations where “the interest in the other entity is not evidenced by the holding of equity or debt instruments.”

#### Matter(s) for Consideration

14. The IPSASB is asked to confirm the proposed disclosures on significant judgments and assumptions, including the disclosure proposed in paragraph 9(a) (regarding disclosure of interests which are not evidenced by the holding of equity or debt instruments).

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<sup>10</sup> IFRS 12 extends the disclosure requirements about significant restrictions on a parent's ability to access or use the assets and settle the liabilities of its subsidiaries. However, IAS 27 previously required similar disclosures.

### Issue 3.2: Definition of Structured Entity

70. IFRS 10 establishes a single control model that applies to all entities, including structured entities (previously referred to as “special purpose entities”). IFRS 12 requires disclosures in respect of both consolidated and unconsolidated structured entities. The intention of these disclosures is to assist users in forming assessments about the current and potential future impact of these entities on the financial position and performance of the economic entity. Because of the way they are structured these entities may have a greater impact on an entity’s financial performance and financial position than would normally be obvious from the financial statements.
71. The proposed definition of a structured entity in ED X (based on the definition in IFRS 12) is:
- A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.
72. IFRS 12 (paragraph B23<sup>11</sup>) gives three examples of entities that may be structured entities. They are: (i) securitization vehicles; (ii) asset-backed financings; and (iii) some investment funds. All three can and do occur in the public sector. So, to this extent, it could be argued that the definition is relevant for the public sector and that the disclosures in IFRS 12 are relevant for such public sector entities. Despite this, project staff considers that careful consideration of this concept is required, because of the possibility that the definition might capture a high proportion of public sector entities. This could impose an unintended disclosure burden.
73. In considering whether requiring disclosures for structured entities is appropriate in the public sector, it might be useful to consider the following questions:
- (a) What types of financial exposures was the IASB trying to capture and why?
  - (b) What types of financial exposures exist in the public sector, and which of these exposures should be disclosed in accordance with IFRS 12?

#### *IASB’s Intention*

74. The Basis for Conclusions to IFRS 12 explains why the IASB decided to focus on disclosures about structured entities. Paragraphs BC2 and BC4 of IFRS 12 (shown below) give some context.

#### **Extract from the Basis for Conclusions on IFRS 12**

BC2 Users of financial statements have consistently requested improvements to the disclosure of a reporting entity’s interests in other entities to help identify the profit or loss and cash flows available to the reporting entity and determine the value of a current or future investment in the reporting entity.

BC3 They highlighted the need for better information about the subsidiaries that are consolidated, as well as an entity’s interests in joint arrangements and associates that are not consolidated but with which the entity has a special relationship.

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<sup>11</sup> Paragraph AG 23 in the draft ED.

BC4 The global financial crisis that started in 2007 also highlighted a lack of transparency about the risks to which a reporting entity was exposed from its involvement with structured entities, including those that it had sponsored.

75. As can be seen from the above extract the IASB was trying to require the disclosure of more information about the impact of “special relationships” and “sponsored entities”, sometimes referred to as special purpose entities (SPEs). Under previous standards some of these SPEs were not consolidated.
76. An SPE is created by a party (the transferor or the sponsor) by transferring assets to another party (the SPE) to carry out a specific purpose, activity, or series of transactions. Such entities have no purpose other than the transactions for which they are created. The legal form can vary. Common characteristics include:
- (a) They are thinly capitalized.
  - (b) There is no independent management or employees.
  - (c) The administrative functions may be performed by a trustee who receives and distributes cash in accordance with the terms of contracts and who serves as an intermediary between the SPE and the parties that created it.
  - (d) If the SPE holds assets, one of these parties usually services them under a servicing agreement.
77. Common objectives of SPEs are:
- (a) Financing certain assets or services and keeping the associated debt off the statement of financial position of the sponsors. For example, setting up an SPE to construct a pipeline for gas or to purchase high cost assets such as aircraft. Synthetic leases also take assets and debt out of the sponsor’s financial statements.
  - (b) Transforming certain financial assets, such as trade receivables, loans, or mortgages, into liquid securities.
  - (c) Engaging in tax-free exchanges.
78. They may take a variety of forms, including synthetic leases, take-or-pay or throughput contracts, or securitizations. In the private sector sponsors may benefit from such arrangements in two ways:
- (a) They enable the sponsor to remove debt from its financial statements so it meets certain ratios or loan covenants (This assumes that the arrangements are set up in such a way that consolidation is not required. Application of IFRS 10, and more recent accounting standards in other jurisdictions, might now require more of these entities to be consolidated than previously.)
  - (b) They protect the sponsor from possible financial failure by its SPEs. That is, the sponsor is at risk only for what it has put into the SPE. If the SPE gets into financial difficulties the sponsor is not required to bail it out.
79. The problem for investors is that it has been difficult to estimate the amount of assets or liabilities that are subject to these arrangements, and the operating and financial exposures associated with them. IFRS 12 is intended to address these issues. It does this by focusing on “unusual relationships”. In the private sector, voting rights is the most common way in which one entity has

control over another. The IFRS 12 structured entity definition therefore focuses on entities where control is obtained in some other way.

*Public Sector Considerations*

80. As noted above, governments do have the types of structured entities referred to in IFRS 12. Some of these may be consolidated and some may not. However, there are some key differences between the two sectors that might call for some caution in applying IFRS 12. The following points are not exhaustive, Rather, they are intended to provide the basis for an open discussion of the possible consequences of applying the IFRS 12 disclosure requirements in the public sector.
- (a) The definition of structured entities might inappropriately capture a high number of entities. This is because the definition focuses on the absence of voting rights. In the public sector it is common not to have voting rights and to have control, or a special relationship, in some other form.
  - (b) IFRS 12 helps users to assess the potential exposure of the entity reporting to the structured entity. In the private sector this exposure may be limited via a contractual agreement. In the public sector public expectation and public policy might mean that a government bails out an entity when there is no legal obligation to do so.
  - (c) In the private sector, many structured entities will be sponsored, in that the reporting entity will have established them. In the public sector some, but not all, structured entities would be sponsored by the public sector entity reporting. Would it be more appropriate in the public sector to require IFRS 12 type disclosures for sponsored entities only?
  - (d) Some of the disclosures required by IFRS 12 are about obligations to provide ongoing funding to a structured entity. By their very nature most governments provide ongoing funding to various entities.
81. The next two sections look more closely at the disclosure requirements in IFRS 12 in respect of consolidated structured entities and unconsolidated structured entities.

**Matter(s) for Consideration**

15. The IPSASB is asked to provide feedback on whether (and if so, how) the definition of a structured entity should be narrowed for application in the public sector.

**Issue 3.3: Consolidated Structured Entities**

82. IFRS 12 (paragraphs 14 to 17) requires additional disclosures about consolidated structured entities that are not required for other non-structured subsidiaries. In particular, IFRS 12 requires an entity to disclose whether it is required, either through a contractual agreement or a special relationship (e.g., the entity being a sponsor), to provide support to a structured consolidated entity. This is a new requirement, although IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* (paragraph 100) already requires an entity to provide information on contingent liabilities, including an estimation of the financial effect of the contingent liability.
83. This disclosure provides users with information about the risks associated with the interest in such entities, and the level of support provided by an entity to structured entities. Information about

support provided to entities within the economic entity would not normally be available to users as inter-entity transactions are eliminated in the consolidated financial statements.

84. In general these disclosures would seem to provide information of interest to users of public sector entity financial statements. However, paragraph 17 might not be appropriate in the public sector. It states "An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support."
85. Given that one of a government's main functions is the collection and distribution of funds this disclosure requirement might capture too many transactions. Apart from the cost of disclosing all such transactions, the widespread disclosure of ongoing funding arrangements would not seem in keeping with the intent of the requirement. In the private sector this requirement would lead to the identification of an entity's risks to significant financial outflows but these outflows would not normally be in the nature of ongoing funding. The solution might be to clarify or limit what is meant by "financial or other support".
86. Feedback is sought on the types of risks that should be disclosed in the public sector in respect of consolidated structured entities.

**Matter(s) for Consideration**

16. The IPSASB is asked to provide feedback on the proposed disclosures regarding consolidated structured entities (paragraphs 14 to 17 of the ED), including whether the proposed requirement in paragraph 17 (regarding intentions to provide financial or other support) should be modified/narrowed for the public sector environment.

**Issue 3.4: Unconsolidated Structured Entities**

87. IFRS 12 (paragraphs 24 to 31) requires an entity to disclose qualitative and quantitative information about the nature of its interest in unconsolidated structured entities which exposes an entity to risks. These requirements are new and were developed by the IASB to address users' needs, particularly in light of the global financial crisis in 2008/09.
88. There will be additional costs associated with these new disclosures. Entities with interests in unconsolidated structured entities may already have some of the information required. The costs may be greater for unconsolidated structured entities which are managed by parties that are not related to the reporting entities.
89. The concerns identified above in relation to paragraph 17 would also apply to the disclosures in this section. For example, paragraph 31 requires that an entity disclose "any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support." This is a very broad requirement.
90. EFRAG considered whether the disclosures for unconsolidated structured entities are too far reaching and will obscure the actual risks. EFRAG noted concerns that the broad definition of unconsolidated structured entities could encompass interests that are insignificant to the reporting entity and the disclosures in IFRS 12 could result in a mix of relevant and irrelevant information. These concerns may be partially addressed by the fact that IFRS 12 provides guidance on how an

entity should aggregate the data and emphasizes materiality (e.g., see the guidance in paragraph AG2 of the ED).

91. One of the disclosures required by IFRS 12 (paragraph 24(b) and 25)) could lead to an entity disclosing information about entities that it no longer has an interest in. If an entity still has an exposure to risk from its prior involvement with an unconsolidated structured entity it must disclose information about that risk. As with many of the other IFRS 12 disclosures, this is potentially useful information, but its usefulness would be affected if it were swamped by a high volume of information.
92. EFRAG considered the extent of the overlap between the disclosures required by IFRS 12 on interests in unconsolidated structured entities and the disclosures required by IFRS 7 *Financial Instruments: Disclosures* (on which IPSAS 30, *Financial Instruments: Disclosures* is based). EFRAG noted that some constituents consider that the disclosure of interests in unconsolidated structured entities should be limited to those unconsolidated structured entities where the entity is the sponsor (designer). EFRAG concluded that the focus of IFRS 12 differs from that of IFRS 7 and that the two sets of disclosures are complementary. IFRS 12 focuses on the nature of and risks associated with an entity's interest in another entity, rather than on the specific risks arising from financial instruments.

**Matter(s) for Consideration**

17. The IPSASB is asked to provide feedback on the proposed disclosures regarding unconsolidated structured entities (paragraphs 26 to 31 and AG21 to AG26 of the ED), with particular reference to paragraphs 24(b) and 31.

**Issue 3.5: Controlled Entities with Material Non-Controlling Interests**

93. IFRS 12 (paragraph 12) requires entities that consolidate controlled entities with material non-controlling interests to make disclosures regarding the portion of the consolidated cash flows that are attributable to the controlling entity compared to other entities. The IASB introduced this requirement because users considered that they needed more information about the rights of the controlling entity compared to the rights of non-controlling interests to profit and loss and cash flows. Consolidation ignores legal boundaries but legal boundaries do shape the rights of non-controlling interests. In the private sector context this information would assist users to understand the composition of a group and how profits will be distributed among shareholders.
94. These are new disclosures but both the IASB and EFRAG considered that entities would have the information required to comply with the disclosures. The IASB's prior research indicated that relatively few entities in the private sector have individually material non-controlling interests.
95. To the extent that public sector entities have material non-controlling interests these disclosures would be relevant.

**Matter(s) for Consideration**

18. The IPSASB is asked to confirm the proposed disclosures on material non-controlling interest.

**Issue 3.6: Joint Arrangements and Associates**

96. IFRS 12 (paragraphs 20 to 23) requires additional disclosure about an entity's interests in joint arrangements (including joint ventures) and associates. The objective is to disclose information that enables users of financial statements to evaluate the nature, extent and financial effects of an entity's interests in joint arrangements and associates, and the nature of the risks associated with those interests. The disclosures are required in respect of each joint arrangement and associate that is *material* to the reporting entity. The summarized financial information required by IFRS 12 for each material associate is less detailed than for each material joint venture. The summarized information must be reconciled to the carrying amount of the investment in the reporting entity's financial statements.
97. In EFRAG's view, the disclosure requirements in IFRS 12 would lead to some additional costs, but entities would be expected to have most of the required information.

**Matter(s) for Consideration**

19. The IPSASB is asked to confirm the proposed disclosures on joint arrangements and associates.

## Appendix 1: Public sector specific paragraphs in IPSAS 6 (and their equivalents in ED X)

This appendix notes the relationship between the public sector specific guidance in IPSAS 6 and draft ED X, *Consolidated Financial Statements*.

**Table 6: Public Sector Specific Paragraphs in IPSAS 6**

IPSAS 6		ED X	
	<b>Scope</b>		
4-6	Explanation of application to GBEs	4.5-4.7	–
	<b>Definition – Economic Entity</b>		
12-14	Economic entity explanation	4.9	–
	<b>Presentation of Financial Statements</b>		
17-18	Explanation that key activities of government may need to prepare GPFSS because the whole of government GPFSS may not contain enough information for users	BC2	These paragraphs have been placed in the BC because they provide a rationale for the modification.
	<b>Scope of Consolidated Financial Statements</b>		
23	Example of temporary control		<i>Subject to discussion by IPSASB. Any exemption for temporary control would be located following paragraph 4.</i>
	<b>Establishing Control of Another Entity for Financial Reporting Purposes</b>		
28	Specifies the two elements of control: (i) power and (ii) benefit	7	Specifies the three elements of control: (i) power, (ii) exposure to variable benefits and (iii) the ability to use power to influence benefits.
29	Gives examples of benefits	11,11.1 15-16	Paragraphs 11 and 11.1 explain “relevant activities”. Power exists in relation to “relevant activities”.  Paragraphs 15 to 16 explain benefits.

IPSAS 6		ED X	
	<b>Control for Financial Reporting Purposes</b>		
30	Explanation of control: <ul style="list-style-type: none"> <li>• Entity does not have to hold majority shareholding</li> <li>• Power to control must be presently exercisable</li> <li>• Power could be conferred by legislation or other formal agreement</li> </ul>	10-12 AG24	The substance of this paragraph is included in paragraphs 10 to 12 and the Application Guidance.
31	Explanation of control—Entity does not have to have responsibility for the management of day-to-day activities	11.1	Included with discussion of statutory independence.
32	Example of a right that is presently exercisable, although it has not been exercised.	AG24.1A AG24.1C	
35	Existence of separate legislative powers e.g., the Government Statistician	AG23(a)(vii) AG23.1 BC11	Statutory independence.
36	Controlling entity must be able to benefit from the activities of the controlled entity	6	–
	<b>Regulatory and Purchase Power</b>		
37(a)	Regulatory power does not, on its own, give rise to power, e.g., pollution control authority	AG10.2 and following examples	–
37(b)	Economic dependence does not, on its own, give rise to power	AG19.1 AG 40.1 to AG40.3	–
	<b>Determining Whether Control Exists for Financial Reporting Purposes</b>		
38-41	These paragraphs specify power and benefit conditions and power and benefit indicators.	5–18 AG2–AG85	These paragraphs are replaced by the explanation of the elements of control in paragraphs 5–18 and AG2–AG85
	<b>Effective Date</b>		
69-70	Standard effective date paragraphs	26.14-26.15	–

**IPSAS X—CONSOLIDATED FINANCIAL STATEMENTS****CONTENTS**

	Paragraph
Objective .....	1–3
Scope .....	4–4.7
Definitions .....	4.8–4.9
Control .....	5–18
Power .....	10–14
Returns .....	15–16
Link between Power and Benefits.....	17–18
Accounting Requirements .....	19–26
Consolidation Procedures .....	21.1
Uniform Accounting Policies.....	21.2
Measurement.....	21.3
Potential Voting Rights .....	21.4–21.6
Reporting Dates.....	21.7
Non-controlling Interests .....	22–24.3
Loss of Control .....	25–26.3
Transitional Provisions .....	26.4–26.13
Effective Date .....	26.14–26.15
Withdrawal of other IPSASs.....	26.16
Appendix A: Application Guidance .....	AG1–AG99
Assessing Control .....	AG2–AG85
Purpose and Design of another Entity .....	AG5–AG8
Power .....	AG9–AG54
Exposure, or Rights, to Variable Benefits from another Entity.....	AG55–AG57
Link between Power and Benefits.....	AG58–AG72
Relationship with other Parties .....	AG73–AG75
Control of Specified Assets .....	AG76–AG79
Continuous Assessment .....	AG80–AG85
Appendix B: Amendments to Other IPSASs	
Basis for Conclusions	
Implementation Guidance	
Comparison with IFRS 10	

## Objective

1. The objective of this ~~IFRS Standard~~ is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

### Meeting the Objective

2. To meet the objective in paragraph 1, this ~~Standard~~IFRS:
  - (a) Requires an entity (the ~~controlling entity~~parent) that controls one or more other entities (~~controlled entities~~subsidiaries) to present consolidated financial statements;
  - (b) Defines the principle of control, and establishes control as the basis for consolidation;
  - (c) Sets out how to apply the principle of control to identify whether an ~~entity~~investor controls an ~~other entity~~investee and therefore must consolidate ~~that entity~~the investee; and
  - (d) Sets out the accounting requirements for the preparation of consolidated financial statements.
3. ~~This IFRS does not deal with the accounting requirements for business combinations and their effect on consolidation, including goodwill arising on a business combination (see IFRS 3 Business Combinations).~~

## Scope

- 3.1 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the preparation and presentation of consolidated financial statements for the economic entity.

### Public Sector Combinations

- 3.2 This Standard does not deal with the accounting requirements for public sector combinations and their effect on consolidation, including goodwill arising on a public sector combination (see the relevant international or national accounting standard dealing with public sector combinations).

### Exemptions from Presenting Consolidated Financial Statements

4. An entity that is a ~~controlling entity~~parent shall present consolidated financial statements. This ~~Standard~~IFRS applies to all entities, except as set out in this paragraph and paragraphs 4.1 to 4.3 follows:
  - (a) A ~~controlling entity~~parent need not present consolidated financial statements if it meets all the following conditions:
    - (i) It is ~~itself a controlled entity~~subsidiary ~~and the information needs of users are met by its controlling entity's consolidated financial statements~~or ~~is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;~~ [This modification differs from IPSAS 6 paragraph 16(a). The IPSASB decided that the exemption for wholly owned and partially owned controlled entities should be the same] [Note to reviewers: Hasn't this change ridden roughshod over the rights of the non-controlling interest?]
    - (ii) Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

- (iii) It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and [\[Note to IPSASB to go in memo: Keep to cover possibility of a public sector subsidiary being prepared for listing\]](#)
  - (iv) Its ultimate or any intermediate ~~controlling entity~~<sup>parent</sup> produces consolidated financial statements that are available for public use and comply with ~~IPSASs~~<sup>IFRSs</sup>.
- (b) Post-employment benefit plans or other long-term employee benefit plans to which ~~IPSAS 25~~<sup>IAS 19</sup> *Employee Benefits* applies.

## Exclusions from Requirement to Consolidate

### Temporary Control

[Agenda item 10.1, Issue 1.2, asks the IPSASB whether or not the ED should include an exemption for entities that are temporarily controlled and sets out three options. Once the IPSASB has decided which option it supports, the relevant text will be inserted in the ED at this point.](#)

### Dissimilar entities

[4.4 A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of Government Business Enterprises \(GBEs\) with entities in the budget sector. Relevant information is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities. For example, the disclosures required by IPSAS 18, \*Segment Reporting\*, help to explain the significance of different activities within the economic entity. \[Based on IPSAS 6 paragraph 26.\]](#)

### Government Business Enterprises

[4.5 This Standard applies to all public sector entities other than GBEs.](#)

[4.6 The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, \*Presentation of Financial Statements\*.](#)

[4.7 Although GBEs are not required to comply with this Standard in their own financial statements, the provisions of this Standard will apply where a public sector entity that is not a GBE has one or more controlled entities. In these circumstances, this Standard shall be applied in consolidating GBEs into the financial statements of the economic entity.](#)

## Definitions

[4.8 The following terms are used in this Standard with the meanings specified:](#)

[Benefits are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. Financial benefits include returns on investment such as dividends. Non-financial benefits include advantages arising from scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the entity. Benefits can be positive or negative, or a combination of positive and negative.](#)

Binding arrangement: For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Consolidated financial statements are the financial statements of an economic entitygroup in which the assets, liabilities, net assets/equity, revenueincome, expenses and cash flows of the parentcontrolling entity and its controlled entitiesubsidiaries are presented as those of a single economic entity.

Control: An entityinvestor controls another entity investee when the entity investor is exposed, or has rights, to variable benefitsreturns from its involvement with the other entitythe investee and has the ability to affect the nature and amount of those benefitsreturns through its power over the other entitythe investee.

A controlled entity Subsidiary is an entity that is controlled by another entity.

A controlling entity parent is an entity that controls one or more entities.

A decision-maker is an entity with decision-making rights that is either a principal or an agent for other parties.

An economic entitygroup is a controlling entity parent and its controlled entitiesubsidiaries.

A non-controlling interest is the net assets/equity in a controlled entitysubsidiary not attributable, directly or indirectly, to a controlling entityparent.

Power consists of existing rights that give the current ability to direct the relevant activities of another entity, including the right to govern the financial and operating policies of that entity.

Protective rights are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

Relevant activities (for the purpose of this IFRSStandard), relevant activities are activities of the potentially controlled entityinvestee that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entityinvestee's returns.

Removal rights are rights to deprive the decision maker of its decision-making authority.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the Glossary of Defined Terms published separately.

The following terms are defined in IFRS 11, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 (as amended in 2011) or IAS 24 *Related Party Disclosures* and are used in this IFRS with the meanings specified in those IFRSs:

- associate
- interest in another entity
- joint venture
- key management personnel
- related party
- significant influence

## Economic Entity

4.9 The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group. An economic entity may include entities with both social policy and commercial objectives. [Based on IPSAS 6 paragraphs 12 to 13.]

## **Control (see paragraphs AG2–AG85)**

5. An entity investor, regardless of the nature of its involvement with an other entity ~~(the investee)~~, shall determine whether it is a controlling entity parent by assessing whether it controls the other entity ~~the investee~~.
6. An entity investor controls an other entity investee when it is exposed, or has rights, to variable benefits returns from its involvement with the other entity ~~the investee~~ and has the ability to affect the nature and amount of those benefits returns through its power over the other entity investee.
7. Thus, an entity investor controls an other entity investee if and only if the entity investor has all the following:
  - (a) Power over the other entity investee (see paragraphs 10–14);
  - (b) Exposure, or rights, to variable benefits returns from its involvement with the other entity investee (see paragraphs 15 and 16); and
  - (c) The ability to use its power over the other entity investee to affect the nature or amount of the benefits from its involvement with the other entity investor's returns (see paragraphs 17 and 18).
8. An entity investor shall consider all facts and circumstances when assessing whether it controls an other entity investee. The entity investor shall reassess whether it controls an other entity investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7 (see paragraphs AG80–AG85).
9. Two or more entities investors collectively control an other entity investee when they must act together to direct the relevant activities. In such cases, because no single entity investor can direct the activities without the co-operation of the others, no single entity investor individually controls the other entity investee. Each entity investor would account for its interest in the other entity investee in accordance with the relevant IPSASs IFRSs, such as IPSAS X, IFRS 14 Joint Arrangements, IPSAS 7, IAS 28 Investments in Associates and Joint Ventures or the IPSASs dealing with financial instruments (being IPSAS 28, Financial Instruments: Presentation, IPSAS 29, IFRS 9 Financial Instruments: Recognition and Measurement, and IPSAS 30, Financial Instruments: Disclosures).

## **Power**

10. An entity investor has power over an other entity investee when the entity investor has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the nature or amount of the benefits from its involvement with the other entity investee's returns. The right to govern the financial and operating policies of another entity indicates that an entity has the ability to direct the relevant activities of another entity.

11. Power arises from rights. In some cases ~~Sometimes~~ assessing power is straightforward, such as when power over ~~another entity~~~~investee~~ is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. However, public sector entities often obtain power over another entity from rights other than voting rights. They may also obtain power over another entity without having an equity instrument providing evidence of a financial investment. An entity may have rights conferred by legislation, founding documents or binding arrangements (including rights from contracts or other legal rights). These rights may give an entity power to require the other entity to deploy assets or incur liabilities in a way that affects the nature or amount of benefits received by the first-mentioned entity. In other cases The assessment of whether such rights give rise to power over another entity may be ~~will be more~~ complex and require more than one factor to be considered, ~~for example when power results from one or more contractual arrangements.~~
- 11.1 An entity can have power over another even if it does not have responsibility for the day-to-day operation of the other entity or the manner in which prescribed functions are performed by that other entity. Legislation may give statutory bodies or statutory officers powers to carry out their functions independently of government. For example, the Auditor-General and Government Statistician usually have statutory powers to obtain information and publish reports without recourse to government. Such legislation may also set out the broad parameters within which the statutory body is required to operate, and result in the statutory body operating in a manner consistent with the objectives set by Parliament or a similar body. The existence of statutory powers to operate independently does not, of itself, preclude an entity from being controlled. All facts and circumstances would still need to be considered. [Based on IPSAS 6 paragraph 35 and AASB IG8]
- 11.2 The existence of rights over another entity does not necessarily give rise to power for the purposes of this Standard. An entity does not have power over another entity solely due to the existence of:
  - (a) Regulatory control (see paragraph AG10.1); or
  - (b) Economic dependence (see paragraphs AG40.1–AG40.3).
12. An ~~investor~~~~entity~~ with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the ~~entity~~~~investor~~ has been directing the relevant activities of the other entity can help determine whether the ~~entity~~~~investor~~ has power, but such evidence is not, in itself, conclusive in determining whether the ~~entity~~~~investor~~ has power over ~~another entity~~~~investee~~.
13. If two or more ~~entities~~~~investors~~ each have existing rights that give them the unilateral ability to direct different relevant activities, the ~~entity~~~~investor~~ that has the current ability to direct the activities that most significantly affect the nature or amount of benefits from that entity~~returns of the investee~~ has power over ~~that~~~~the other entity~~~~investee~~.
14. An ~~entity~~~~investor~~ can have power over ~~another entity~~~~investee~~ even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has *significant influence*. However, an ~~entity~~~~investor~~ that holds only protective rights does not have power over ~~another entity~~~~investee~~ (see paragraphs AG26–AG28), and consequently does not control the ~~other entity~~~~investee~~.

## BenefitsReturns

15. An entity investor is exposed, or has rights, to variable benefits returns from its involvement with the other entity investee when the benefits investor's returns from its involvement have the potential to vary as a result of the other entity's investee's performance. The entity's investor's benefits returns from its involvement with the other entity can be only positive, only negative or both positive and negative.
- 15.1 The entity's benefits from its involvement with the other entity can be only financial, only non-financial or both financial and non-financial. Financial benefits are sometimes referred to as returns. Non-financial benefits can occur when the activities of another entity are congruent with, (that is, they are in agreement with), the objectives of the entity and support the entity in achieving its objectives. Congruent activities may be undertaken voluntarily or the entity may have the power to direct the other entity to undertake those activities. Non-financial benefits can also occur when two entities have complementary objectives (that is, the objectives of one entity add to, and make more complete, the objectives of the other entity).
- 15.2 The following examples illustrate benefits that an entity may receive from its involvement with another entity:
- (a) Dividends, variable interest on debt securities, other distributions of economic benefits;
  - (b) Exposure to increases or decreases in the value of an investment in another entity;
  - (c) Exposure to loss from agreements to provide financial support, including financial support for major projects;
  - (d) Cost savings (for example, if an entity would achieve economies of scale or synergies by combining the operations or assets of the other entity with its own operations or assets);
  - (e) The ability to benefit from the specialized knowledge of another entity;
  - (f) Residual interests in the other entity' assets and liabilities on liquidation of that other entity;
  - (g) The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives (see also paragraph 15.3); and
  - (h) Other exposures to variable benefits that are not available to other entities.
- 15.3 Examples of non-financial returns include:
- (a) Improved outcomes;
  - (b) More efficient delivery of outcomes;
  - (c) More efficient or effective production and delivery of goods and services;
  - (d) Having an asset and related services available earlier than otherwise would be the case; and
  - (e) Having a higher level of service quality than would otherwise be the case.
16. Although only one entity investor can control an other entity investee, more than one party can share in the benefits returns of that other entity an investee. For example, holders of non-controlling interests can share in the financial benefits such as surpluses profits or distributions from of an entity investee or the non-financial benefits such as congruence of activities with desired outcomes.

## Link between Power and ~~Benefits~~Returns

17. An ~~entity investor~~ controls an ~~other entity investee~~ if the ~~entity investor~~ not only has power over the ~~other entity investee~~ and exposure or rights to variable ~~benefits~~returns from its involvement with the ~~other entity investee~~, but also has the ability to use its power to affect the ~~nature or amount of the benefits investor's returns~~ from its involvement with the ~~other entity investee~~.

17.1 The existence of congruent objectives alone is insufficient for an entity to conclude that it controls another entity. In order to have control the entity would also need to have the ability to use its power over the other entity to direct that other entity to work with the entity to further the entity's objectives. [Based on AASB IG18]

18. Thus, an ~~investor entity~~ with decision-making rights shall determine whether it is a principal or an agent. An ~~entity investor~~ that is an agent in accordance with paragraphs AG58–AG72 does not control an ~~other entity investee~~ when it exercises decision-making rights delegated to it.

## Accounting Requirements (see paragraphs AG86–AG99)

19. A ~~controlling entity parent~~ shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

20. Consolidation of ~~a controlled entity an investee~~ shall begin from the date the ~~entity investor~~ obtains control of the ~~other entity investee~~ and cease when the ~~entity investor~~ loses control of the ~~other entity investee~~.

21. ~~Paragraphs B86–B93 set out guidance for the preparation of consolidated financial statements.~~

## Consolidation Procedures

21.1 Consolidated financial statements:

- (a) Combine like items of assets, liabilities, ~~net assets~~/equity, ~~revenue~~income, expenses and cash flows of the ~~controlling entity parent~~ with those of its ~~controlled entities~~subsidiaries.
- (b) Offset (eliminate) the carrying amount of the ~~controlling entity's~~parent's investment in each ~~subsidiary~~controlled entity and the ~~controlling entity's~~parent's portion of equity of each ~~subsidiary~~controlled entity (~~the relevant international or national accounting standards IFRS 3~~ explains how to account for any related goodwill).
- (c) Eliminate in full intra-~~economic entity~~group assets and liabilities, ~~net assets~~/equity, ~~revenue~~income, expenses and cash flows relating to transactions between entities of the ~~economic entity~~group (~~surpluses or deficits~~ profits or losses resulting from intra-~~economic entity~~group transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full). Intra-~~economic entity~~group losses may indicate an impairment that requires recognition in the consolidated financial statements. Guidance on accounting for IAS 12 Income Taxes applies to temporary differences that arise from the elimination of ~~surpluses and deficits~~ profits and losses resulting from intra-~~entity~~group transactions can be found in the relevant international or national accounting standard dealing with income taxes. [Based on IFRS 10, B86]

## Uniform Accounting Policies

21.2 If a member of the ~~economic entity group~~ uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that ~~group~~ member's financial statements in preparing the consolidated

financial statements to ensure conformity with the economic entity's group's accounting policies. [Based on IFRS 10, B87]

### Measurement

21.3 An entity includes the revenue and expenses of a subsidiary controlled entity in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary controlled entity. Revenue and expenses of the subsidiary controlled entity are based on the amounts of the assets and liabilities recognized in the consolidated financial statements at the acquisition date. For example, depreciation expense recognized in the consolidated statement of financial performance comprehensive income after the acquisition date is based on the fair values of the related depreciable assets recognized in the consolidated financial statements at the acquisition date. [Based on IFRS 10, B88]

### Potential Voting Rights

21.4 When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of surplus or deficit profit or loss and changes in net assets/equity allocated to the controlling entity parent and non-controlling interests in preparing consolidated financial statements is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivatives, unless paragraph 21.5B90 applies. [Based on IFRS 10, B89]

21.5 In some circumstances an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives the entity access to the benefits returns associated with an ownership interest. In such circumstances, the proportion allocated to the controlling entity parent and non-controlling interests in preparing consolidated financial statements is determined by taking into account the eventual exercise of those potential voting rights and other derivatives that currently give the entity access to the benefits returns. [Based on IFRS 10, B90]

21.6 IPSAS 28, Financial Instruments: Presentation and IPSAS 29, Financial Instruments: Recognition and Measurement ~~IFRS 9~~ does not apply to interests in controlled entities subsidiaries that are consolidated. When instruments containing potential voting rights in substance currently give access to the benefits returns associated with an ownership interest in a subsidiary controlled entity, the instruments are not subject to the requirements of IPSAS 28 and IPSAS 29 ~~IFRS 9~~. In all other cases, instruments containing potential voting rights in a subsidiary controlled entity are accounted for in accordance with IPSAS 28 and IPSAS 29 ~~IFRS 9~~. [Based on IFRS 10, B91]

### Reporting Dates

21.7 Unless it is impracticable to do so, the financial statements of the parent controlling entity and its controlled entities subsidiaries used in the preparation of the consolidated financial statements shall be prepared as at have the same reporting date. When the end of the reporting period of the controlling entity parent is different from that of a subsidiary controlled entity, the subsidiary controlled entity either:

(a) prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent controlling entity – to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so; or

(b) uses the most recent financial statements of the controlled entity adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. [Based on IFRS 10, B92 and B93]

~~If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period. [IFRS 10, B93]~~

## Non-controlling Interests

22. A ~~controlling entity parent~~ shall present non-controlling interests in the consolidated statement of financial position within net assets/equity, separately from the net assets/equity of the owners of the controlling entityparent.
23. Changes in a ~~controlling entityparent's ownership~~ interest in a controlled entity that do not result in the controlling entityparent losing control of the subsidiarycontrolled entity are ~~equity transactions (ie transactions with owners in their capacity as owners)~~.
24. ~~Paragraphs B94–B96 set out guidance for the accounting for non-controlling interests in consolidated financial statements.~~
  - 24.1 An entity shall attribute the ~~surplus or deficit profit or loss~~ and each gain or loss recognized directly in net assets/equitycomponent of other comprehensive income to the owners of the parentcontrolling entity and to the non-controlling interests. The entity shall also attribute the total amount recognized in the statement of changes in net assets/equity comprehensive income to the owners of the parentcontrolling entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. [Based on IFRS 10, B94]
  - 24.2 If a subsidiarycontrolled entity has outstanding cumulative preference shares that are classified as equity instruments and are held by non-controlling interests, the entity shall compute its share of surplus or deficit profit or loss after adjusting for the dividends on such shares, whether or not such dividends have been declared. [Based on IFRS 10, B95]

### *Changes in the Proportion held by Non-controlling Interests*

- 24.3 When the proportion of the net assets/equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiarycontrolled entity. The entity shall recognize directly in net assets/equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parentcontrolling entity. [Based on IFRS 10, B96]

## Loss of Control

25. If a ~~controlling entity parent~~ loses control of a subsidiarycontrolled entity, the controlling entityparent:
  - (a) Derecognizes the assets and liabilities of the former subsidiarycontrolled entity from the consolidated statement of financial position.
  - (b) Recognizes any investment retained in the former subsidiarycontrolled entity at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiarycontrolled entity in accordance with relevant IPSASsIFRSs. That fair value shall be

regarded as the fair value on initial recognition of a financial asset in accordance with [IPSAS 29/IFRS 9](#) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

- (c) Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.

26. ~~Paragraphs B97–B99 set out guidance for the accounting for the loss of control.~~

26.1 A ~~parentcontrolling entity~~ might lose control of a ~~subsidiarycontrolled entity~~ in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a ~~parentcontrolling entity~~ shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the ~~parentcontrolling entity~~ should account for the multiple arrangements as a single transaction:

- (a) They are entered into at the same time or in contemplation of each other.
- (b) They form a single transaction designed to achieve an overall commercial effect.
- (c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
- (d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of ~~an investmentshares~~ is priced below market and is compensated for by a subsequent disposal priced above market. [Based on IFRS 10, B97]

26.2 If a ~~parentcontrolling entity~~ loses control of a ~~subsidiarycontrolled entity~~, it shall:

- (a) Derecognize:
  - (i) The assets (including any goodwill) and liabilities of the ~~subsidiarycontrolled entity~~ at their carrying amounts at the date when control is lost; and
  - (ii) The carrying amount of any non-controlling interests in the former ~~subsidiarycontrolled entity~~ at the date when control is lost (including any ~~gain or loss recognized directly in net assets/equitycomponents of other comprehensive income~~ attributable to them).
- (b) Recognize:
  - (i) The fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;
  - (ii) If the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the ~~subsidiarycontrolled entity~~ to owners in their capacity as owners, that distribution; and
  - (iii) Any investment retained in the former ~~subsidiarycontrolled entity~~ at its fair value at the date when control is lost.
- (c) ~~Reclassify to profit or loss, or~~ Transfer directly to ~~accumulated surplus/deficitretained earnings~~ if required by other ~~IPSASs/IFRSs~~, the amounts recognized ~~directly in net assets/equityother comprehensive income~~ in relation to the ~~subsidiarycontrolled entity~~ on the basis described in paragraph ~~26.3B99~~. [Note: This requirement is now consistent with the treatment on disposal of an item of PPE in IPSAS 17.57]

- (d) Recognize any resulting difference as a gain or loss in surplus or deficit profit or loss attributable to the parentcontrolling entity. [Based on IFRS 10, B98]

26.3 If a parentcontrolling entity loses control of a subsidiarycontrolled entity, the parentcontrolling entity shall account for all amounts previously recognized directly in net assets/equityother comprehensive income in relation to that subsidiarycontrolled entity on the same basis as would be required if the parentcontrolling entity had directly disposed of the related assets or liabilities. ~~Therefore, if a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary.~~ If a revaluation surplus previously recognized directly in net assets/equityother comprehensive income would be transferred directly to accumulated surplus/deficitretained earnings on the disposal of the asset, the parentcontrolling entity shall transfer the revaluation surplus directly to accumulated surplus/deficitretained earnings when it loses control of the subsidiarycontrolled entity. [Based on IFRS 10, B99]

### **Transitional Provisions**

26.4 An entity shall apply this Standard IFRS retrospectively, in accordance with IPSAS 3, IAS-8 Accounting Policies, Changes in Accounting Estimates and Errors, except as specified in paragraphs 26.5–C5AC2A–C6. [Based on IFRS 10 C2]

26.5 Notwithstanding the requirements of paragraph 3328 of IPSAS 3IAS-8, when this Standard IFRS is first applied, an entity need only present the quantitative information required by paragraph 3328(f) of IPSAS 3IAS-8 for the annual period immediately preceding the date of initial application of this Standard IFRS (the “immediately preceding period”). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so. [Based on IFRS 10 C2A]

26.6 For the purposes of this StandardIFRS, the date of initial application is the beginning of the annual reporting period for which this Standard IFRS is applied for the first time. [Based on IFRS 10 C2B]

26.7 At the date of initial application, an entity is not required to make adjustments to the previous accounting for its involvement with either:

- (a) Entities that would be consolidated at that date in accordance with IPSAS 6, IAS-27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities and are still consolidated in accordance with this StandardIFRS; or

- (b) Entities that would not be consolidated at that date in accordance with IPSAS 6IAS-27 and SIC-12 and are not consolidated in accordance with this StandardIFRS. [Based on IFRS 10 C3]

26.8 If, at the date of initial application, an entityinvestor concludes that it shall consolidate an other entity investee that was not consolidated in accordance with IPSAS 6IAS-27 and SIC-12, the entity investor shall:

- ~~(a) if the investee is a business (as defined in IFRS 3 Business Combinations), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee as if that investee had been consolidated (and thus had applied acquisition accounting in accordance with IFRS 3) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of~~

~~the immediately preceding period, the investor shall recognize, as an adjustment to equity at the beginning of the immediately preceding period, any difference between:~~

- ~~(i) the amount of assets, liabilities and non-controlling interests recognized; and~~
- ~~(ii) the previous carrying amount of the investor's involvement with the investee.~~

~~if the investee is not a business (as defined in IFRS 3),~~ measure the assets, liabilities and non-controlling interests in that previously unconsolidated ~~entity~~investee as if that ~~other entity~~investee had been consolidated ~~(applying the acquisition method as described in IFRS 3 but without recognising any goodwill for the investee)~~ from the date when the ~~entity~~investor obtained control of that ~~other entity~~investee on the basis of the requirements of this ~~Standard~~IFRS. The ~~entity~~investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of the immediately preceding period, the ~~entity~~investor shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:

- (a) The amount of assets, liabilities and non-controlling interests recognized; and
- (b) The previous carrying amount of the ~~entity's~~investor's involvement with the ~~other entity~~investee.  
[Based on IFRS 10 C4]

26.9 If measuring a controlled entity'san ~~investee's~~ assets, liabilities and non-controlling interests in accordance with paragraph C4 ~~(a) or (b)~~ is impracticable (as defined in IPSAS 3 IAS-8), an ~~entity~~investor shall:

- ~~(a) if the investee is a business, apply the requirements of IFRS 3 as of the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which application of paragraph C4(a) is practicable, which may be the current period.~~

measure the assets, liabilities and non-controlling interests in that previously unconsolidated entity as if that entity had been consolidated from the deemed acquisition date ~~(b) if the investee is not a business, apply the acquisition method as described in IFRS 3 but without recognising any goodwill for the investee as of the deemed acquisition date.~~ The deemed acquisition date shall be the beginning of the earliest period for which the application of this paragraph is practicable, which may be the current period.

The ~~entity~~ investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the deemed acquisition date is earlier than the beginning of the immediately preceding period, the ~~entity~~investor shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:

- (a) The amount of assets, liabilities and non-controlling interests recognized; and
- (b) The previous carrying amounts of the ~~entity's~~investor's involvement with the ~~other entity~~investee.

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period. [Based on IFRS 10 C4A]

~~C4B When an investor applies paragraphs C4–C4A and the date that control was obtained in accordance with this IFRS is later than the effective date of IFRS 3 as revised in 2008 (IFRS 3 (2008)), the reference to~~

~~IFRS 3 in paragraphs C4 and C4A shall be to IFRS 3 (2008). If control was obtained before the effective date of IFRS 3 (2008), an investor shall apply either IFRS 3 (2008) or IFRS 3 (issued in 2004).~~

~~C4C When an investor applies paragraphs C4–C4A and the date that control was obtained in accordance with this IFRS is later than the effective date of IAS 27 as revised in 2008 (IAS 27 (2008)), an investor shall apply the requirements of this IFRS for all periods that the investee is retrospectively consolidated in accordance with paragraphs C4–C4A. If control was obtained before the effective date of IAS 27 (2008), an investor shall apply either:~~

~~(a) the requirements of this IFRS for all periods that the investee is retrospectively consolidated in accordance with paragraphs C4–C4A; or~~

~~(b) the requirements of the version of IAS 27 issued in 2003 (IAS 27 (2003)) for those periods prior to the effective date of IAS 27 (2008) and thereafter the requirements of this IFRS for subsequent periods.~~

[IFRS 10 paragraphs C4B and C4C have been omitted because they explain which version of IAS 27 to apply. There has been only one prior version of IPSAS 6, so this guidance would not be required in an IPSAS.]

26.10 If, at the date of initial application, an ~~entity~~investor concludes that it will no longer consolidate an ~~entity~~investee that was consolidated in accordance with ~~IPSAS 6~~IAS 27 and SIC 12, the ~~entity~~investor shall measure its interest in the ~~other entity~~investee at the amount at which it would have been measured if the requirements of this ~~IFRS Standard~~ had been effective when the ~~entity~~investor became involved with, or lost control of, the ~~other entity~~investee. The ~~entity~~investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that the ~~entity~~investor became involved with (but did not obtain control in accordance with this ~~IFRS Standard~~), or lost control of, the ~~other entity~~investee is earlier than the beginning of the immediately preceding period, the ~~entity~~investor shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:

(a) The previous carrying amount of the assets, liabilities and non-controlling interests; and

(b) The recognized amount of the ~~entity's~~investor's interest in the ~~other entity~~investee. [Based on IFRS 10 C5]

26.11 If measuring the interest in the ~~other entity~~investee in accordance with paragraph ~~26.10C5~~ is impracticable (as defined in ~~IPSAS 3~~IAS 8), an ~~entity~~investor shall apply the requirements of this ~~IFRS Standard~~ at the beginning of the earliest period for which application of paragraph ~~26.10C5~~ is practicable, which may be the current period. The ~~entity~~investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that the ~~entity~~investor became involved with (but did not obtain control in accordance with this ~~Standard~~IFRS), or lost control of, the ~~other entity~~investee is earlier than the beginning of the immediately preceding period, the ~~entity~~investor shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:

(a) The previous carrying amount of the assets, liabilities and non-controlling interests; and

(b) The recognized amount of the ~~entity's~~investor's interest in the ~~other entity~~investee.

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period. [Based on IFRS 10 C5A]

~~C6 Paragraphs 23, 25, B94 and B96–B99 were amendments to IAS 27 made in 2008 that were carried forward into IFRS 10. Except when an entity applies paragraph C3, or is required to apply paragraphs C4–C5A, the entity shall apply the requirements in those paragraphs as follows:~~

~~(a) An entity shall not restate any profit or loss attribution for reporting periods before it applied the amendment in paragraph B94 for the first time.~~

~~(a) The requirements in paragraphs 23 and B96 for accounting for changes in ownership interests in a subsidiary after control is obtained do not apply to changes that occurred before an entity applied these amendments for the first time.~~

~~An entity shall not restate the carrying amount of an investment in a former subsidiary if control was lost before it applied the amendments in paragraphs 25 and B97–B99 for the first time. In addition, an entity shall not recalculate any gain or loss on the loss of control of a subsidiary that occurred before the amendments in paragraphs 25 and B97–B99 were applied for the first time. [Paragraph C6 of IFRS 10 has been omitted because it referred to requirements that did not form part of IPSAS 6]~~

### References to the “Immediately Preceding Period”

26.12 Notwithstanding the references to the annual period immediately preceding the date of initial application (the “immediately preceding period”) in paragraphs ~~26.8–26.11~~~~C4–C5A~~, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the “immediately preceding period” in paragraphs ~~26.8–26.11~~~~C4–C5A~~ shall be read as the “earliest adjusted comparative period presented.” [Based on IFRS 10 C6A]

26.13 If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis. [Based on IFRS 10 C6B]

### References to IFRS 9

~~C7 If an entity applies this IFRS but does not yet apply IFRS 9, any reference in this IFRS to IFRS 9 shall be read as a reference to IAS 39, *Financial Instruments: Recognition and Measurement*.~~

### Effective Date

26.14 An entity shall apply this Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this Standard for a period beginning before [Date], it shall disclose that fact and apply IPSAS X [IFRS 11], IPSAS X [IFRS 12], and IPSAS 6, *Separate Financial Statements* and IPSAS 7 *Investments in Associates and Joint Ventures* (as amended in [Date]) at the same time.

26.15 When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

~~C1 An entity shall apply this IFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this IFRS earlier, it shall disclose that fact and apply IFRS 11, IFRS 12, IAS 27 *Separate Financial Statements* and IAS 28 (as amended in 2011) at the same time.~~

~~C1A Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12), issued in June 2012, amended~~

~~paragraphs C2–C6 and added paragraphs C2A–C2B, C4A–C4C, C5A and C6A–C6B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies IFRS 10 for an earlier period, it shall apply those amendments for that earlier period.~~

[IFRS 10, paragraphs C1 and C1A, have been replaced by the usual effective date requirements for an IPSAS.]

### **Withdrawal of ~~other IPSASs~~ 6 (December 2006)**

26.16 This ~~Standard IFRS~~ Standard IFRS supersedes the requirements relating to consolidated financial statements in ~~IPSAS 6/IAS 27 (as amended in 2008)~~. [Based on IFRS 10 C8]

~~C9—This IFRS also supersedes SIC-12 Consolidation—Special Purpose Entities.~~

## Appendix A

### Application Guidance

*This Appendix is an integral part of IPSAS X.*

AG1. ~~B1~~—The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS X IFRS 10.

### Assessing Control

AG2. ~~B2~~—To determine whether it controls an other entity investee an entity investor shall assess whether it has all the following:

- (a) Power over the investee other entity;
- (b) Exposure, or rights, to variable benefits returns from its involvement with the other entity investee; and
- (c) The ability to use its power over the other entity investee to affect the nature or amount of the benefits from its involvement with the other entity investor's returns.

AG3. ~~B3~~—Consideration of the following factors may assist in making that determination:

- (a) The purpose and design of the other entity investee (see paragraphs AG5–AG8);
- (b) What the relevant activities are and how decisions about those activities are made (see paragraphs AG11–AG13);
- (c) Whether the rights of the entity investor give it the current ability to direct the relevant activities of the other entity (see paragraphs AG14–AG54);
- (d) Whether the entity investor is exposed, or has rights, to variable benefits returns from its involvement with the other entity investee (see paragraphs AG55–AG57); and
- (e) Whether the entity investor has the ability to use its power over the other entity investee to affect the nature or amount of the benefits from its involvement with the other entity investor's returns (see paragraphs AG58–AG72).

AG4. ~~B4~~—When assessing control of an other entity investee, an investor shall consider the nature of its relationship with other parties (see paragraphs AG73–AG75).

### Purpose and Design of an other Entity Investee

AG5. ~~B5~~—When assessing whether it has control of an other entity investee, an entity investor shall consider the purpose and design of the other entity investee in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who receives benefits returns from those activities.

AG6. ~~B6~~—When an other entity's investee's purpose and design are considered, it may be clear that the other entity an investee is controlled by means of equity instruments that give the holder proportionate voting rights, such as ordinary shares in the other entity the investee. In this case, in the absence of any additional arrangements that alter decision-making, the assessment of control focuses on which party, if any, is able to exercise voting rights sufficient to determine the other

~~entity's investee's~~ operating and financing policies (see paragraphs AG34–AG50). In the most straightforward case, the ~~entity investor~~ that holds a majority of those voting rights, in the absence of any other factors, controls the ~~other entity investee~~.

AG7. ~~B7~~–To determine whether an ~~entity investor~~ controls an ~~other entity investee~~ in more complex cases, it may be necessary to consider some or all of the other factors in paragraph AG3.

AG8. ~~B8 An investee may be designed so that voting~~ Voting rights ~~may not be~~ ~~are not~~ the dominant factor in deciding who controls the ~~other entity investee~~. ~~If there are, such as when any~~ voting rights ~~they may be limited in scope~~ relate to administrative tasks only, and ~~t~~The relevant activities of ~~another entity may~~ ~~are~~ be directed by means of ~~statutory arrangements, contractual binding~~ arrangements (including rights from contracts or other legal rights) or provisions in founding documents such as articles of association or a constitution. In such cases, an ~~entity's investor's~~ consideration of the purpose and design of the ~~other entity investee~~ shall also include consideration of the risks to which the ~~other entity investee~~ was designed to be exposed, the risks it was designed to pass on to the parties involved ~~with the investee~~ and whether the ~~entity investor~~ is exposed to some or all of those risks. Consideration of the risks includes not only the downside risk, but also the potential for upside.

## Power

AG9. ~~B9~~–To have power over an ~~other entity investee~~, an ~~entity investor~~ must have existing rights that give it the current ability to direct the relevant activities. For the purpose of assessing power, only substantive rights and rights that are not protective shall be considered (see paragraphs AG22–AG28).

AG10. ~~B10~~–The determination about whether an ~~entity investor~~ has power depends on the relevant activities, the way decisions about the relevant activities are made and the rights of the ~~entity investor~~ and other ~~entities parties have~~ in relation to the ~~potentially controlled entity investee~~.

AG10.1 An entity normally will have power over an entity that it has established when the constituting document or enabling legislation specifies the operating and financing activities that are to be carried out by that entity. However, the impact of the constituting document or legislation is evaluated in the light of other prevailing circumstances, as all facts and circumstances need to be considered in assessing whether an entity has power over another entity. For example, a government may not have power over a research and development corporation that operates under a mandate created, and limited, by legislation if that or other legislation assigns power to direct the relevant activities to other entities that are not controlled by the government. [New. Based on AASB IG5]

### Application Examples

#### Example AG10.1A

The council of a local government is elected every four years by the local community. The council decides how to use the resources of the local government for the benefit of the local community. The local government receives funding from a state government, some of which is required to be spent on specified activities. The activities of the local government are diverse and include library services, provision of leisure facilities, management of refuse and wastewater, and enforcement of building and health and safety regulations. These activities are relevant activities of the local authority. Many of

these activities also coincide with the interests of the state government. Despite its partial funding of the local authority's activities, the state government does not have the power to direct the relevant activities of the local authority.

This illustrates that the rights of the local government over the relevant activities may preclude another party, the state government, from having control. [Based on AASB IG6]

## **Regulatory Control**

AG10.2 Regulatory control does not give rise to power over an investee for the purposes of this Standard. Governments and other public sector bodies, including supranational bodies, may have wide ranging powers to establish the regulatory framework within which entities operate, to impose conditions or sanctions on their operations and to enforce those conditions or sanctions. For example, governments and other public sector bodies may enact regulations to protect the health and safety of the community, restrict the sale or use of dangerous goods or specify the pricing policies of monopolies. However, when regulation is so tight as to effectively dictate how the entity performs its business, then it may be necessary to consider whether the purpose and design of the entity is such that it is controlled by the regulating entity. [New, similar to IPSAS 6 paragraph 37(b). Last sentence intended to be consistent with draft GFSM 2012]

### **Application Examples**

#### **Example AG10.2A**

A pollution control authority has the power to close down the operations of entities that are not complying with environmental regulations. The existence of this power does not constitute power over the relevant activities.

#### **Example AG10.2B**

A city has the power to pass zoning laws to limit the location of fast food outlets or to ban them altogether. The existence of this power does not constitute power over the relevant activities of the fast food outlets.

#### **Example AG10.2C**

A central government has the power to impose regulatory control on monopolies. A wholly owned government agency has the power to regulate monopolies that are subject to regulatory control and has established price ceilings for entities that distribute electricity. Neither the central government, nor the government agency, has power over the relevant activities of the electricity distributors.

#### **Example AG10.2D**

A gaming control board (GCB) is a government agency that regulates casinos and other types of gaming in a state, and of enforcing state gaming legislation. The GCB is responsible for promulgating rules and regulations that dictate how gaming activities are to be conducted within the state. The rules and regulations stem from the jurisdiction's legislation. The legislation was passed by the legislature and sets forth the broad policy of the state with regard to gaming; while the rules and regulations provide detailed requirements that must be satisfied by a gaming establishment, its owners, employees, and vendors. The rules and regulations cover a broad range of activity, including licensing,

accounting systems, rules of casino games, and auditing.

The GCB also has authority to grant or deny licenses to gaming establishments, their ownership, employees, and vendors. In order to obtain a license, an applicant must demonstrate that they possess good character, honesty and integrity. License application forms typically require detailed personal information. Based upon the type of license being sought, an applicant may also be required to disclose details regarding previous business relationships, employment history, criminal records, and financial stability.

Although the rules and regulations have an impact on how gaming establishments operate the GCB does not have power over the relevant activities of the gaming establishments. The regulations apply to all gaming establishments and each establishment has a choice as to whether it wishes to engage in gaming. The purpose of the gaming legislation and regulations is to protect the public.

#### *Relevant Activities and Direction of Relevant Activities*

AG11. ~~B11~~ For many ~~entitiesinvestees~~, a range of operating and financing activities significantly affect their ~~benefits they generate~~ returns. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

(a) Using assets and incurring liabilities to provide services to service recipients;

(b) Distributing funds to specified individuals or groups;

(c) Collecting revenue through non-exchange transactions;

~~(a)~~(d) Selling and purchasing of goods or services;

(e) Managing physical assets;

~~(b)~~(f) Managing financial assets during their life (including upon default);

~~(e)~~(g) Selecting, acquiring or disposing of assets;

(h) Managing a portfolio of liabilities;

~~(d)~~(i) Researching and developing new products or processes; and

~~(e)~~(j) Determining a funding structure or obtaining funding.

AG12. ~~B12~~ Examples of decisions about relevant activities include but are not limited to:

(a) Establishing operating and capital decisions of ~~an entitythe investee~~, including budgets; and

(b) Appointing and remunerating an ~~entity'sinvestee's~~ key management personnel or service providers and terminating their services or employment.

AG13. ~~B13~~ In some situations, activities both before and after a particular set of circumstances arises or event occurs may be relevant activities. When two or more ~~entitiesinvestors~~ have the current ability to direct relevant activities and those activities occur at different times, those ~~entitiesinvestors~~ shall determine which ~~entityinvestor~~ is able to direct the activities that most significantly affect those ~~benefitsreturns~~ consistently with the treatment of concurrent decision-making rights (see paragraph 13). The ~~entitiesinvestors concerned~~ shall reconsider this assessment over time if relevant facts or circumstances change.

## Application Examples

### Example 1

~~Two investors~~ Entities A and B, form an ~~other entity, entity C, investee~~ to develop and market a medical product. ~~Entity A~~ ~~One investor~~ is responsible for developing and obtaining regulatory approval of the medical product—that responsibility includes having the unilateral ability to make all decisions relating to the development of the product and to obtaining regulatory approval. Once the regulator has approved the product, ~~entity B~~ ~~the other investor~~ will manufacture and market it—~~entity B~~ ~~this investor~~ has the unilateral ability to make all decisions about the manufacture and marketing of the ~~product~~ ~~project~~. If all the activities—developing and obtaining regulatory approval as well as manufacturing and marketing of the medical product—are relevant activities, ~~entity A and entity B~~ each ~~investor~~ needs to determine whether it is able to direct the activities that *most* significantly affect the ~~investee's~~ returns ~~of entity C~~. Accordingly, ~~entity A and B~~ each ~~investor~~ needs to consider whether developing and obtaining regulatory approval or the manufacturing and marketing of the medical product is the activity that most significantly affects the ~~investee's~~ returns ~~of entity C~~ and whether it is able to direct that activity. In determining which ~~entity~~ ~~investor~~ has power, ~~the entities A and B~~ ~~investors~~ would consider:

- (a) The purpose and design of ~~the investee~~ ~~entity C~~;
- (b) The factors that determine the ~~surplus~~ ~~profit margin~~, revenue and value of ~~the entity C~~ ~~investee~~ as well as the value of the medical product;
- (c) The effect ~~of their on the investee's returns resulting from each investor's~~ decision-making authority ~~on entity's C's performance~~ with respect to the factors in (b); and
- (d) The ~~entities~~ ~~investors'~~ exposure to variability of ~~benefits from entity C~~ ~~returns~~.

In this particular example, the ~~entities~~ ~~investors~~ would also consider:

- (e) The uncertainty of, and effort required in, obtaining regulatory approval (considering their ~~investor's~~ record of successfully developing and obtaining regulatory approval of medical products); and
- (f) Which ~~entity~~ ~~investor~~ controls the medical product once the development phase is successful.

### Example 2

An investment vehicle (~~the investee~~) is created and financed with a debt instrument held by an ~~entity~~ ~~investor~~ (the debt investor) and equity instruments held by a number of other investors. The equity tranche is designed to absorb the first losses and to receive any residual return from the ~~investment vehicle~~ ~~investee~~. One of the equity investors who holds 30 per cent of the equity ~~instruments~~ is also the asset manager. The ~~investment vehicle~~ ~~investee~~ uses its proceeds to purchase a portfolio of financial assets, exposing the ~~investment vehicle~~ ~~investee~~ to the credit risk associated with the possible default of principal and interest payments of the assets. The transaction is marketed to the debt investor as an investment with minimal exposure to the credit risk associated with the possible default of the assets in the portfolio because of the nature of these assets and because the equity tranche is designed to absorb the first losses of the ~~investment vehicle~~ ~~investee~~. The returns of the ~~investment vehicle~~ ~~investee~~ are significantly affected by the management of the ~~investment vehicle's~~ ~~investee's~~ asset portfolio, which includes decisions about the selection, acquisition and disposal of the assets within portfolio guidelines and the management upon default of any portfolio

assets. All those activities are managed by the asset manager until defaults reach a specified proportion of the portfolio value (i.e., when the value of the portfolio is such that the equity tranche of the investment vehicle investee has been consumed). From that time, a third-party trustee manages the assets according to the instructions of the debt investor. Managing the investment vehicle investee's asset portfolio is the relevant activity of the investment vehicle investee. The asset manager has the ability to direct the relevant activities until defaulted assets reach the specified proportion of the portfolio value; the debt investor has the ability to direct the relevant activities when the value of defaulted assets surpasses that specified proportion of the portfolio value. The asset manager and the debt investor each need to determine whether they are able to direct the activities that most significantly affect the investment vehicle investee's returns, including considering the purpose and design of the investment vehicle investee as well as each party's exposure to variability of benefits returns.

*Rights that Give an Investor Power over an other Entity Investee*

AG14. B14–Power arises from rights. To have power over another entity investee, an entity investor must have existing rights that give the entity investor the current ability to direct the relevant activities of the other entity. The rights that may give an entity investor power can differ between investees.

AG15. B15–Examples of rights that, either individually or in combination, can give an entity investor power include but are not limited to:

(a) Rights to give policy directions to the governing body of another entity that give the holder the ability to direct the relevant activities of the other entity;

~~(b)~~(b) Rights in the form of voting rights (or potential voting rights) of another entity investee (see paragraphs AG34–AG50);

~~(b)~~(c) Rights to appoint, reassign or remove members of another entity investee's key management personnel who have the ability to direct the relevant activities;

~~(c)~~(d) Rights to appoint or remove another entity that directs the relevant activities;

~~(d)~~(e) Rights to approve or veto operating and capital budgets relating to the relevant activities of another entity;

(f) Rights to direct the other entity investee to enter into, or veto any changes to, transactions for the benefit of the entity investor;

~~(e)~~(g) Rights to veto key changes to the other entity, such as the sale of a major asset or of the other entity as a whole; and

~~(f)~~(h) Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

[Modified to include additional examples of rights that may occur in the public sector. Additional examples based on AASB guidance.]

AG15.1 In considering whether it has power, an entity will need to consider the mechanism(s) by which it has obtained power. Ways in which an entity may have obtained power, either individually or in combination with other arrangements, include:

(a) Legislative or executive authority;

- (b) Administrative arrangements;
- (c) Binding arrangements (including rights from contracts or other legal rights);
- (d) Founding documents (for example, articles of association); and
- (e) Voting or similar rights.

AG16. ~~B16 Generally, When an investee has a range of operating and financing activities that significantly affect the investee's returns and when substantive decision-making with respect to these activities is required continuously, it will be voting or similar rights that give an investor power, either individually or in combination with other arrangements.~~

AG17. ~~B17 When voting rights cannot have a significant effect on an investee's returns, such as when voting rights relate to administrative tasks only and contractual arrangements, determine the direction of the relevant activities, the investor needs to assess those contractual arrangements in order to determine whether it has rights sufficient to give it power over the investee.~~ To determine whether an entityinvestor has rights sufficient to give it power, the entityinvestor shall also consider the purpose and design of the other entity investee (see paragraphs AG5–AG8) and the requirements in paragraphs AG51–AG54 together with paragraphs AG18–AG20.

AG18. ~~B18~~ In some circumstances it may be difficult to determine whether an entity'sinvestor's rights are sufficient to give it power over an other entity investee. In such cases, to enable the assessment of power to be made, the entityinvestor shall consider evidence of whether it has the practical ability to direct the relevant activities unilaterally. Consideration is given, but is not limited, to the following, which, when considered together with its rights and the indicators in paragraphs AG19 and AG20, may provide evidence that the entity'sinvestor's rights are sufficient to give it power over the other entityinvestee:

- (a) The entityinvestor can, without having the ~~contractual~~ right (whether obtained from contracts or other legal rights) to do so, appoint or approve the other entity'sinvestee's key management personnel who have the ability to direct the relevant activities.
- (b) The entityinvestor can, without having the ~~contractual~~ right (whether obtained from contracts or other legal rights) to do so, direct the other entityinvestee to enter into, or can veto any changes to, significant transactions for the benefit of the entityinvestor.
- (c) The entityinvestor can dominate either the nominations process for electing members of the other entity'sinvestee's governing body or the obtaining of proxies from other holders of voting rights.
- (d) The other entity'sinvestee's key management personnel are related parties of the entityinvestor (for example, the chief executive officer of the other entityinvestee and the chief executive officer of the entityinvestor are the same person).
- (e) The majority of the members of the other entity'sinvestee's governing body are related parties of the entityinvestor.

AG19. ~~B19~~ Sometimes there will be indications that the entityinvestor has a special relationship with the other entityinvestee, which suggests that the entityinvestor has more than a passive interest in the other entityinvestee. The existence of any individual indicator, or a particular combination of indicators, does not necessarily mean that the power criterion is met. However, if an entity hashaving more than a passive interest in the another entityinvestee this may indicate that the

entityinvestor has other related rights sufficient to give it power or provide evidence of existing power over an other entityinvestee. For example, the following suggests that the entityinvestor has more than a passive interest in the other entityinvestee and, in combination with other rights, may indicate power:

- (a) Current or previous employees of the entity are key management personnel of the other entity and have the ability to direct the relevant activities of the other entity~~The investee's key management personnel who have the ability to direct the relevant activities are current or previous employees of the investor.~~
- (b) The relationship between the entity and the other entity'sinvestee's operations is one of dependence~~are dependent on the investor~~, such as in the following situations:
  - (i) The entity funds a significant portion of the other entity's operations and the other entityinvestee depends on this~~the investor to fund a significant portion of its operations.~~
  - (ii) The entity investor guarantees a significant portion of the other entity'sinvestee's obligations, and the other entity depends on this.
  - (iii) The entity provides investee depends on the investor for critical services, technology, supplies or raw materials to the other entity, and the other entity depends on this.
  - (iv) The entityinvestor controls assets such as licenses or trademarks that are critical to the other entity'sinvestee's operations and the other entity depends on this.
  - (v) The entity provides key management personnel to the other entity (for example, when the entity's personnel have specialized knowledge of the other entity's operations) and the other entity depends on this~~investee depends on the investor for key management personnel, such as when the investor's personnel have specialized knowledge of the investee's operations.~~
- (c) A significant portion of the other entity's investee's activities either involve or are conducted on behalf of the investorentity.
- (d) The entity'sinvestor's exposure, or rights, to returns from its involvement with the other entity investee is disproportionately greater than its voting or other similar rights. For example, there may be a situation in which an entityinvestor is entitled, or exposed, to more than half of the returns-benefits of the other entityinvestee but holds less than half of the voting rights of the other entityinvestee.  
[Note: modified to make the "entity" the subject of sentences.]

AG19.1 Public sector entities often have special relationships with other parties as a result of the indicators listed in paragraph AG19. Public sector entities often fund the activities of other entities. Economic dependence is discussed in paragraphs AG 40.1 to AG40.3.

AG20. B20–The greater an entity'sinvestor's exposure, or rights, to variability of benefitsreturns from its involvement with an other entityinvestee, the greater is the incentive for the entityinvestor to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of benefitsreturns is an indicator that the entityinvestor may have power. However, the extent of the entity'sinvestor's exposure does not, in itself, determine whether an entityinvestor has power over the other entityinvestee.

AG21. ~~B21~~ When the factors set out in paragraph AG18 and the indicators set out in paragraphs AG19 and AG20 are considered together with an ~~entity's investor's~~ rights, greater weight shall be given to the evidence of power described in paragraph AG18.

#### Substantive Rights

AG22. ~~B22~~ An ~~entity investor~~, in assessing whether it has power, considers only substantive rights relating to an ~~other entity investee~~ (held by the ~~entity investor~~ and others). For a right to be substantive, the holder must have the practical ability to exercise that right.

AG23. ~~B23~~ Determining whether rights are substantive requires judgment, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:

- (a) Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights. Examples of such barriers include but are not limited to:
  - (i) Financial penalties and incentives that would prevent (or deter) the holder from exercising its rights.
  - (ii) An exercise or conversion price that creates a financial barrier that would prevent (or deter) the holder from exercising its rights.
  - (iii) Terms and conditions that make it unlikely that the rights would be exercised, for example, conditions that narrowly limit the timing of their exercise.
  - (iv) The absence of an explicit, reasonable mechanism in the founding documents of an ~~other entity investee~~ or in applicable laws or regulations that would allow the holder to exercise its rights.
  - (v) The inability of the holder of the rights to obtain the information necessary to exercise its rights.
  - (vi) Operational barriers or incentives that would prevent (or deter) the holder from exercising its rights (e.g., the absence of other managers willing or able to provide specialized services or provide the services and take on other interests held by the incumbent manager).
  - (vii) Legal or regulatory requirements that limit the manner in which rights may be exercised or that prevent the holder from exercising its rights (e.g., where another entity has statutory powers which permit it to operate independently of the government or where a foreign ~~entity investor~~ is prohibited from exercising its rights). [Modified to include reference to statutory independence as a possible barrier to an entity exercising its rights]
- (b) When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so. The lack of such a mechanism is an indicator that the rights may not be substantive. The more parties that are required to agree to exercise the rights, the less likely it is that those rights are substantive. However, a board of directors (or other governing body) whose members are independent of the decision maker may serve as a mechanism for numerous ~~entities (or other parties) investors~~ to act collectively in exercising their rights. Therefore, removal rights exercisable by an independent board of directors (or other governing body)

are more likely to be substantive than if the same rights were exercisable individually by a large number of ~~entities (or other parties)~~investors.

- (c) Whether the party or parties that hold the rights would benefit from the exercise of those rights. For example, the holder of potential voting rights in an ~~other entity~~investee (see paragraphs AG47–AG50) shall consider the exercise or conversion price of the instrument. The terms and conditions of potential voting rights are more likely to be substantive when the instrument is in the money or the ~~entity~~investor would benefit for other reasons (e.g., by realizing synergies between the ~~entity~~investor and the ~~other entity~~investee) from the exercise or conversion of the instrument.

[AG23.1](#) [\[Discussion of statutory independence is now at paragraph 11.1\]](#)

AG24. ~~B24~~–To be substantive, rights also need to be exercisable when decisions about the direction of the relevant activities need to be made. Usually, to be substantive, the rights need to be currently exercisable. However, sometimes rights can be substantive, even though the rights are not currently exercisable.

### Application Examples

#### Example 3

~~An entity~~[The investee being assessed for control](#) has annual shareholder meetings at which decisions to direct the relevant activities are made. The next scheduled shareholders' meeting is in eight months. However, shareholders that individually or collectively hold at least 5 per cent of the voting rights can call a special meeting to change the existing policies over the relevant activities, but a requirement to give notice to the other shareholders means that such a meeting cannot be held for at least 30 days. Policies over the relevant activities can be changed only at special or scheduled shareholders' meetings. This includes the approval of material sales of assets as well as the making or disposing of significant investments.

The above fact pattern applies to examples 3A–3D described below. Each example is considered in isolation.

#### Example 3A

An ~~entity~~investor holds a majority of the voting rights in the ~~other entity~~investee. The ~~entity's~~investor's voting rights are substantive because the ~~investor~~entity is able to make decisions about the direction of the relevant activities when they need to be made. The fact that it takes 30 days before the ~~entity~~investor can exercise its voting rights does not stop the ~~entity~~investor from having the current ability to direct the relevant activities from the moment the ~~entity~~investor acquires the shareholding.

#### Example 3B

An ~~entity~~investor is party to a forward contract to acquire the majority of shares in the ~~other entity~~investee. The forward contract's settlement date is in 25 days. The existing shareholders are unable to change the existing policies over the relevant activities because a special meeting cannot be held for at least 30 days, at which point the forward contract will have been settled. Thus, the ~~entity~~investor has rights that are essentially equivalent to the majority shareholder in example 3A above (i.e., the ~~entity~~investor holding the forward contract can make decisions about the direction of the relevant activities when they need to be made). The ~~entity's~~investor's forward contract is a substantive right that gives the ~~entity~~investor the current ability to direct the relevant activities even

before the forward contract is settled.

**Example 3C**

An entity investor holds a substantive option to acquire the majority of shares in the other entity investee that is exercisable in 25 days and is deeply in the money. The same conclusion would be reached as in example 3B.

**Example 3D**

An entity investor is party to a forward contract to acquire the majority of shares in the other entity investee, with no other related rights over the other entity investee. The forward contract's settlement date is in six months. In contrast to the examples above, the entity investor does not have the current ability to direct the relevant activities. The existing shareholders have the current ability to direct the relevant activities because they can change the existing policies over the relevant activities before the forward contract is settled.

**Example AG24.1**

A government housing agency establishes a community housing program that provides low-cost housing. The program is operated under an agreement with an incorporated association. The association's only activity is to manage the community housing facility. The association has no ownership instruments.

The board of governors of the association has 16 members, with eight appointed by (and subject to removal by) the government housing agency. By tradition, the chair of the association is appointed by the board from amongst the appointees of the government housing agency. The chair of the association has a casting vote that is rarely exercised.

The government housing agency owns the land on which the housing facilities stand and has contributed capital and operating funds to the association over the life of the facilities. The association owns the housing facilities.

The association retains any surplus resulting from the operation of the facilities and under its constitution is unable to provide a financial return to the government housing agency. The above fact pattern applies to examples AG24.1A and AG24.1B described below. Each example is considered in isolation.

**Example AG24.1A**

Based on the facts and circumstances outlined above, the government housing agency controls the association. The government housing agency has rights that give it the current ability to direct the relevant activities of the association, regardless of whether it chooses to exercise those rights.

The government housing agency also has rights to variable benefits from its involvement with the association. Even though the government housing agency has never received (and cannot receive) a financial return, the government housing agency is receiving benefits through the association furthering its social objective of providing low-cost community housing. In addition, the government housing agency has the ability to use its powers over the composition of the board of governors of the association to affect the amount of its benefits.

**Example AG24.1B**

In this example, the facts of Example AG24.1A apply, except that:

- (a) The association's board of governors is elected through a public nomination and voting process. The government housing agency does not have power to appoint board members; and
- (b) Decisions made by the association's board are reviewed by the government housing agency but it is unable to replace board members as a form of veto.

Based on the facts and circumstances outlined above, the government housing agency does not hold sufficient power over the association to direct its relevant activities and therefore does not control the association.

The government housing agency may still consider that it receives indirect, non-financial benefits from the association in that the agency's social objectives in relation to low-cost community housing are being furthered by the activities of the association. However, congruence of objectives alone is insufficient to conclude that one entity controls another (see paragraph IG18).

**Example AG24.1C**

A government has the right to appoint and remove the majority of members of a statutory body. This power has been used by previous governments. The current government has not done so because it does not wish, for political reasons, to be regarded as interfering in the activities of the statutory body. In this case the government still has substantive rights, even though it has chosen not to use them. [Based on AASB IG11]

**Example AG24.2**

A local authority has a policy that, where it holds land that is surplus to its requirements, consideration should be given to making the land available for affordable housing. The local authority establishes terms and conditions to ensure that the housing provided remains affordable and available to meet local housing needs.

In accordance with this policy, the local authority sold part of a site to a housing association for CU1 to provide 20 affordable homes. The remainder of the site was sold at open market value to a private developer.

The contract between the local authority and the housing association specifies what the land can be used for, the quality of housing developments, ongoing reporting and performance management requirements, the process for return of unused land and dispute resolution. The land must be used in a manner consistent with the local authority's policy for affordable housing.

The agreement also has requirements regarding the housing association's quality assurance and financial management processes. The housing association must demonstrate that it has the capacity and authority to undertake the development. It must also demonstrate the added value that can be achieved by joining the local authority's resources with that of the housing association to address a need within a particular client group in a sustainable way.

The Board of the housing association is appointed by the members of the housing association. The local authority does not have a representative on the Board.

Based on the facts and circumstances outlined above, the government housing agency does not hold sufficient power over the association to direct its relevant activities and therefore does not control the association.

The local authority may receive indirect, non-financial benefits from the association in that the local authority's social objectives in relation to low-cost community housing are being furthered by the activities of the housing association. However, congruence of objectives alone is insufficient to conclude that one entity controls another (see paragraph IG18).

- AG25. ~~B25~~ Substantive rights exercisable by other parties can prevent an investor from controlling the investee to which those rights relate. Such substantive rights do not require the holders to have the ability to initiate decisions. As long as the rights are not merely protective (see paragraphs AG26–AG28), substantive rights held by other parties may prevent the investor from controlling the investee even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities.

#### Protective Rights

- AG26. ~~B26~~ In evaluating whether rights give an ~~entity~~ investor power over another ~~entity~~ investee, the ~~entity~~ investor shall assess whether its rights, and rights held by others, are protective rights. Protective rights relate to fundamental changes to the activities of another ~~entity~~ investee or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective (see paragraphs AG13 and AG53).

- AG27. ~~B27~~ Because protective rights are designed to protect the interests of their holder without giving that party power over the ~~entity~~ investee to which those rights relate, an ~~entity~~ investor that holds only protective rights cannot have power or prevent another party from having power over the entity to which those rights relate ~~an investee~~ (see paragraph 14).

- AG28. ~~B28~~ Examples of protective rights include but are not limited to:

- (a) A lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.
- (b) The right of a party holding a non-controlling interest in an ~~entity~~ investee to approve capital expenditure greater than that required in the ordinary course of business, or to approve the issue of equity or debt instruments.
- (c) The right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.

#### AG28.1 Other examples of protective rights include:

- (a) The right of a regulator to curtail or close the operations of entities that are not complying with regulations or other requirements. For example, a pollution control authority may be able to close down activities of an entity that breaches environmental regulations.
- (b) The right to remove members of the governing body of another entity under certain restricted circumstances. For example, a state government may be able to remove or suspend the chairman of a municipality and appoint an administrator if the municipality is unable to make timely decisions about key policies.

- (c) The right of the government to remove tax deductibility for contributions to a not-for-profit entity if the entity significantly changes its objectives or activities.
- (a)(d) The right of an entity providing resources to a charity to demand that, if the charity were to be liquidated, the net assets of the charity would be distributed to an organization undertaking similar activities. (However, if the entity had the power to determine specifically to where the charity's net assets would be distributed upon liquidation, the entity would have substantive rights in relation to the charity). [Based on AASB IG15]

### *Franchises*

- AG29. ~~B29 A franchise agreement for which the investee is the franchisee often gives the franchisor rights that are designed to protect the franchise brand. Franchise agreements typically give franchisors some decision-making rights with respect to the operations of the franchisee.~~
- AG30. ~~B30 Generally, franchisors' rights do not restrict the ability of parties other than the franchisor to make decisions that have a significant effect on the franchisee's returns. Nor do the rights of the franchisor in franchise agreements necessarily give the franchisor the current ability to direct the activities that significantly affect the franchisee's returns.~~
- AG31. ~~B31 It is necessary to distinguish between having the current ability to make decisions that significantly affect the franchisee's returns and having the ability to make decisions that protect the franchise brand. The franchisor does not have power over the franchisee if other parties have existing rights that give them the current ability to direct the relevant activities of the franchisee.~~
- AG32. ~~B32 By entering into the franchise agreement the franchisee has made a unilateral decision to operate its business in accordance with the terms of the franchise agreement, but for its own account.~~
- AG33. ~~B33 Control over such fundamental decisions as the legal form of the franchisee and its funding structure may be determined by parties other than the franchisor and may significantly affect the returns of the franchisee. The lower the level of financial support provided by the franchisor and the lower the franchisor's exposure to variability of returns from the franchisee the more likely it is that the franchisor has only protective rights.~~

### *Voting Rights*

- AG34. ~~B34 Where an entity Often an investor has the current ability, through has voting or similar rights in respect of another entity, an entity should consider whether those rights give it the current ability to direct the relevant activities of the other entity. An entity investor considers the requirements in this section (paragraphs AG35–AG50) in making that assessment if the relevant activities of an investee are directed through voting rights.~~

### *Power with a Majority of the Voting Rights*

- AG35. ~~B35 An entity investor that holds more than half of the voting rights of another entity investee has power in the following situations, unless paragraph AG36 or paragraph AG37 applies:~~
- (a) The relevant activities are directed by a vote of the holder of the majority of the voting rights;  
or

- (b) A majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority of the voting rights.

*Majority of the Voting Rights but no Power*

- AG36. ~~B36~~ For an ~~entity investor~~ that holds more than half of the voting rights of an ~~other entity investee~~, to have power over ~~that other entity an investee~~, the ~~entity's investor's~~ voting rights must be substantive, in accordance with paragraphs AG22–AG25, and must provide the ~~entity investor~~ with the current ability to direct the relevant activities, which often will be through determining operating and financing policies. If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the ~~entity investor making the assessment of control~~, the ~~entity investor making the assessment of control~~ does not have power over the ~~other entity investee~~.
- AG37. ~~B37~~ An ~~entity investor~~ does not have power over an ~~other entity investee~~, even though the ~~entity investor~~ holds the majority of the voting rights in the ~~other entity investee~~, when those voting rights are not substantive. For example, an ~~entity investor~~ that has more than half of the voting rights in an ~~other entity investee~~ cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator.

*Power without a Majority of the Voting Rights*

- AG38. ~~B38~~ An ~~entity investor~~ can have power even if it holds less than a majority of the voting rights of an ~~other entity investee~~. An ~~entity investor~~ can have power with less than a majority of the voting rights of an ~~other entity investee~~, for example, through:
- (a) The power to appoint or remove a majority of the members of the board of directors (or other governing body), and control of the other entity is by that board or by that body (see paragraph AG38.1);
  - (b) A ~~contractual-binding~~ arrangement (including rights from contracts or other legal rights) between the ~~entity investor~~ and other vote holders (see paragraph AG39);
  - (c) Rights arising from other ~~contractual-binding~~ arrangements (including rights from contracts or other legal rights) (see paragraph AG40);
  - (d) The ~~entity's investor's~~ voting rights (see paragraphs AG38.1 and AG41–AG45);
  - (e) Potential voting rights (see paragraphs AG47–AG50); or
  - (f) A combination of (a)–(d).

AG38.1 An entity may have the right of decisive vote, thus to veto all other voting rights of another entity. This type of right is sometimes referred to as a golden share. Usually these rights are documented in the founding documents of the other entity (such as articles of association), and are designed to restrict the level of voting or other rights that may be held by certain parties. They may also give an entity veto powers over any major change in the other entity, such as the sale of a major asset or of the other entity as a whole. [New]

### Application Examples

#### Example AG38.1A

A central government has privatized a number of entities. In the case of certain strategic companies which it has wished to privatize without risking national interests it has used a “golden share” mechanism to give it veto power for certain of the most important decisions to be taken by the company. The “golden share” does not have any value or percentage in the charter capital of the company.

The central government has protective rights, not substantive rights, in respect of these companies.

#### Example AG38.1B

A central government sold all of its shares in a company, but kept a golden share (with a nominal value of one currency unit) which allows it to veto foreign control of the board or company.

The central government has protective rights, not substantive rights, in respect of these companies.

#### Example AG38.1C

A central government does not own any shares in defense companies. However it has passed legislation which specifies that, with respect to companies carrying out strategic activities for the defense and national security system, in the event that fundamental interests of national defense or security could be materially affected, the government may:

- (a) Impose specific conditions on the purchase of an interest in any such company – by any person – relating to the security of procurement and of information, the transfer of technologies and export controls;
- (b) Veto the purchase by any person – other than the state (whether directly or indirectly, individually or jointly) – of an interest in the voting share capital in any such company that, given its size, may jeopardize defense or national security; and
- (c) Veto the adoption of resolutions by the shareholders or the board of directors of any such company relating to certain extraordinary transactions (such as mergers, de-mergers, assets disposals, winding up, and bylaws amendments concerning the corporate purpose or equity ownership caps in certain state-controlled companies).

The central government has protective rights, not substantive rights, in respect of these companies.

### *Control of the Board or Other Governing Body*

AG38.2 An investor may have the power to appoint or remove a majority of the members of the board of directors (or other governing body) as a result of existing legislation, regulation, contractual, or other arrangements.

### Application Examples

#### Example AG38.2

A national museum is governed by a board of trustees who are chosen by the government department responsible for funding the museum. The trustees have freedom to make decisions about the operation of the museum. The ability of the department to appoint the majority of the museum's

trustees means that it has the potential to exercise power.

Binding Contractual Arrangement with Other Vote Holders

AG39. ~~B39~~—A binding contractual arrangement (including rights from contracts or other legal rights) between an entity investor and other vote holders can give the entity investor the right to exercise voting rights sufficient to give the entity investor power, even if the entity investor does not have voting rights sufficient to give it power without the contractual binding arrangement. However, a binding contractual arrangement might ensure that the entity investor can direct enough other vote holders on how to vote to enable the entity investor to make decisions about the relevant activities.

Rights from Other Contractual Binding Arrangements

AG40. ~~B40~~—Other decision-making rights, in combination with voting rights, can give an entity investor the current ability to direct the relevant activities. For example, the rights specified in a binding contractual arrangement (including rights from contracts or other legal rights) in combination with voting rights may ~~be sufficient to~~ give an entity investor the current ability to direct the operating or financing policies or other key activities manufacturing processes of another entity investee ~~or to direct other operating or financing activities of an investee~~ that significantly affect the benefits received by the entity investee's returns. ~~However, an entity would not control another entity if that other entity were able to determine its policy or program to a significant extent, (for example, by failing to comply with the binding arrangement and accepting the consequences, or by changing its constitution or dissolving itself). However, in the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee.~~

[The final sentence of this paragraph has been deleted because economic dependence is discussed in the next subsection.]

Economic Dependence

AG40.1 Economic dependence, on its own, does not give rise to power over an entity for the purposes of this Standard. Economic dependence may occur when:

- (a) An entity has a single major client and the loss of that client could affect the existence of the entity's operations; and
- (b) An entity's activities are predominantly funded by grants and donations and it receives the majority of its funding from a single entity.

AG40.2 An entity may be able to influence the financial and operating policies of another entity that is dependent on it for funding. However, a combination of factors will need to be considered to determine whether the economic dependence is such that the economically dependent entity no longer has the ultimate power to govern its own financial or operating policies. If an economically dependent entity retains discretion as to whether it will take funding from an entity, or do business with an entity, the economically dependent entity still has the ultimate power to govern its own financial or operating policies. It is also important to distinguish between the operations of an entity and an entity itself. The loss of a major client might affect the viability of the operations of an entity but not the existence of the entity itself. [New. Similar to IPSAS 6 paragraph 37(b)].

AG40.3 A government may not have the current ability to direct the relevant activities of entities (such as private schools, private hospitals, private aged care providers and private universities) that are financially dependent on government funding, but where the governing bodies of those entities maintain discretion with respect to whether they will accept resources from the government, or the manner in which their resources are to be used. This may be so even if government grants provided to such entities require them to comply with specified conditions. Although these entities might receive government grants for the construction of capital assets and operating costs subject to specified service standards or restrictions on user fees, their governing body may maintain ultimate discretion about how assets are used. [New. Based on AASB IG10]

#### **Application Examples**

##### **Example AG40.3A**

A research institution is one of many institutions that receive the majority of their funding from a central government. The institutions submit proposals and the funding is allocated through a tendering process. The research institution retains the right to accept or decline funding. The central government does not control the research institution.

##### **Example AG40.3B**

A catering business has a contract to supply food to a government-owned school. The contract is between the company and the school. The school contract generate the majority of the revenue of the catering business. There are general requirements, set out in regulations, which are applicable to all school catering contracts including nutritional standards and procurement policies. For example, the contracts specify how much produce must be purchased locally.

Current contracts are for a period of five years. At the end of each contract the catering business will be required to tender again if it wishes to continue supplying school meals.

The school does not control the catering business as the catering business can choose to stop supplying school meals or to cease business.

##### **Example AG40.3C**

An international donor funds a project in a developing country. The donor uses a small, local agency in the country to run the project. The local agency has its own management board but is highly dependent on the donor for funding. The agency retains the power to turn down funding from the donor. The international donor does not control the local agency.

##### **Example AG40.4**

Research has shown that family friendly policies at universities, which include the provision of quality early childhood education services, are critical in attracting and retaining students and staff. This is particularly important for attracting high-level staff and post-graduate students, which in turn help uphold the reputation of the University and its ability to obtain research funding.

The following two examples illustrate different ways in which childcare services may be provided.

**Example AG40.4A**

University A has established seven childcare centres (although University A receives government funding for its educational programs, the childcare centres have been established by the university, not by the government). The centres operate in University owned buildings. Each centre has its own manager, staff and budget. The centres are able to be used by university staff and students only. The University is the licensed provider of childcare services. The University has the right to close centres or relocate them to other properties. Because the childcare centre is on university property the staff and parents are required to comply with University health and safety policies. The management team of the childcare centre has the ability to determine all other operating policies.

The University receives non-financial benefits from having childcare services available on campus. Although the University is not involved in the day-to-day running of the centres, it has the ability to close the centres or change their hours of operation.

University A controls the childcare centres.

**Example AG40.4B**

University B has made a building available free of charge for the provision of childcare services. The childcare services are provided by an incorporated society. All parents using the childcare centre are members of the society. The members appoint the Board and are in charge of the childcare centre's operating and financial policies. The centre is able to be used by staff, students and the general public, with students having priority. Because the childcare centre is on university property the staff and parents are required to comply with University health and safety policies. The incorporated society is the licensed provider of childcare services. If the incorporated society ceases to operate, its resources must be distributed to a similar non-profit organisation. The incorporated society could choose not to use the University's buildings in providing its services.

Although the University receives non-financial benefits from having childcare services available on campus it does not control the incorporated society.

*The Investor's Voting Rights*

- AG41. B41—An entityinvestor with less than a majority of the voting rights has rights that are sufficient to give it power when the entityinvestor has the practical ability to direct the relevant activities unilaterally.
- AG42. B42—When assessing whether an entity'sinvestor's voting rights are sufficient to give it power, an entityinvestor considers all facts and circumstances, including:
- (a) The size of the entity'sinvestor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that:
    - (i) The more voting rights an entityinvestor holds, the more likely the entityinvestor is to have existing rights that give it the current ability to direct the relevant activities;
    - (ii) The more voting rights an entityinvestor holds relative to other vote holders, the more likely the entityinvestor is to have existing rights that give it the current ability to direct the relevant activities;

- (iii) The more parties that would need to act together to outvote the [entityinvestor](#), the more likely the [entityinvestor](#) is to have existing rights that give it the current ability to direct the relevant activities;
- (b) Potential voting rights held by the [entityinvestor](#), other vote holders or other parties (see paragraphs [BAG47–BAG50](#));
- (c) Rights arising from other [contractual-binding](#) arrangements ([including rights from contracts or other legal rights](#)) (see paragraph [BAG40](#)); and
- (d) Any additional facts and circumstances that indicate the [entityinvestor](#) has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

AG43. ~~[B43]~~ When the direction of relevant activities is determined by majority vote and an [entityinvestor](#) holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed, it may be clear, after considering the factors listed in paragraph AG42(a)–(c) alone, that the [entityinvestor](#) has power over the [other entityinvestee](#).

#### Application Examples

##### Example 4

An [entityinvestor](#) acquires 48 per cent of the voting rights of an [other entityinvestee](#). The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the [entityinvestor](#) determined that a 48 per cent interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the [entityinvestor](#) concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

##### Example 5

~~Entityinvestor~~ A holds 40 per cent of the voting rights of an [other entityinvestee](#) and twelve other investors each hold 5 per cent of the voting rights of the [other entityinvestee](#). A shareholder agreement grants ~~Entityinvestor~~ A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. In this case, ~~Entityinvestor~~ A concludes that the absolute size of ~~its the investor's~~ holding and the relative size of the other shareholdings alone are not conclusive in determining whether ~~itthe investor~~ has rights sufficient to give it power. However, ~~Entityinvestor~~ A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the [other entityinvestee](#). The fact that ~~Entityinvestor~~ A might not have exercised this right or the likelihood of ~~Entityinvestor~~ A exercising its right to select, appoint or remove management shall not be considered when assessing whether ~~Entityinvestor~~ A has power.

AG44. ~~B44~~ In other situations, it may be clear after considering the factors listed in paragraph [BAG42\(a\)–\(c\)](#) alone that an [entityinvestor](#) does not have power.

## Application Example

### Example 6

~~Entity investor~~ A holds 45 per cent of the voting rights of another ~~entity investee~~. Two other investors each hold 26 per cent of the voting rights of the ~~other entity investee~~. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision-making. In this case, the size of ~~Entity investor~~ A's voting interest and its size relative to the other shareholdings are sufficient to conclude that ~~Entity investor~~ A does not have power. Only two other investors would need to co-operate to be able to prevent ~~Entity investor~~ A from directing the relevant activities of the ~~other entity investee~~.

AG45. ~~B45~~—However, the factors listed in paragraph ~~BAG~~42(a)–(c) alone may not be conclusive. If an ~~entity investor~~, having considered those factors, is unclear whether it has power, it shall consider additional facts and circumstances, such as whether other shareholders are passive in nature as demonstrated by voting patterns at previous shareholders' meetings. This includes the assessment of the factors set out in paragraph ~~BAG~~18 and the indicators in paragraphs ~~BAG~~19 and ~~BAG~~20. The fewer voting rights the ~~entity investor~~ holds, and the fewer parties that would need to act together to outvote the ~~entity investor~~, the more reliance would be placed on the additional facts and circumstances to assess whether the ~~entity's investor's~~ rights are sufficient to give it power. When the facts and circumstances in paragraphs ~~BAG~~18–~~BAG~~20 are considered together with the ~~entity's investor's~~ rights, greater weight shall be given to the evidence of power in paragraph ~~BAG~~18 than to the indicators of power in paragraphs ~~BAG~~19 and ~~BAG~~20.

## Application Examples

### Example 7

An ~~investor entity~~ holds 45 per cent of the voting rights of another ~~entity investee~~. Eleven other shareholders each hold 5 per cent of the voting rights of the ~~other entity investee~~. None of the shareholders has contractual arrangements to consult any of the others or make collective decisions. In this case, the absolute size of the ~~entity's investor's~~ holding and the relative size of the other shareholdings alone are not conclusive in determining whether the ~~entity investor~~ has rights sufficient to give it power over the ~~other entity investee~~. Additional facts and circumstances that may provide evidence that the ~~entity investor~~ has, or does not have, power shall be considered.

### Example 8

An ~~entity investor~~ holds 35 per cent of the voting rights of another ~~entity investee~~. Three other shareholders each hold 5 per cent of the voting rights of the ~~other entity investee~~. The remaining voting rights are held by numerous other shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has arrangements to consult any of the others or make collective decisions. Decisions about the relevant activities of the ~~other entity investee~~ require the approval of a majority of votes cast at relevant shareholders' meetings—75 per cent of the voting rights of the ~~other entity investee~~ have been cast at recent relevant shareholders' meetings. In this case, the active participation of the other shareholders at recent shareholders' meetings indicates that the ~~entity investor~~ would not have the practical ability to direct the relevant activities unilaterally, regardless of whether the ~~entity investor~~ has directed the relevant activities because a sufficient number of other shareholders voted in the same way as the ~~entity investor~~.

AG46. ~~B46~~–If it is not clear, having considered the factors listed in paragraph ~~BAG~~42(a)–(d), that the ~~entity investor~~ has power, the ~~entity investor~~ does not control the ~~other entity investee~~.

#### Potential Voting Rights

AG47. ~~B47~~–When assessing control, an ~~entity investor~~ considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are rights to obtain voting rights of an ~~other entity investee~~, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the rights are substantive (see paragraphs ~~BAG~~22–~~BAG~~25).

AG48. ~~B48~~–When considering potential voting rights, an ~~entity investor~~ shall consider the purpose and design of the instrument, as well as the purpose and design of any other involvement the ~~entity investor~~ has with the ~~other entity investee~~. This includes an assessment of the various terms and conditions of the instrument as well as the ~~entity investor's~~ apparent expectations, motives and reasons for agreeing to those terms and conditions.

AG49. ~~B49~~–If the ~~entity investor~~ also has voting or other decision-making rights relating to the ~~other entity investee's~~ activities, the ~~entity investor~~ assesses whether those rights, in combination with potential voting rights, give the ~~entity investor~~ power.

AG50. ~~B50~~–Substantive potential voting rights alone, or in combination with other rights, can give an ~~entity investor~~ the current ability to direct the relevant activities. For example, this is likely to be the case when an ~~entity investor~~ holds 40 per cent of the voting rights of an ~~other entity investee~~ and, in accordance with paragraph ~~BAG~~23, holds substantive rights arising from options to acquire a further 20 per cent of the voting rights.

#### Application Examples

##### Example 9

~~Entity investor~~ A holds 70 per cent of the voting rights of an ~~other entity investee~~. ~~Entity investor~~ B has 30 per cent of the voting rights of the ~~other entity investee~~ as well as an option to acquire half of ~~investor Entity~~ A's voting rights. The option is exercisable for the next two years at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period). ~~Entity investor~~ A has been exercising its votes and is actively directing the relevant activities of the ~~other entity investee~~. In such a case, ~~Entity investor~~ A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities. Although ~~Entity investor~~ B has currently exercisable options to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the ~~other entity investee~~), the terms and conditions associated with those options are such that the options are not considered substantive.

##### Example 10

~~Entity investor~~ A and two other investors each hold a third of the voting rights of an ~~other entity investee~~. The ~~other entity investee's~~ business activity is closely related to ~~Entity investor~~ A. In addition to its equity instruments, ~~investor Entity~~ A also holds debt instruments that are convertible into ordinary shares of the ~~other entity investee~~ at any time for a fixed price that is out of the money (but not deeply out of the money). If the debt were converted, ~~Entity investor~~ A would hold 60 per cent of the voting rights of the ~~other entity investee~~. ~~Entity investor~~ A would benefit from realizing synergies if the debt instruments were converted into ordinary shares. ~~Entity investor~~ A has power over the ~~other~~

entityinvestee because it holds voting rights of the other entityinvestee together with substantive potential voting rights that give it the current ability to direct the relevant activities.

*Power when Voting or Similar Rights do not have a Significant Effect on Benefitsthe Investee's Returns*

- AG51. ~~B51~~In assessing the purpose and design of an other entityinvestee (see paragraphs ~~BAG5~~–~~BAG8~~), an entityinvestor shall consider the involvement and decisions made at the ~~investee's~~ inception of the other entity as part of its design and evaluate whether the transaction terms and features of the involvement provide the entityinvestor with rights that are sufficient to give it power. Being involved in the design of an other entityinvestee alone is not sufficient to give an entityinvestor control of that other entity. However, involvement in the design of the other entity may indicate that the entityinvestor had the opportunity to obtain rights that are sufficient to give it power over the other entityinvestee.
- AG52. ~~B52~~In addition, an entityinvestor shall consider ~~contractual-binding~~ arrangements (including rights from contracts or other legal rights) such as call rights, put rights and liquidation rights established at the ~~investee's~~ inception of the other entity. When these ~~bindingcontractual~~ arrangements involve activities that are closely related to the other entityinvestee, then these activities are, in substance, an integral part of the other entity'sinvestee's overall activities, even though they may occur outside the legal boundaries of the other entityinvestee. Therefore, explicit or implicit decision-making rights embedded in ~~contractual-binding~~ arrangements that are closely related to the other entityinvestee need to be considered as relevant activities when determining power over the other entityinvestee.
- AG53. ~~B53~~For some other entitiesinvestees, relevant activities occur only when particular circumstances arise or events occur. The other entityinvestee may be designed so that the direction of its activities and the benefits from those activities its returns are predetermined unless and until those particular circumstances arise or events occur. In this case, only the decisions about the other entity'sinvestee's activities when those circumstances or events occur can significantly affect its benefitsreturns and thus be relevant activities. The circumstances or events need not have occurred for an entityinvestor with the ability to make those decisions to have power. The fact that the right to make decisions is contingent on circumstances arising or an event occurring does not, in itself, make those rights protective.

### Application Examples

#### Example AG53.1A

A central government has legislation that governs the establishment of cultural and heritage boards. These boards have a separate legal status and have limited liability. The powers and objectives of the boards, along with their reporting requirements are specified by legislation. The main function of each board is to administer the board's assets, mainly property, for the general benefit of beneficiaries. Boards are permitted to spend money on the promotion of health, education, vocational training, and the social and economic welfare of the beneficiaries. They have limited authority to spend money unless it is for a purpose specifically mentioned in the legislation. Each board must deliver an annual financial report to the government. The beneficiaries (as defined by each board and comprising people from a specified area) elect the members of the board. Trustees are appointed for a three-year term by way of voting by beneficiaries at the annual general meeting. Strategy is determined by the board. The central government does not control the boards. The government was involved in establishing the

legislation that governs the activities of the boards, but it has not obtained rights that give it power over the boards. Despite the fact that their powers are limited by legislation, each board is responsible for determining its own operating and financial policies.

#### **Example AG53.1B**

Five local authorities create a separate company to deliver shared services to participating authorities. The company operates under contract to these local authorities. The company's major objective is the provision of services to these local authorities.

The company is owned by all of the participating local authorities with each owning one share and allowed one vote. The chief executive of each local authority is permitted to be a board member of the company. The board of the company is responsible for strategic direction, approval of business cases and monitoring of performance.

For each shared activity there is an advisory group that is responsible for operational management and decision-making in relation to that activity. Each advisory group consists of one representative from each local authority.

The benefits of the shared services arrangement are:

- Improved levels and quality of service;
- A co-ordinated and consistent approach to the provision of services;
- Reductions in the cost of support and administrative services;
- Opportunities to develop new initiatives; and
- Economies of scale resulting from a single entity representing many councils in procurement.

If further shared service activities are established that lead to the need for further capital, the company will either issue a new class of equity instrument or will form a controlled entity to hold the interest in the new assets.

The company covers its costs in two ways. It retains a percentage of savings from its bulk purchasing activities and it charges an administrative transaction cost of services provided to the local authorities.

None of the local authorities individually controls the company. They have joint control over the company.

#### **Example AG53.1C**

A leisure trust was established as a charity, limited by guarantee, to operate and manage sport and leisure facilities on behalf of a local authority. Under the terms of the agreement with the local authority, the leisure trust is responsible for the operational management, delivery and development of the city's sports and leisure facilities. The trust is required to operate the existing leisure facilities of the local authority. The level of service required, including hours of operation and staffing levels, are specified by the local authority. The leisure trust's activities must be consistent with the long term plan of the local authority and a significant portion of the trusts activities are funded by the local authority. The leisure trust may not create new facilities nor may it engage in any other activities without the approval of the local authority.

The articles of association of the leisure trust specify that there shall be no more than 13 directors. Out of that number, up to 8 directors may be drawn from elected members, officers or employees of the local authority. The other 5 directors must be independent. That is, they must not be elected representatives, officers or employees of the local authority nor may they be employees of the leisure

trust.

If the leisure trust ceases to operate the proceeds must be distributed to another charity with similar purposes. The local authority is not responsible for the debts of the leisure trust (its liability is limited to one currency unit).

The local authority controls the leisure trust. By specifying in detail the way in which the leisure trust must operate the local authority has predetermined the leisure trust's activities and the nature of returns to the local authority.

#### **Example AG53.1D**

A local authority transfers its leisure centres, libraries and theatres into a charitable trust.

In creating the trust the local authority expects to benefit from cost savings, increased use of facilities by the public, a more favorable taxation treatment, and better access to funding restricted to charities. The trust can decide the nature and extent of facilities to be provided and can engage in any other charitable purpose. The board of the trust is elected by the community. The local authority is entitled to have one representative on the board. The trust is required to retain any surplus and use it for the objectives of the trust.

The local authority benefits from the trust's activities but it does not control the trust. The local authority cannot direct how the trust uses its resources.

#### **Example 53.1E**

A local authority has transferred its sports and leisure facilities into a charitable trust. The local authority has the right to appoint one of its councillors to the board of the trust. The board of the trust has nine members. The local authority is entitled to ten percent of the trust's surplus for the year or, in the case of the deficit, may be required to contribute up to ten percent of the deficit for the year. The trust board determines the strategy of the trust and is ultimately responsible for the policies of the trust. The local authority does not control the trust.

#### **Example 53.1F**

A funding agency was established by legislation. It is owned by ten local authorities and the central government. It operates on a for-profit basis. The funding agency will raise debt funding and provide that funding to the participating local authorities. Its primary purpose is to provide more efficient funding costs and diversified funding sources for the local authorities. It may undertake any other activities considered by the board to be reasonably related or incidental to, or in connection with, that business.

The main benefits to the participating local authorities are the reduced borrowing costs. The board of the funding agency may decide to pay dividends but dividend payments are expected to be low.

The board is responsible for the strategic direction and control of the funding agency's activities. The board will comprise between four and seven directors with a majority of independent directors.

There is also a shareholders' council which is made up of ten appointees of the shareholders (including an appointee from the central government). The role of the shareholders' council is to:

- Review the performance of funding agency and the Board, and report to shareholders on that performance;
- Make recommendations to shareholders as to the appointment, removal, replacement and remuneration of directors; and

- Coordinate shareholders' governance decisions.

The funding agency purchases debt securities in accordance with its lending and/or investment policies, as approved by the board and/or shareholders.

To participate in the funding agency as a principal shareholding authority, each local authority made an initial capital investment of CU100,000, provided security against future property taxes and agreed to borrow a set portion of its borrowing needs from the funding agency for a period of three years.

The funding agency is jointly controlled by the central government and the participating local authorities.

## Application Examples

### Example 11

Entity A's An investee's only business activity, as specified in its founding documents, is to purchase receivables and service them on a day-to-day basis for Entity B's investors. The servicing on a day-to-day basis includes the collection and passing on of principal and interest payments as they fall due. Upon default of a receivable Entity A's the investee automatically puts the receivable to Entity B's investor as agreed separately in a put agreement between Entity A and Entity B's the investor and the investee. The only relevant activity is managing the receivables upon default because it is the only activity that can significantly affect Entity A's the investee's financial performance returns. Managing the receivables before default is not a relevant activity because it does not require substantive decisions to be made that could significantly affect Entity A's the investee's financial performance returns—the activities before default are predetermined and amount only to collecting cash flows as they fall due and passing them on to Entity B's investors. Therefore, only Entity B's the investor's right to manage the assets upon default should be considered when assessing the overall activities of Entity A's the investee that significantly affect Entity A's the investee's financial performance returns. In this example, the design of Entity A's the investee ensures that Entity B's the investor has decision-making authority over the activities that significantly affect the financial performance returns at the only time that such decision-making authority is required. The terms of the put agreement are integral to the overall transaction and the establishment of Entity A's the investee. Therefore, the terms of the put agreement together with the founding documents of Entity A's the investee lead to the conclusion that Entity B's the investor has power over Entity A's the investee even though Entity B's the investor takes ownership of the receivables only upon default and manages the defaulted receivables outside the legal boundaries of Entity A's the investee.

### Example 12

The only assets of Entity A's an investee are receivables. When the purpose and design of Entity A's the investee are considered, it is determined that the only relevant activity is managing the receivables upon default. The party that has the ability to manage the defaulting receivables has power over the other entity's investee, irrespective of whether any of the borrowers have defaulted.

- AG54. B54—An investor entity may have an explicit or implicit commitment to ensure that another entity investee continues to operate as designed. Such a commitment may increase the entity's investor's exposure to variability of benefits returns and thus increase the incentive for the entity's investor to obtain rights sufficient to give it power. Therefore a commitment to ensure that another

[entityinvestee](#) operates as designed may be an indicator that the [entityinvestor](#) has power, but does not, by itself, give an [entityinvestor](#) power, nor does it prevent another party from having power.

**Exposure, or Rights, to Variable [BenefitsReturns](#) from another [EntityInvestee](#)**

AG55. ~~B55~~—When assessing whether an [entityinvestor](#) has control of another [entityinvestee](#), the [entityinvestor](#) determines whether it is exposed, or has rights, to variable [benefitsreturns](#) from its involvement with the [other entityinvestee](#).

AG56. ~~B56~~—Variable [benefitsreturns](#) are [benefitsreturns](#) that are not fixed and have the potential to vary as a result of the performance of an [other entityinvestee](#). Variable [benefitsreturns](#) can be only positive, only negative or both positive and negative (see paragraph 15). An [entityinvestor](#) assesses whether [benefitsreturns](#) from another [entityinvestee](#) are variable and how variable those [benefitsreturns](#) are on the basis of the substance of the arrangement and regardless of the legal form of the [benefitsreturns](#). For example, an [entityinvestor](#) can hold a bond with fixed interest payments. The fixed interest payments are variable [benefitsreturns](#) for the purpose of this ~~Standard IFRS~~ because they are subject to default risk and they expose the [entityinvestor](#) to the credit risk of the issuer of the bond. The amount of variability (i.e., how variable those [benefitsreturns](#) are) depends on the credit risk of the bond. Similarly, fixed performance fees for managing an [other entityinvestee's](#) assets are variable [benefitsreturns](#) because they expose the [entityinvestor](#) to the performance risk of the [other entityinvestee](#). The amount of variability depends on the [other entityinvestee's](#) ability to generate sufficient [revenueincome](#) to pay the fee.

AG57. ~~B57~~—Examples of [benefitsreturns](#) include:

~~(a)~~ Dividends, other distributions of economic benefits from another [entityinvestee](#) (e.g., interest from debt securities issued by the [other entityinvestee](#)) and changes in the value of the [entityinvestor's](#) investment in that [other entityinvestee](#).

~~(b)~~(a) Remuneration for servicing an [other entityinvestee's](#) assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the [other entityinvestee's](#) assets and liabilities on liquidation of that [other entityinvestee](#), tax benefits, and access to future liquidity that an [entityinvestor](#) has from its involvement with an [other entityinvestee](#).

(b) Returns that are not available to other [entities that are involved with the entity subject to the assessment of control](#)~~interest holders~~. For example, an [entityinvestor](#) might use its assets in combination with the assets of the [other entityinvestee](#), such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the [entityinvestor's](#) other assets.

(c) [Dividends, other distributions of economic benefits from another entity \(e.g., interest from debt securities issued by the other entity\) and changes in the value of the entity's investment in that other entity.](#)



- (a) The scope of its decision-making authority over the other entity investee (paragraphs AG62 and AG63).
- (b) The rights held by other parties (paragraphs AG64–AG67).
- (c) The remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs AG68–AG70).
- (d) The decision maker's exposure to variability of benefits returns from other interests that it holds in the other entity investee (paragraphs AG71 and AG72).

Different weightings shall be applied to each of the factors on the basis of particular facts and circumstances.

- AG61. ~~B61~~ Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph AG60 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph AG65).

### Application Examples

#### Example AG61.A

A government department may be responsible for monitoring the performance of another public sector entity. The role of the monitoring department is to make sure the other entity's approach is consistent with the government's goals, provide Ministers with quality assurance about delivery and results and assess and notify the Minister of any risks. The department has an explicit agreement with the Minister which sets out its monitoring responsibilities. The department has the authority to request information from the other entity and provides advice to the Minister on any funding requests from that entity. The department also advises the Minister as to whether the other entity should be permitted to undertake certain activities. The department is acting as an agent of the Minister.

#### Example AG61.B

A provincial government establishes a trust to co-ordinate fundraising efforts for the benefit of health programs and other health initiatives in the region. The trust also invests and manages designated endowment funds. The funds raised are applied to the government-owned hospitals and aged care facilities in the region.

The provincial government appoints all the trustees on the board of the trust and funds the trust's operating costs. The trust is a registered charity and is exempt from income tax.

Based on the following analysis, the provincial government controls the trust:

- (a) The provincial government can give directions to the trustees, and the trustees have the current ability to direct the relevant activities of the trust. The trustees control the trust and the provincial government can replace the trustees at its discretion. The trustees' fiduciary obligation to act in the best interest of the beneficiaries does not prevent the provincial government from having power over the trust;
- (b) The provincial government has exposure and rights to variable benefits from involvement with the trust; and
- (c) The provincial government can use its power over the trust to affect the nature and

amount of the trust's benefits; and

- (d) The activities of the trust are complementary to the activities of the provincial government.

### **Example AG61.C**

A statutory body is established under legislation to deliver services to the community. The statutory body is responsible for its day-to-day operations and has a governing council that oversees its operations.

The Minister of Health for the provincial government appoints the statutory body's governing council and, subject to the Minister's approval, the statutory body's governing council appoints the chief executive of the body.

The provincial government Health Department acts as the "system manager" for the provincial health system on behalf of the Minister. This role includes:

- (a) Strategic leadership, such as the development of health service plans;
- (b) Giving directions for the delivery of health services. The Health Department can give directions on matters such as entering into service agreements, capital works approval and management of industrial relations, including employment terms and conditions for the statutory body's employees; and
- (c) Monitoring of performance (e.g. quality of health services and financial data) of the authority and taking remedial action when performance does not meet specified performance measures.

Although the Health Department holds decision-making authority in regard to the statutory body, it requires the Minister's approval for the following decisions:

- (a) Entering into service agreements with the body;
- (b) Issuing binding health service directives;
- (c) Development of health service plans and capital works management and planning; and
- (d) Employment and remuneration of senior staff.

The Health Department receives all its operating and capital funding from the provincial government.

Based on the facts and circumstances outlined above, the Health Department has delegated power to act as an agent of the Minister in relation to the statutory body. The Health Department's agency status is evident through the restricted decision-making authority held by the Department, the rights held by the Minister and the fact that the costs of the Department's activities in relation to the statutory body are paid for by the provincial government. The Health Department does not control the statutory body. However, the provincial government does control the statutory body. [Based on AASB IG4]

### **Example AG61.D**

The facts are the same as in Example AG61.C except that:

- (a) The Health Department appoints the body's governing council, and the body's governing council appoints the chief executive of the statutory body;
- (b) The Health Department does not require the Minister's approval for its decisions as manager of provincial health services; and

(c) The chief executive of the Health Department is held accountable for the performance of the statutory body.

In this example, the scope of the decision-making authority held by the Health Department has increased significantly to the extent that the Health Department has the current ability to direct the relevant activities of the statutory body so as to achieve the health service objectives of the Health Department. Therefore, based on the new facts and circumstances, the Department controls the statutory body. The control held is considered delegated control from the Minister. [Based on AASB IG4]

#### **Example AG61.E**

The Secretary of the Treasury, is designated by law as the managing trustee for a number of investment funds. The investment funds are funded by designated taxes and are used to deliver federal welfare programs. The Treasury collects most of the designated tax revenue that relates to these funds. Other agencies also collect some of the revenues and forward these to the Treasury.

The Treasury is delegated the responsibility for administering the funds. For each of the funds, the Treasury immediately invests all receipts credited to the fund, and maintains the invested assets in a designated trust fund until money is needed by the relevant agency.

When the relevant agencies determine that monies are needed, the Treasury redeems securities from the funds' investment balances, and transfers the cash proceeds, including interest earned on the investments, to the program accounts for disbursement by the agency. The Treasury provides monthly and other periodic reporting to each agency. The Treasury charges a management fee for its services.

The Treasury does not control the funds.

#### **Example AG61.F**

A local authority administers ten funds, each relating to a specific district. The funds hold specified assets (such as land, property and investments) that belonged to districts that previously had their own local authority but which have since been amalgamated with other districts. The funds receive the revenue associated with the assets and certain taxes such as the property taxes for that district. The rights of the funds to hold these specified assets and receive the specified revenue are set out in legislation. The assets and revenue of the Fund may be applied solely for the benefit of the inhabitants of the former districts.

The local authority has wide discretion over spending by the funds. Funds must be applied for the benefit of the community in such a manner as using reasonable judgment the local authority thinks proper and having regard to the interests of the inhabitants of the former district. The local authority may apply the fund to spending which is not covered by council taxation. Expenditure charged to the fund must be for purposes permitted by law.

The funds are controlled by the local authority.

#### **Example AG61.G**

A sovereign wealth fund (the fund) is a constitutionally established permanent fund, managed by a government corporation. Legislation specifies that the fund is entitled to receive at least 25% of proceeds from oil sales. The fund sets aside a certain share of these revenues to benefit current and future generations of citizens.

The corporation manages the assets of both the fund and certain other state investments and is remunerated for doing so. The corporation may not spend the fund revenue. Decisions on spending

fund revenue are made by the Parliament. Each year, the fund's revenue is split between operating expenses and an annual payment to residents that meet certain criteria (specified in legislation).  
The corporation does not control the sovereign wealth fund. It acts solely as an agent.

#### The Scope of the Decision-Making Authority

- AG62. ~~B62~~ The scope of a decision maker's decision-making authority is evaluated by considering:
- (a) The activities that are permitted according to the decision-making agreement(s) and specified by law, and
  - (b) The discretion that the decision maker has when making decisions about those activities.
- AG63. ~~B63~~ A decision maker shall consider the purpose and design of the other entity investee, the risks to which the other entity investee was designed to be exposed, the risks it was designed to pass on to the parties involved and the level of involvement the decision maker had in the design of an other entity investee. For example, if a decision maker is significantly involved in the design of the other entity investee (including in determining the scope of decision-making authority), that involvement may indicate that the decision maker had the opportunity and incentive to obtain rights that result in the decision maker having the ability to direct the relevant activities.

#### Rights held by Other Parties

- AG64. ~~B64~~ Substantive rights held by other parties may affect the decision maker's ability to direct the relevant activities of an other entity investee. Substantive removal or other rights may indicate that the decision maker is an agent.
- AG65. ~~B65~~ When a single party holds substantive removal rights and can remove the decision maker without cause, this, in isolation, is sufficient to conclude that the decision maker is an agent. If more than one party holds such rights (and no individual party can remove the decision maker without the agreement of other parties) those rights are not, in isolation, conclusive in determining that a decision maker acts primarily on behalf and for the benefit of others. In addition, the greater the number of parties required to act together to exercise rights to remove a decision maker and the greater the magnitude of, and variability associated with, the decision maker's other economic interests (i.e., remuneration and other interests), the less the weighting that shall be placed on this factor.
- AG66. ~~B66~~ Substantive rights held by other parties that restrict a decision maker's discretion shall be considered in a similar manner to removal rights when evaluating whether the decision maker is an agent. For example, a decision maker that is required to obtain approval from a small number of other parties for its actions is generally an agent. (See paragraphs AG22–AG25 for additional guidance on rights and whether they are substantive.)
- AG67. ~~B67~~ Consideration of the rights held by other parties shall include an assessment of any rights exercisable by an other entity investee's board of directors (or other governing body) and their effect on the decision-making authority (see paragraph AG23(b)).

#### Remuneration

- AG68. ~~B68~~ The greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the benefits/returns expected from the activities of the other entity investee, the more likely the decision maker is a principal.

- AG69. ~~B69~~ In determining whether it is a principal or an agent the decision maker shall also consider whether the following conditions exist:
- (a) The remuneration of the decision maker is commensurate with the services provided.
  - (b) The remuneration agreement includes only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis.
- AG70. ~~B70~~ A decision maker cannot be an agent unless the conditions set out in paragraph AG69(a) and (b) are present. However, meeting those conditions in isolation is not sufficient to conclude that a decision maker is an agent.

Exposure to Variability of ~~Benefits~~Returns from Other Interests

- AG71. ~~B71~~ A decision maker that holds other interests in an ~~other entity~~investee (e.g., investments in the ~~other entity~~investee or provides guarantees with respect to the performance of the ~~other entity~~investee), shall consider its exposure to variability of ~~benefits~~returns from those interests in assessing whether it is an agent. Holding other interests in an ~~other entity~~investee indicates that the decision maker may be a principal.
- AG72. ~~B72~~ In evaluating its exposure to variability of ~~benefits~~returns from other interests in the ~~other entity~~investee a decision maker shall consider the following:
- (a) The greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision maker is a principal.
  - (b) Whether its exposure to variability of ~~benefits~~returns is different from that of the other investors and, if so, whether this might influence its actions. For example, this might be the case when a decision maker holds subordinated interests in, or provides other forms of credit enhancement to, an ~~other entity~~investee.

The decision maker shall evaluate its exposure relative to the total variability of ~~benefits~~returns of the ~~other entity~~investee. This evaluation is made primarily on the basis of ~~benefits~~returns expected from the activities of the ~~other entity~~investee but shall not ignore the decision maker's maximum exposure to variability of ~~benefits~~returns of the ~~other entity~~investee through other interests that the decision maker holds.

**Application Examples**

**Example 13**

A decision maker (fund manager) establishes, markets and manages a publicly traded, regulated fund according to narrowly defined parameters set out in the investment mandate as required by its local laws and regulations. The fund was marketed to investors as an investment in a diversified portfolio of equity securities of publicly traded entities. Within the defined parameters, the fund manager has discretion about the assets in which to invest. The fund manager has made a 10 per cent pro rata investment in the fund and receives a market-based fee for its services equal to 1 per cent of the net asset value of the fund. The fees are commensurate with the services provided. The fund manager does not have any obligation to fund losses beyond its 10 per cent investment. The fund is not required to establish, and has not established, an independent board of directors. The investors do not

hold any substantive rights that would affect the decision-making authority of the fund manager, but can redeem their interests within particular limits set by the fund.

Although operating within the parameters set out in the investment mandate and in accordance with the regulatory requirements, the fund manager has decision-making rights that give it the current ability to direct the relevant activities of the fund—the investors do not hold substantive rights that could affect the fund manager’s decision-making authority. The fund manager receives a market-based fee for its services that is commensurate with the services provided and has also made a pro rata investment in the fund. The remuneration and its investment expose the fund manager to variability of [benefits in the form of](#) returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal.

In this example, consideration of the fund manager’s exposure to variability of returns from the fund together with its decision-making authority within restricted parameters indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

#### **Example 14**

A decision maker establishes, markets and manages a fund that provides investment opportunities to a number of investors. The decision maker (fund manager) must make decisions in the best interests of all investors and in accordance with the fund’s governing agreements. Nonetheless, the fund manager has wide decision-making discretion. The fund manager receives a market-based fee for its services equal to 1 per cent of assets under management and 20 per cent of all the fund’s [surplus](#)~~profits~~ if a specified ~~profit~~ level [of surplus](#) is achieved. The fees are commensurate with the services provided.

Although it must make decisions in the best interests of all investors, the fund manager has extensive decision-making authority to direct the relevant activities of the fund. The fund manager is paid fixed and performance-related fees that are commensurate with the services provided. In addition, the remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund, without creating exposure to variability of returns from the activities of the fund that is of such significance that the remuneration, when considered in isolation, indicates that the fund manager is a principal.

The above fact pattern and analysis applies to examples 14A–14C described below. Each example is considered in isolation.

#### **Example 14A**

The fund manager also has a 2 per cent investment in the fund that aligns its interests with those of the other investors. The fund manager does not have any obligation to fund losses beyond its 2 per cent investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

The fund manager’s 2 per cent investment increases its exposure to variability of returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal. The other investors’ rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. In this example, although the fund manager has extensive decision-making authority and is exposed to variability of returns from its interest and remuneration, the fund manager’s exposure indicates that the fund manager is an

agent. Thus, the fund manager concludes that it does not control the fund.

#### **Example 14B**

The fund manager has a more substantial pro rata investment in the fund, but does not have any obligation to fund losses beyond that investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

In this example, the other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's investment together with its remuneration could create exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The greater the magnitude of, and variability associated with, the fund manager's economic interests (considering its remuneration and other interests in aggregate), the more emphasis the fund manager would place on those economic interests in the analysis, and the more likely the fund manager is a principal.

For example, having considered its remuneration and the other factors, the fund manager might consider a 20 per cent investment to be sufficient to conclude that it controls the fund. However, in different circumstances (i.e., if the remuneration or other factors are different), control may arise when the level of investment is different.

#### **Example 14C**

The fund manager has a 20 per cent pro rata investment in the fund, but does not have any obligation to fund losses beyond its 20 per cent investment. The fund has a board of directors, all of whose members are independent of the fund manager and are appointed by the other investors. The board appoints the fund manager annually. If the board decided not to renew the fund manager's contract, the services performed by the fund manager could be performed by other managers in the industry.

Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's 20 per cent investment together with its remuneration creates exposure to variability of returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. However, the investors have substantive rights to remove the fund manager—the board of directors provides a mechanism to ensure that the investors can remove the fund manager if they decide to do so.

In this example, the fund manager places greater emphasis on the substantive removal rights in the analysis. Thus, although the fund manager has extensive decision-making authority and is exposed to variability of returns of the fund from its remuneration and investment, the substantive rights held by the other investors indicate that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

#### **Example 15**

[Entity A](#) An investee is created to purchase a portfolio of fixed rate asset-backed securities, funded by fixed rate debt instruments and equity instruments. The equity instruments are designed to provide first loss protection to the debt investors and receive any residual returns of [Entity A](#) the investee. The

transaction was marketed to potential debt investors as an investment in a portfolio of asset-backed securities with exposure to the credit risk associated with the possible default of the issuers of the asset-backed securities in the portfolio and to the interest rate risk associated with the management of the portfolio. On formation, the equity instruments represent 10 per cent of the value of the assets purchased. A decision maker (the asset manager) manages the active asset portfolio by making investment decisions within the parameters set out in [Entity A'sthe investee's](#) prospectus. For those services, the asset manager receives a market-based fixed fee (i.e., 1 per cent of assets under management) and performance-related fees (i.e., 10 per cent of [surplusprofits](#)) if [Entity A'sthe investee's surplusprofits](#) exceed a specified level. The fees are commensurate with the services provided. The asset manager holds 35 per cent of the equity [instruments ofin Entity Athe investee.](#) The remaining 65 per cent of the equity [instruments](#), and all the debt instruments [of Entity A](#), are held by a large number of widely dispersed unrelated third party investors. The asset manager can be removed, without cause, by a simple majority decision of the other investors.

The asset manager is paid fixed and performance-related fees that are commensurate with the services provided. The remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund. The asset manager has exposure to variability of returns from the activities of the fund because it holds 35 per cent of the equity [instruments](#) and from its remuneration.

Although operating within the parameters set out in [Entity A'sthe investee's](#) prospectus, the asset manager has the current ability to make investment decisions that significantly affect [Entity A'sthe investee's benefits in the form of](#) returns—the removal rights held by the other investors receive little weighting in the analysis because those rights are held by a large number of widely dispersed investors. In this example, the asset manager places greater emphasis on its exposure to variability of returns of the fund from its [net asset/equity](#) interest, which is subordinate to the debt instruments. Holding 35 per cent of the equity [instruments](#) creates subordinated exposure to losses and rights to returns of [Equity Athe investee](#), which are of such significance that it indicates that the asset manager is a principal. Thus, the asset manager concludes that it controls [Entity Athe investee.](#)

#### **Example 16**

A decision maker (the sponsor) sponsors a multi-seller conduit, which issues short-term debt instruments to unrelated third party investors. The transaction was marketed to potential investors as an investment in a portfolio of highly rated medium-term assets with minimal exposure to the credit risk associated with the possible default by the issuers of the assets in the portfolio. Various transferors sell high quality medium-term asset portfolios to the conduit. Each transferor services the portfolio of assets that it sells to the conduit and manages receivables on default for a market-based servicing fee. Each transferor also provides first loss protection against credit losses from its asset portfolio through over-collateralisation of the assets transferred to the conduit. The sponsor establishes the terms of the conduit and manages the operations of the conduit for a market-based fee. The fee is commensurate with the services provided. The sponsor approves the sellers permitted to sell to the conduit, approves the assets to be purchased by the conduit and makes decisions about the funding of the conduit. The sponsor must act in the best interests of all investors.

The sponsor is entitled to any residual return of the conduit and also provides credit enhancement and liquidity facilities to the conduit. The credit enhancement provided by the sponsor absorbs losses of up

to 5 per cent of all of the conduit's assets, after losses are absorbed by the transferors. The liquidity facilities are not advanced against defaulted assets. The investors do not hold substantive rights that could affect the decision-making authority of the sponsor.

Even though the sponsor is paid a market-based fee for its services that is commensurate with the services provided, the sponsor has exposure to variability of returns from the activities of the conduit because of its rights to any residual returns of the conduit and the provision of credit enhancement and liquidity facilities (i.e., the conduit is exposed to liquidity risk by using short-term debt instruments to fund medium-term assets). Even though each of the transferors has decision-making rights that affect the value of the assets of the conduit, the sponsor has extensive decision-making authority that gives it the current ability to direct the activities that most significantly affect the conduit's returns (i.e., the sponsor established the terms of the conduit, has the right to make decisions about the assets (approving the assets purchased and the transferors of those assets) and the funding of the conduit (for which new investment must be found on a regular basis)). The right to residual returns of the conduit and the provision of credit enhancement and liquidity facilities expose the sponsor to variability of returns from the activities of the conduit that is different from that of the other investors. Accordingly, that exposure indicates that the sponsor is a principal and thus the sponsor concludes that it controls the conduit. The sponsor's obligation to act in the best interest of all investors does not prevent the sponsor from being a principal.

## Relationship with Other Parties

- AG73. ~~B73~~ When assessing control, an ~~entity~~ investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the ~~entity's~~ investor's behalf (i.e., they are "de facto agents"). The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the ~~entity~~ investor.
- AG74. ~~B74~~ Such a relationship need not involve a ~~contractual-binding~~ arrangement (~~including rights from contracts or other legal rights~~). A party is a de facto agent when the ~~entity~~ investor has, or those that direct the activities of the ~~entity~~ investor have, the ability to direct that party to act on the ~~entity's~~ investor's behalf. In these circumstances, the ~~entity~~ investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable ~~benefits~~ returns through the de facto agent together with its own when assessing control of an ~~other~~ ~~entity~~ investee.
- AG75. ~~B75~~ The following are examples of such other parties that, by the nature of their relationship, might act as de facto agents for the ~~entity~~ investor:
- (a) The ~~entity's~~ investor's related parties.
  - (b) A party that received its interest in the ~~other~~ ~~entity~~ investee as a contribution or loan from the ~~entity~~ investor making the assessment of control.
  - (c) A party that has agreed not to sell, transfer or encumber its interests in the ~~other~~ ~~entity~~ investee without the ~~entity's~~ investor's prior approval (except for situations in which the ~~entity~~ investor and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties).
  - (d) A party that cannot finance its operations without subordinated financial support from the ~~entity~~ investor.

- (e) Another [entity investee](#) for which the majority of the members of its governing body or for which its key management personnel are the same as those of the [entity investor](#).
- (f) A party that has a close business relationship with the [entity investor](#), such as the relationship between a professional service provider and one of its significant clients.

### Control of Specified Assets

AG76. ~~B76~~—An [entity investor](#) shall consider whether it treats a portion of an [other entity investee](#) as a deemed separate entity and, if so, whether it controls the deemed separate entity.

AG77. ~~B77~~—An [entity investor](#) shall treat a portion of an [other entity investee](#) as a deemed separate entity if and only if the following condition is satisfied:

Specified assets of the [other entity investee](#) (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the [other entity investee](#). Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. In substance, none of the returns from the specified assets can be used by the [remainder remaining of the other entity investee](#) and none of the liabilities of the deemed separate entity are payable from the assets of the [remainder of the other entity remaining investee](#). Thus, in substance, all the assets, liabilities and equity [instruments](#) of that deemed separate entity are ring-fenced from the overall [other entity investee](#). Such a deemed separate entity is often called a 'silo'.

AG78. ~~B78~~—When the condition in paragraph AG77 is satisfied, an [entity investor](#) shall identify the activities that significantly affect the [benefits/returns](#) of the deemed separate entity and how those activities are directed in order to assess whether it has power over that portion of the [other entity investee](#). When assessing control of the deemed separate entity, the [entity investor](#) shall also consider whether it has exposure or rights to variable [benefits/returns](#) from its involvement with that deemed separate entity and the ability to use its power over that portion of the [other entity investee](#) to affect the amount of the [benefits from that entity investor's returns](#).

AG79. ~~B79~~—If the [entity investor](#) controls the deemed separate entity, the [entity investor](#) shall consolidate that portion of the [other entity investee](#). In that case, other parties exclude that portion of the [other entity investee](#) when assessing control of, and in consolidating, the [other entity investee](#).

### Continuous Assessment

AG80. ~~B80~~—An [entity investor](#) shall reassess whether it controls an [other entity investee](#) if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7.

AG81. ~~B81~~—If there is a change in how power over an [other entity investee](#) can be exercised, that change must be reflected in how an [entity investor](#) assesses its power over an [other entity investee](#). For example, changes to decision-making rights can mean that the relevant activities are no longer directed through voting rights, but instead other agreements, such as contracts, give another party or parties the current ability to direct the relevant activities.

AG82. ~~B82~~—An event can cause an [entity investor](#) to gain or lose power over an [other entity investee](#) without the [entity investor](#) being involved in that event. For example, an [entity investor](#) can gain power over an [other entity investee](#) because decision-making rights held by another party or parties that previously prevented the [entity investor](#) from controlling an [other entity investee](#) have lapsed.

- AG83. ~~B83~~—An ~~entity investor~~ also considers changes affecting its exposure, or rights, to variable ~~benefits returns~~ from its involvement with an ~~other entity investee~~. For example, an ~~entity investor~~ that has power over an ~~other entity investee~~ can lose control of ~~that other entity an investee~~ if the ~~entity investor~~ ceases to be entitled to receive ~~benefits returns~~ or to be exposed to obligations, because the ~~entity investor~~ would fail to satisfy paragraph 7(b) (e.g., if a contract to receive performance-related fees is terminated).
- AG84. ~~B84~~—An ~~entity investor~~ shall consider whether its assessment that it acts as an agent or a principal has changed. Changes in the overall relationship between the ~~entity investor~~ and other parties can mean that an ~~entity investor~~ no longer acts as an agent, even though it has previously acted as an agent, and vice versa. For example, if changes to the rights of the ~~entity investor~~, or of other parties, occur, the ~~entity investor~~ shall reconsider its status as a principal or an agent.
- AG85. ~~B85~~—An ~~entity investor's~~ initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g., a change in the ~~other entity's investee's benefits returns~~ driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in paragraph 7 or changes the overall relationship between a principal and an agent.

## Accounting Requirements

[This section has been moved to the body of the Standard.]

## Appendix B

### Amendments to Other IPSASs

#### Note to IPSASB

The consequential amendments set out in IFRS 10 have been used as a basis for developing this appendix.

They will need to be reviewed when all the standards in this project have been developed.

One or two of the amendments set out in this appendix (for example, references to disclosures) may eventually be issued as consequential amendments arising from one of the other standards in this project. They are included here to make sure they are not overlooked.

Amendments to the following IASB pronouncements (that were amended as a result of IFRS 10) are not shown in this Appendix because there is no IPSAS equivalent:

- IFRS 1, *First-time Adoption of International Financial Reporting Standards*
- IFRS 2, *Share-based Payment*
- IFRS 3, *Business Combinations*
- IFRS 4, *Insurance Contracts*
- IAS 33, *Earnings per Share*
- IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- IFRIC 17, *Distributions of Non-cash Assets to Owners*

#### IPSAS 1, *Presentation of Financial Statements*

Paragraphs 4, 12, 88(n), 95(d), 97, 103, 118 and 135 are amended and paragraph 153E added as follows:

4. This Standard applies equally to all entities including those that present consolidated financial statements in accordance with IPSAS X, *Consolidated Financial Statements* and those that present whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in accordance with IPSAS 6, *Consolidated and Separate Financial Statements*.
12. GBEs include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. IPSAS X~~IPSAS-6~~ provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.
88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**
  - (a) ...
  - (n) **Minority Non-controlling interest, presented within net assets/equity; and**

95. **When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately:**
- (a) ...
  - (d) **Minority Non-controlling interests.**
97. In some cases, there may be a ~~minority~~ non-controlling interest in the net assets/equity of the entity. For example, at the whole-of-government level, the economic entity may include a GBE that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.
103. The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:
- (a) Surplus or deficit attributable to ~~minority~~ non-controlling interest; and
  - (b) Surplus or deficit attributable to owners of the controlling entity.
118. **An entity shall present a statement of changes in net assets/equity showing on the face of the statement:**
- (a) ...
  - (c) **Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to ~~minority~~ non-controlling interest; and**
135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When entity combinations have occurred, the policies used for measuring goodwill and ~~minority~~ non-controlling interest are disclosed.
- 153E. **IPSAS X IFRS 10 and IPSAS X IFRS 12, issued in [date], amended paragraphs 4, 12, 88(n), 95(d), 97, 103, 118 and 135. An entity shall apply those amendments when it applies IPSAS X, Consolidated Financial Statements.**

In the Implementation Guidance that accompanies IPSAS 1, all references to “minority interest” are replaced with “non-controlling interest”.

## **IPSAS 2, Cash Flow Statements**

**Paragraph 30(b) is amended and paragraphs 52A, 52B and 63C are added as follows:**

30. Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit from ordinary activities for the effects of:
- (a) ...
  - (b) Non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, undistributed surpluses of associates, and ~~minority~~ non-controlling interests; and

- 52A Cash flows arising from changes in ownership interests in a controlled entity that do not result in a loss of control shall be classified as cash flows from financing activities.
- 52B Changes in ownership interests in a controlled entity that do not result in a loss of control, such as the subsequent purchase or sale by a controlling entity of a controlled entity's equity instruments, are accounted for as equity transactions (see IPSAS X, Consolidated and Separate Financial Statements). Accordingly, the resulting cash flows are classified in the same way as other transactions described in paragraph 26.
- 63C. IPSAS X IFRS 10 and IPSAS X, IFRS 11 Joint Arrangements, issued in [date], amended paragraph 30(b) and added paragraphs 52A and 52B [check]. An entity shall apply those amendments when it applies IPSAS X IFRS 10 and IPSAS X IFRS 11.

### **IPSAS 4, The Effects of Changes in Foreign Exchange Rates**

**Paragraphs 22, 47, 51, 53 and 55 are amended and paragraph 71A is added as follows:**

22. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IPSAS 6, ~~Consolidated and Separate Financial Statements~~, to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its financial performance and financial position are also translated into the presentation currency in accordance with paragraphs 43–59.
47. The exchange differences referred to in paragraph 44(c) result from:  
...  
These exchange differences are not recognized in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but is not wholly owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognized as part of, ~~minority~~ non-controlling interests in the consolidated statement of financial position.
51. The incorporation of the financial performance and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see ~~IPSAS 6~~ IPSAS X, Consolidated Financial Statements and IPSAS 8, *Interests in Joint Ventures*.)
53. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, IPSAS X~~IPSAS 6~~ allows the use of a different reporting date, provided that (a) the difference is no greater than three months, and (b) adjustments are made for the effects of any significant transactions or other events that occur between the different dates.
55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS X~~IPSAS 6~~ .....
- 71A. IPSAS X IFRS 10 and IPSAS X, IFRS 11 Joint Arrangements, issued in [date], amended paragraphs 22, 47, 51, 53 and 55 [check]. An entity shall apply those amendments when it applies IPSAS X IFRS 10 and IPSAS X IFRS 11.

## **IPSAS 18, Segment Reporting**

**Paragraph 41 is amended as follows:**

41. The financial statements for the whole-of-government, and certain other controlling entities, will require the consolidation of a number of separate entities such as departments, agencies, and GBEs. In preparing these consolidated financial statements, transactions and balances between controlled entities will be eliminated in accordance with IPSAS X ~~IPSAS 6, Consolidated and Separate Financial Statements~~. However, segment revenue, segment expense, segment assets, and segment liabilities are determined before balances and transactions between entities within the economic entity are eliminated as part of the consolidation process, except to the extent that such intra-economic entity balances and transactions are between entities within a single segment.

## **IPSAS 20, Related Party Disclosures**

**Paragraph 24 and 33 are amended and paragraph 42A added as follows:**

24. Some IPSASs also require disclosure of transactions with related parties. For example, IPSAS 1 requires disclosure of amounts payable to and receivable from controlling entities, fellow controlled entities, associates, and other related parties. IPSAS X ~~IPSAS 6, Consolidated and Separate Financial Statements~~, and IPSAS X ~~IPSAS 7~~ require disclosure of a list of significant controlled entities and associates.
33. Disclosure of related party transactions between members of an economic entity is unnecessary in consolidated financial statements, because consolidated financial statements present information about the controlling entity and controlled entities as a single reporting entity. Related party transactions that occur between entities within an economic entity are eliminated on consolidation in accordance with IPSAS X ~~IPSAS 6~~. Transactions with associated entities accounted for under the equity method are not eliminated, and therefore require separate disclosure as related party transactions.
- 42A. **IPSAS X IFRS 10, IPSAS X IFRS 11 Joint Arrangements and IPSAS X IFRS 12, issued in [date], amended paragraphs 24, 33 and [check]. An entity shall apply those amendments when it applies IPSAS X, IPSAS X and IPSAS X IFRS 10, IFRS 11 and IFRS 12.**

### **Implementation Guidance**

**Amend the following note when it occurs (twice) in Implementation Guidance.**

...

(Note: IPSAS X, Disclosure of Interests in Other Entities ~~IPSAS 6, Consolidated and Separate Financial Statements~~, requires that certain disclosures be made about significant controlled entities.)

## **IPSAS 21, Impairment of Non-Cash-Generating Assets**

**Paragraph 13 is amended as follows:**

13. Investments in:
- (a) Controlled entities, as defined in IPSAS X ~~IPSAS 6, Consolidated and Separate Financial Statements~~;

## **IPSAS 22, Disclosure of Financial Information About the General Government Sector**

Paragraphs 24, 26, 27, 29, 30 and BC9 are amended and paragraph 47A is added as follows:

24. **In presenting financial information about the GGS, entities shall not apply the requirements of IPSAS X IPSAS-6, Consolidated and Separate Financial Statements, in respect of entities in the PFCs and public NFCS sectors.**
26. This Standard reflects the view that the consolidated financial statements of a government that elects to disclose information about the GGS are to be disaggregated to present the GGS as one sector of the government reporting entity. Consistent with this view, this Standard requires that the same definitions and the same recognition, measurement, and presentation requirements that are applied when preparing the consolidated financial statements are also applied to the GGS disclosures, with one exception. That exception is that the requirements of IPSAS X IPSAS-6 are not applied in respect of the relationship of the GGS sector with entities in the PFC and PNFC sectors.
27. IPSAS X IPSAS-6 requires controlling entities to prepare financial IPSAS X IPSAS-6 statements that consolidate controlled entities on a line-by-line basis. IPSAS X IPSAS-6 also contains (a) a detailed discussion of the concept of control as it applies in the public sector, and (b) guidance on determining whether control exists for financial reporting purposes. Consistent with the requirements of IPSAS X IPSAS-6, entities in the PFC and PNFC sectors, as defined in statistical bases of financial reporting, that are controlled entities of the government will be consolidated in the government's financial statements.
29. To apply the IPSAS X IPSAS-6 requirements for consolidation to the GGS would result in the re-presentation of the consolidated financial statements of a government, rather than the GGS financial statements.
30. Therefore, in disclosing financial information about the GGS, balances and transactions between entities within the GGS are eliminated in accordance with IPSAS X IPSAS-6. However, balances and transactions between entities in the GGS and entities in other sectors are not eliminated.
41. This Standard requires entities electing to disclose information about the GGS to disclose a list of the significant controlled entities that are included in the GGS. IPSAS 6 requires entities preparing consolidated financial statements to disclose a list of the significant controlled entities that are included in the consolidated financial statements. Disclosure of which of the entities consolidated in the financial statements in accordance with IPSAS X IPSAS-6 are included in the GGS will assist users in developing an understanding of the relationship between information about the government and its GGS, and in better understanding the GGS information itself.
- 47A. **IPSAS X IFRS-10 issued in [date], amended paragraphs 24, 26, 27, 27, 30, and 41 [check]. An entity shall apply those amendments when it applies IPSAS X IFRS-10.**

### **Basis for Conclusions**

BC9. When GGS disclosures are made in financial statements, the requirements of IPSAS 6 should not be applied in respect of PFCs and PNFCs. This is because the application of IPSAS X IPSAS-6 to the PFC and PNFC sectors would result in the re-presentation of a government's consolidated financial statements rather than the GGS financial statements. This would defeat the purpose of the disclosure of GGS information as a bridge between financial statements prepared in accordance with IPSASs and those prepared in accordance with statistical bases of financial reporting.

## **IPSAS 24, Presentation of Budget Information in Financial Statements**

The Illustrative Examples all references to “minority interest” are replaced with “non-controlling interest”. They are also amended as follows:

### **Extract of Note Disclosures—for Government X**

(Government X presents its approved budget on a cash basis and the financial statements on the accrual basis.)

1. The budget is approved on a cash basis by functional classification. The approved budget covers the fiscal period from January 1, 20XX to December 31, 20XX, and includes all entities within the general government sector. The general government sector includes all entities identified as government departments in note xx (prepared in accordance with IPSAS X ~~IPSAS 6, Consolidated and Separate Financial Statements.~~)

## **IPSAS 26, Impairment of Cash Generating Assets**

Paragraph 12 is amended and paragraph 126D added as follows:

12. Investments in:
  - (a) Controlled entities, as defined in IPSAS X ~~IPSAS 6, Consolidated and Separate Financial Statements;~~
- 47A. **IPSAS X issued in [date], amended paragraph 12 [check]. An entity shall apply that amendment when it applies IPSAS X.**

## **IPSAS 28, Financial Instruments: Presentation**

Paragraph 12 is amended and paragraph 60A added as follows:

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to all types of financial instruments except:
  - (a) Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with IPSAS X, Consolidated Financial Statements, ~~IPSAS 6, Consolidated and Separate Financial Statements,~~ IPSAS 7, Investments in Associates and Joint Ventures, ~~or IPSAS 8, Interests in Joint Ventures.~~ However, in some cases, IPSAS 6, or IPSAS 7, or IPSAS 8 permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in controlled entities, associates, or joint ventures.
- 60A. **IPSAS X [IFRS 10] and IPSAS X [IFRS 11], issued in [date], amended paragraph 3 [check]. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].**

In the Appendix, paragraph AG53 is amended as follows:

- AG53. In consolidated financial statements, an entity presents non-controlling interests i.e., the interests of other parties in the net assets/equity and revenue of its controlled entities in accordance with IPSAS 1 and IPSAS X [IFRS 10] ~~IPSAS 6.~~ When ...

## IPSAS 29, *Financial Instruments: Recognition and Measurement*

Paragraphs 2(a) and 17 are amended and paragraph 125B added as follows:

2. This Standard shall be applied by all entities to all types of financial instruments, except:
- (a) Those interests in controlled entities, associates and joint ventures that are accounted for ~~under in accordance with IPSAS X, Consolidated Financial Statements, IPSAS 6, Consolidated and Separate Financial Statements or IPSAS 7, or Investments in Associates and Joint Ventures, or IPSAS 8, Interests in Joint Ventures.~~ However, entities shall apply this Standard to an interest in a controlled entity, associate, or joint venture that according to IPSAS 6, or IPSAS 7, or IPSAS 8 is accounted for under this Standard. ...
17. In consolidated financial statements, paragraphs 18–25 and Appendix A paragraphs AG49–AG67 are applied at a consolidated level. Hence, an entity first consolidates all controlled entities in accordance with ~~IPSAS X IPSAS 6 and the relevant international or national accounting standard or interpretation dealing with the consolidation of special purpose entities,~~ and then applies paragraphs 18–25 and Appendix A paragraphs AG49–AG67 to the resulting economic entity.
- 125B. IPSAS X [IFRS 10] and IPSAS X, Joint Arrangements, issued in [date], amended paragraph 2(a) and 17 [check]. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

In Appendix A the flowchart following paragraph AG51 and paragraphs AG52–AG53 are amended as follows:

Consolidate all controlled entities, <del>(including any Special Purpose Entities)</del> [paragraph 17]
---

- AG52. The situation described in paragraph 20(b) (when an entity retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients) occurs, for example, if the entity is a ~~special purpose entity (SPE) or~~ trust, and issues to investors beneficial interests in the underlying financial assets that it owns and provides servicing of those financial assets. In that case, the financial assets qualify for derecognition if the conditions in paragraphs 21 and 22 are met.
- AG53. In applying paragraph 21, the entity could be, for example, the originator of the financial asset, or it could be a group that includes a controlled entity ~~consolidated SPE~~ that has acquired the financial asset and passes on cash flows to unrelated third party investors.

In the Implementation Guidance examples F.1.4 and F.1.6 are amended as follows:

### F.1.4 Internal Hedges

...

Yes, if the derivative contracts are internal to the entity being reported on. IPSAS 29 does not specify how an entity should manage its risk. However, it states that internal hedging transactions do not qualify for hedge accounting. This applies both (a) in consolidated financial statements for hedging transactions within an economic entity, and (b) in the individual or separate financial statements of a legal entity for hedging transactions between divisions in the entity. The principles of preparing consolidated financial statements in

IPSAS X.XX6.49 requires that "Balances, transactions, revenue and expenses within the economic entity shall be eliminated in full."

#### F.1.6 Offsetting Internal Derivative Contracts Used to Manage Foreign Currency Risk

...

It depends. ~~IPSAS X~~ ~~IPSAS 6~~, *Consolidated and Separate Financial Statements* requires all internal transactions to be eliminated in consolidated financial statements. As stated in IPSAS 29.82, internal hedging transactions do not qualify for hedge accounting in the consolidated financial statements of the economic entity. Therefore, if an entity wishes to achieve hedge accounting in the consolidated financial statements, it must designate a hedging relationship between a qualifying external hedging instrument and a qualifying hedged item.

#### IPSAS 30, *Financial Instruments: Disclosures*

Paragraph 3(a) is amended and paragraph 52A added as follows:

3. This Standard shall be applied by all entities to all types of financial instruments, except:
  - (a) Those interests in controlled entities, associates, or joint ventures that are accounted for in accordance with IPSAS X, Consolidated Financial Statements, ~~IPSAS 6, Consolidated and Separate Financial Statements, or IPSAS 7, Investments in Associates and Joint Ventures, or IPSAS 8, Interests in Joint Ventures~~. However, in some cases, ~~IPSAS 6, or IPSAS 7, or IPSAS 8~~ permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; in those cases ....

52A. IPSAS X [IFRS 10] and IPSAS X, Joint Arrangements, issued in [date], amended paragraph 3(a) [check]. An entity shall apply that amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

#### IPSAS 31, *Intangible Assets*

Paragraph 6(d) is amended and paragraph 132A added as follows:

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:
  - (a) ...
  - (d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS X, Consolidated Financial Statements, ~~IPSAS 6, Consolidated and Separate Financial Statements, and IPSAS 7, Investments in Associates and Joint Ventures, and IPSAS 8, Interests in Joint Ventures~~; and....

132A. IPSAS X [IFRS 10] and IPSAS X, Joint Arrangements, issued in [date], amended paragraph 6(d) [check]. An entity shall apply that amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

## **IPSAS 32, Service Concession Arrangements: Grantor**

### **Paragraphs BC33(d) and BC349(d) are amended as follows:**

BC33. Some respondents to ED 43 indicated that the credit should be treated as net assets/equity, consistent with IPSAS 1, which defines net assets/equity as the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1 envisages four components of net assets/equity. Those components include:

- (a) ...
- (d) ~~Minority~~Non-controlling interests.

BC34. The IPSASB concluded that the credit did not represent a direct increase in the grantor's net assets/equity because the credit is not one of the components of net assets/equity identified in paragraph BC33 for the reasons noted below:

- (a) ...
- (d) A ~~minority~~ non-controlling interest is defined as "that portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity." A ~~minority~~ non-controlling interest may arise, .....

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, ED X, Consolidated Financial Statements.*

To be developed following the IPSASB's decisions and the reasons for those decisions.
---

### Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS X, *Consolidated Financial Statements*. As this Standard is based on IFRS 10, *Consolidated Financial Statements* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS X departs from the main requirements of IFRS 10.

### Scope (paragraphs 4–4.6)

#### *Exemption for Wholly and Partly Owned Entities*

BC2. The IPSASB agreed to retain the scope exemptions in IFRS 10 for wholly or partly owned controlling entities that meet certain conditions, and post-employment or other long-term employee benefit plans. Consistent with the scope exemption in IPSAS 6 (December 2006), the IPSASB decided that a controlling entity which itself is wholly owned should be able to take advantage of the exemption from consolidation only if “users of such financial statements are unlikely to exist or their information needs are met by its controlling entity’s consolidated financial statements”. This limitation on the scope exemption is because a controlling entity that is itself a wholly owned controlled entity may represent key sectors or activities of a government and there may be users that need consolidated financial statements in respect of that controlling entity for accountability or decision making purposes. In addition the IPSASB decided that this condition should also apply to partly-owned controlled entities.

#### *Temporary Control*

BC3. IPSAS 6 (December 2006) contained an exemption from the requirement to consolidate a controlled entity when there is evidence that (a) control is intended to be temporary because the controlled entity is held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer. The IPSASB decided [*to be completed – see Options A, B and C in Issues paper 10.1*]

### Control (paragraphs 15–18)

BC4. The IPSASB agreed that the three requirements for control outlined in IFRS 10 are appropriate for the public sector. The IPSASB noted that the IFRS 10 requirements to have power, returns and a link between power and returns is similar to the approach previously taken by the IPSASB in IPSAS 6. IPSAS 6 required that both power and benefits be present.

## **Power (paragraphs 10–14)**

- BC5. The IPSASB decided to modify IFRS 10 to:
- (a) Highlight the range of relevant activities that could occur in the public sector and stress that control of financial and operating policies can demonstrate power over relevant activities. ;
  - (b) Clarify that regulatory control and economic dependence do not give rise to power for the purposes of the Standard;
  - (c) Discuss specific powers that could give rise to control in the public sector, including golden shares, a right to appoint the majority of the board of another entity, and powers obtained through legislation or enabling documents.

### *Regulatory Control*

- BC6. The IPSASB agreed that the previous guidance on regulatory control in IPSAS 6 (December 2006) should be incorporated in the Standard. The IPSASB noted that IFRS 10 had been developed for application by profit-oriented entities, few of whom have powers to create or enforce legislation or regulations. By contrast, the nature of government means that regulatory power occurs frequently in the public sector.
- BC7. In considering how to incorporate guidance on regulatory control in the Standard the IPSASB noted that (i) the discussion of power in IFRS 10 focuses on the ability to influence the “relevant activities” of the investee, and (ii) power is only one of the three elements that are required for control to exist. The IPSASB decided to place the discussion of regulatory control alongside the discussion of power and relevant activities.
- BC8. The IPSASB noted that the discussion of regulation and control in GFSM 2012 (Chapter 2) is similar to that previously in IPSAS 6. The GFSM guidance states [insert from GFSM consultation document once it is available]

### *Economic Dependence*

- BC9. The IPSASB noted that IFRS 10, paragraph AG40 discusses economic dependence. IFRS 10 states that “In the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee.” The IPSASB agreed with this position and noted that it was consistent with that in IPSAS 6.
- BC10. Because of the prevalence of economic dependence in the public sector the IPSASB decided that it was appropriate to discuss ways in which economic dependence can arise and include examples of economic dependence.

### *Substantive Rights*

- BC11. Statutory independence is common in the public sector. The IPSASB agreed to illustrate the ways in which statutory independence may influence an investor’s assessments of rights. The Standard notes that the existence of statutory independence of an investee could be seen as a barrier to the investor exercising its rights (paragraph AG23). It also notes that the existence of statutory powers to operate independently does not, of itself, preclude an investee from being controlled by an investor (paragraph 11.1).

## Terminology (paragraphs xx–xx)

BC12. In addition to making changes to reflect the standard terminology in IPSASs, the IPSASB agreed that a number of other changes to the terminology in IFRS 10 were appropriate.

### *Investor/Investee*

BC13. IFRS 10 uses the terms “investor” and “investee” to denote (i) the potential controlling entity, being the entity that is applying the Standard to assess whether control exists and (ii) the potential controlled entity. The IPSASB considered that these terms were inappropriate in the public sector because they could be read as implying the existence of a financial instrument representing an ownership interest. Most assessments of control in the public sector do not involve such financial instruments.

BC14. The IPSASB considered other terms that could be used to describe investors and investees, in the context of the Standard. One option was to refer to an investor as a “potential controlling entity” and an investee as a “potential controlled entity”. The IPSASB considered that these phrases, whilst clear in meaning, would be cumbersome to use throughout the Standard. The IPSASB noted that IPSASs generally refer to the entity applying the Standard as “the entity”. In the case of this Standard, the entity applying the Standard is the entity that is assessing whether or not it controls another entity (referred to as the investor in IFRS 10). The entity applying the Standard is doing so in order to determine whether it controls another entity. The IPSASB therefore decided that, where possible, it would simply refer to the investor as “the entity” and the investee as “another entity”, or “other entity”. These terms could then be read in the context of their usual meanings.

BC15. The IPSASB noted that in most cases this approach would result in clear identification of the relevant entities. In a significant proportion of the Standard the entity applying the Standard is the subject of the sentences. In some instances, additional explanation would be required to clarify the subject and object of sentences. However, the IPSASB agreed that there were relatively few such instances and that the agreed approach would not unnecessarily complicate the Standard. The IPSASB agreed to retain use of the term “investors” where the Standard is referring to a specific investment and the term is used in accordance with its usual meaning.

### *Binding Arrangements*

BC16. The IPSASB agreed that all references to contractual arrangements should be replaced by reference to the term binding arrangements. This change acknowledges that in some jurisdictions, entities applying IPSASs may not have the power to enter into contracts but nevertheless may have the authority to enter into binding arrangements.

### *Benefits*

BC17. The IPSASB agreed that that the term benefits is more appropriate than the term returns in the public sector, particularly given the existence of control relationships in the absence of a financial investment in the controlled entity.

BC18. The IPSASB decided to modify IFRS 10 to:

- (a) Highlight that many assessments of control in the public sector involve assessments of non-financial benefits; and

- (b) Include examples of the various types of benefits that a public sector entity can receive, or be exposed to.

## Implementation Guidance

*This guidance accompanies, but is not part of, IPSAS X, Consolidated Financial Statements.*

IG1 The diagram below summarizes the accounting for various types of involvement with another entity.

Flowchart 1 from agenda item 10.1 could be inserted here if the IPSASB considered it appropriate.

## Comparison with IFRS 10

[This comparison will be completed when the Exposure Draft is completed]

IPSAS X, *Consolidated Financial Statements* is drawn primarily from IFRS 10, *Consolidated Financial Statements* (originally issued in 2011, including amendments published in July 2012). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of certain IFRSs referred to in IFRS 10. These standards include:

- IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*; and
- IFRS 9, *Financial Instruments*.

The main differences between IPSAS X and IFRS 10 are as follows:

- Commentary additional to that in IFRS 10 has been included in IPSAS 6 to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS X uses different terminology, in certain instances, from IFRS 10. The most significant examples are the use of the terms “statement of financial performance,” “net assets/equity,” “economic entity,” “controlling entity,” and “controlled entity” in IPSAS X. The equivalent terms in IFRS 10 are “income statement,” “equity,” “group,” “parent,” and “subsidiary.”
- IPSAS X contains specific guidance on whether control exists in a public sector context (paragraphs x-x).
- [Note any significant differences regarding *scope*]
- IPSAS X contains additional illustrative examples that reflect the public sector context.

**IPSAS X—JOINT ARRANGEMENTS [BASED ON IFRS 11]****CONTENTS**

	Paragraph
Objective .....	1–2
Meeting the Objective .....	2
Scope .....	3
Definitions .....	3.1–3.4
Joint Arrangements .....	4–19
Joint Control .....	7–13
Types of Joint Arrangement .....	14–19
Financial Statements of Parties to a Joint Arrangement.....	20–25
Joint Operations .....	20–23
Joint Ventures .....	24–25
Separate Financial Statements.....	26–27
Transitional Provisions .....	C1B–C14
Joint Ventures—Transition from Proportionate Consolidation to the Equity Method .....	C1B–C6
Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities.....	C7–C10
Transitional Provisions in an Entity’s Separate Financial Statements .....	C12
Effective Date .....	C1
Withdrawal of IPSAS 8.....	C15
Appendix A: Application Guidance .....	
Joint Arrangements .....	AG2–AG11
Binding Arrangement (paragraph 5).....	AG2–AG4
Joint Control (paragraphs 7–13).....	AG5–AG11
Types of Joint Arrangement (paragraphs 14–19) .....	AG12–AG33
Classification of a Joint Arrangement.....	AG15
Structure of the Joint Arrangement .....	AG16–AG21
The Legal Form of the Separate Vehicle.....	AG22–AG24
Assessing the Terms of the Binding Arrangement.....	AG25–AG28
Assessing Other Facts and Circumstances .....	AG29–AG33
Financial Statements of Parties to a Joint Arrangement (paragraph 22).....	AG34–AG36
Accounting for Sales or Contributions of Assets to a Joint Operation.....	AG34–AG35
Accounting for Purchases of Assets from a Joint Operation.....	AG36
Appendix B: Amendments to Other IPSASs	
Basis for Conclusions	
Illustrative Examples	
Comparison with IFRS 11	

## Objective

1. The objective of this [Standard IFRS](#) is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e., *joint arrangements*).

## Meeting the Objective

2. To meet the objective in paragraph 1, this [Standard IFRS](#) defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

## Scope

3. This [Standard IFRS](#) shall be applied by all entities that are a party to a joint arrangement.
  - 3.1 [This Standard applies to all public sector entities other than Government Business Enterprises \(GBEs\).](#)
  - 3.2 [The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, \*Presentation of Financial Statements\*.](#)

## Definitions

### [3.3 The following terms are used in this Standard with the meanings specified:](#)

**A joint arrangement is** an arrangement of which two or more parties have joint control.

**Joint control is** the **contractually** agreed sharing of control of an arrangement **by way of a binding arrangement (including rights from contracts or other legal rights)**, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

**A joint operation is** a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

**A joint operator is** a party to a joint operation that has joint control of that joint operation.

**A joint venture is** a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

**A joint venturer is** a party to a joint venture that has joint control of that joint venture.

**A party to a joint arrangement is** an entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

**A separate vehicle is** a separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality.

- 3.4. [For the purposes of this Standard a binding arrangement, as referred to in the definition of joint control, describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights. \[Based on IPSAS 31.20\]](#)

~~The following terms are defined in IAS 27 (as amended in 2011), IAS 28 (as amended in 2011) or IFRS 10 Consolidated Financial Statements and are used in this IFRS with the meanings specified in those IFRSs:~~

- ~~• control of an investee
  - ~~• equity method~~
  - ~~• power~~
  - ~~• protective rights~~
  - ~~• relevant activities~~
  - ~~• separate financial statements~~
  - ~~• significant influence.~~~~

### Joint Arrangements (see paragraphs AG2–AG33)

4. A joint arrangement is an arrangement of which two or more parties have joint control.
5. A joint arrangement has the following characteristics:
  - (a) The parties are bound by a [binding contractual](#) arrangement (see paragraphs AG2–AG4).
  - (b) The [contractual binding](#) arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13).
6. A joint arrangement is either a joint operation or a joint venture.

### Joint Control

7. Joint control is the [contractually](#) agreed sharing of control of an arrangement [by binding agreement](#), which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
8. An entity that is a party to an arrangement shall assess whether the [binding contractual](#) arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (i.e., the relevant activities).
9. Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.
10. In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.
11. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This [Standard](#)~~IFRS~~ distinguishes between parties that have joint control of a joint arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement.
12. An entity will need to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances (see paragraphs AG5–AG11).

13. If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

#### **Types of Joint Arrangement**

14. **An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.**
15. **A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.**
16. **A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.**
17. An entity applies judgment when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the [bindingcontractual](#) arrangement and, when relevant, other facts and circumstances (see paragraphs AG12–AG33).
18. Sometimes the parties are bound by a framework agreement that sets up the general [contractual](#) terms for undertaking one or more activities. The framework agreement might set out that the parties establish different joint arrangements to deal with specific activities that form part of the agreement. Even though those joint arrangements are related to the same framework agreement, their type might be different if the parties' rights and obligations differ when undertaking the different activities dealt with in the framework agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.
19. If facts and circumstances change, an entity shall reassess whether the type of joint arrangement in which it is involved has changed.

#### **Financial Statements of Parties to a Joint Arrangement (see paragraphs AG34–AG36)**

##### **Joint Operations**

20. **A joint operator shall recognize in relation to its interest in a joint operation:**
  - (a) **Its assets, including its share of any assets held jointly;**
  - (b) **Its liabilities, including its share of any liabilities incurred jointly;**
  - (c) **Its revenue from the sale of its share of the output arising from the joint operation;**
  - (d) **Its share of the revenue from the sale of the output by the joint operation; and**
  - (e) **Its expenses, including its share of any expenses incurred jointly.**

21. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the [IPSASs/IFRSs](#) applicable to the particular assets, liabilities, revenues and expenses.

[Note to IPSASB: The IASB is considering adding guidance in IFRS 11 regarding accounting for acquisitions of joint interests that constitute a business, as defined in IFRS 3. Amendments are proposed because there has been diversity in practice in accounting for acquisitions of interests in joint ventures: specifically, the treatment of goodwill and deferred taxes. Tentative wording, taken from a recent IASB agenda paper is as follows “When an entity acquires an interest in a joint operation whose activity constitutes a business as defined in IFRS 3 *Business Combinations* it shall apply, to the extent of its interests according to paragraph 20, the relevant principles on business combination accounting in IFRS 3 and other IFRSs and disclose the relevant information specified in these IFRSs for business combinations.” Proposed amendments to IFRS 11 are expected to be issued in December 2012. The IPSASB is still at an early stage of consulting on proposals regarding public sector combinations. It would therefore seem inappropriate for the IPSASB to include any guidance on accounting for combinations in this ED. Project staff propose that the IPSASB revisit this issue when in developing an ED on Public Sector Combinations.]

22. The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in paragraphs AG34–AG37.
23. A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with paragraphs 20–22 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the [IPSASs/IFRSs](#) applicable to that interest.

### Joint Ventures

24. **A joint venturer shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with [IPSAS 7, IAS 28](#) *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in that standard.**
25. A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with [the IPSASs dealing with financial instruments, being IPSAS 28, \*Financial Instruments: Presentation\*, IPSAS 29, \*IFRS 9—Financial Instruments: Recognition and Measurement\*, and IPSAS 30, \*Financial Instruments: Disclosure\*](#)~~IFRS 9—*Financial Instruments*~~, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with [IPSAS 7/IAS 28](#) (as amended in [Date 2014](#)).

### Separate Financial Statements

26. **In its separate financial statements, a joint operator or joint venturer shall account for its interest in:**
- (a) **A joint operation in accordance with paragraphs 20–22;**
  - (b) **A joint venture in accordance with paragraph 10 of [IPSAS 6, IAS 27](#) *Separate Financial Statements*.**

27. In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:
- (a) A joint operation in accordance with paragraph 23;
  - (b) A joint venture in accordance with [IPSAS 29/IFRS 9](#), unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 10 of [IPSAS 6/IAS 27](#) (as amended in [\[Date\]2014](#)).

### Transitional Provisions

C1B Notwithstanding the requirements of paragraph ~~3328~~ of [IPSAS 3/IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors](#), when this ~~Standard/IFRS~~ is first applied, an entity need only present the quantitative information required by paragraph ~~3328~~(f) of [IPSAS 3/IAS 8](#) for the annual period immediately preceding the first annual period for which [this Standard/IFRS 14](#) is applied (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

### **Joint Ventures—Transition from Proportionate Consolidation to the Equity Method**

- C2 When changing from proportionate consolidation to the equity method, an entity shall recognize its investment in the joint venture as at the beginning of the immediately preceding period. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions (guidance on accounting for the acquisition of an entity is included in IFRS 3, Business Combinations and on the allocation of goodwill to joint ventures is included in IFRS 11, Joint Arrangements). ~~If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.~~
- C3 The opening balance of the investment determined in accordance with paragraph C2 is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 40–43 of [IPSAS 7/IAS 28](#) (as amended in [\[Date\]2014](#)) to the opening balance of the investment to assess whether the investment is impaired and shall recognize any impairment loss as an adjustment to accumulated surplus or deficit retained earnings at the beginning of the immediately preceding period. ~~The initial recognition exception in paragraphs 15 and 24 of IAS 12 Income Taxes does not apply when the entity recognizes an investment in a joint venture resulting from applying the transition requirements for joint ventures that had previously been proportionately consolidated.~~
- C4 If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, an entity shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the entity shall recognize the corresponding liability. If the entity concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognize the corresponding liability but it shall adjust accumulated surplus or deficit retained earnings at the beginning of the immediately preceding period. The entity shall disclose this fact, along with its cumulative unrecognized share of losses of its joint ventures as at the beginning of the immediately preceding period and at the date at which this ~~Standard/IFRS~~ is first applied.
- C5 An entity shall disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning of the immediately preceding period. That disclosure

shall be prepared in an aggregated manner for all joint ventures for which an entity applies the transition requirements referred to in paragraphs C2–C6.

- C6 After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with [IPSAS 7/IAS-28](#) (as amended in [Date/2014](#)).

#### **Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities**

- C7 When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the beginning of the immediately preceding period, derecognize the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of [IPSAS 7/IAS-28](#) (as amended in [Date/2014](#)) and recognize its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.

- C8 An entity shall determine its interest in the assets and liabilities relating to the joint operation on the basis of its rights and obligations in a specified proportion in accordance with the [bindingecontractual](#) arrangement. An entity measures the initial carrying amounts of the assets and liabilities by disaggregating them from the carrying amount of the investment at the beginning of the immediately preceding period on the basis of the information used by the entity in applying the equity method.

- C9 Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of [IPSAS 7/IAS-28](#) (as amended in [Date/2014](#)), and the net amount of the assets and liabilities, including any goodwill, recognized shall be:

- (a) Offset against any goodwill relating to the investment with any remaining difference adjusted against [accumulated surplus or deficit retained earnings](#) at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognized is higher than the investment (and any other items that formed part of the entity's net investment) derecognized.
- (b) Adjusted against retained earnings at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognized is lower than the investment (and any other items that formed part of the entity's net investment) derecognized.

- C10 An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognized, and the assets and liabilities recognized, together with any remaining difference adjusted against [accumulated surplus or deficit retained earnings](#), at the beginning of the immediately preceding period.

- ~~C11 The initial recognition exception in paragraphs 15 and 24 of IAS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation.~~

#### **Transitional Provisions in an Entity's Separate Financial Statements**

- C12 An entity that, in accordance with paragraph 10 of [IPSAS 6/IAS-27](#), was previously accounting in its separate financial statements for its interest in a joint operation as an investment at cost or in accordance with [IPSAS 29/IFRS-9](#) shall:

- (a) Derecognize the investment and recognize the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraphs C7–C9.

- (b) Provide a reconciliation between the investment derecognized, and the assets and liabilities recognized, together with any remaining difference adjusted in accumulated surplus or deficit~~retained earnings~~, at the beginning of the immediately preceding period.

### References to the 'Immediately Preceding Period'

C12A Notwithstanding the references to the 'immediately preceding period' in paragraphs C2–C12, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs C2–C12 shall be read as the 'earliest adjusted comparative period presented'.

C12B If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

~~C13 The initial recognition exception in paragraphs 15 and 24 of IAS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation in its separate financial statements resulting from applying the transition requirements for joint operations referred to in paragraph C12.~~

### References to IFRS 9

~~C14 If an entity applies this IFRS but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.~~

### Effective Date

C1 An entity shall apply this Standard IFRS for annual financial statements covering periods beginning on or after [Date] January 2013. Earlier application is encouraged~~permitted~~. If an entity applies this Standard for a period beginning before [Date]~~IFRS earlier~~, it shall disclose that fact and apply IPSAS X [IFRS 10], IPSAS X, [IFRS 12] *Disclosure of Interests in Other Entities*, IPSAS 6 [IAS 27] (as amended in [Date] 2011) and IPSAS 7 [IAS 28] (as amended in [Date] 2011) at the same time.

~~C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12), issued in June 2012, amended paragraphs C2–C5, C7–C10 and C12 and added paragraphs C1B and C12A–C12B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies IFRS 11 for an earlier period, it shall apply those amendments for that earlier period.~~

### Withdrawal of IPSAS 8~~other IFRSs~~

C15 This Standard IFRS supersedes IPSAS 8, *Interests in Joint Ventures*. ~~the following IFRSs:~~

~~(a) IAS 31 *Interests in Joint Ventures*; and~~

~~(b) SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*.~~

## Application Guidance

*This Appendix is an integral part of IPSAS X.*

AG1. [B1] The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [IPSAS X IFRS 11](#).

## Joint Arrangements

### [Binding Contractual](#) Arrangement (paragraph 5)

AG2. [B2] [Binding Contractual](#) arrangements can be evidenced in several ways. An [binding enforceable contractual](#) arrangement is often, but not always, in writing, ~~usually~~ in the form of a contract or documented discussions between the parties. Statutory mechanisms can also create enforceable arrangements, either on their own or in conjunction with contracts between the parties.

AG3. [B3] When joint arrangements are structured through a separate vehicle (see paragraphs AG19–AG33), the [binding contractual](#) arrangement, or some aspects of the contractual arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.

AG4. [B4] The [binding contractual](#) arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The [binding contractual](#) arrangement generally deals with such matters as:

- (a) The purpose, activity and duration of the joint arrangement.
- (b) How the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.
- (c) The decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the [binding contractual](#) arrangement establishes joint control of the arrangement (see paragraphs AG5–AG11).
- (d) The capital or other contributions required of the parties.
- (e) How the parties share assets, liabilities, revenues, expenses or [surplus or deficit profit or loss](#) relating to the joint arrangement.

### Joint Control (paragraphs 7–13)

AG5. [B5] In assessing whether an entity has joint control of an arrangement, an entity shall assess first whether all the parties, or a group of the parties, control the arrangement. [IPSAS X IFRS 10](#) defines control and shall be used to determine whether all the parties, or a group of the parties, are exposed, or have rights, to variable returns from their involvement with the arrangement and have the ability to affect those returns through their power over the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the activities that significantly affect the returns of the arrangement (i.e., the relevant activities), the parties control the arrangement collectively.

AG6. [B6] After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity shall assess whether it has joint control of the arrangement. Joint control

exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. Assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties, or controlled by one of its parties alone, can require judgment.

AG7. [B7] Sometimes the decision-making process that is agreed upon by the parties in their [binding contractual](#) arrangement implicitly leads to joint control. For example, assume two parties establish an arrangement in which each has 50 per cent of the voting rights and the [binding contractual](#) arrangement between them specifies that at least 51 per cent of the voting rights are required to make decisions about the relevant activities. In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.

AG8. [B8] In other circumstances, the [binding contractual](#) arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the [binding contractual](#) arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement.

### Application examples

#### Example 1

Assume that three parties establish an arrangement: A has 50 per cent of the voting rights in the arrangement, B has 30 per cent and C has 20 per cent. The [binding contractual](#) arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their [binding contractual](#) arrangement requiring at least 75 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.

#### Example 2

Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The [binding contractual](#) arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (i.e., either A and B or A and C). In such a situation, to be a joint arrangement the [binding contractual](#) arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.

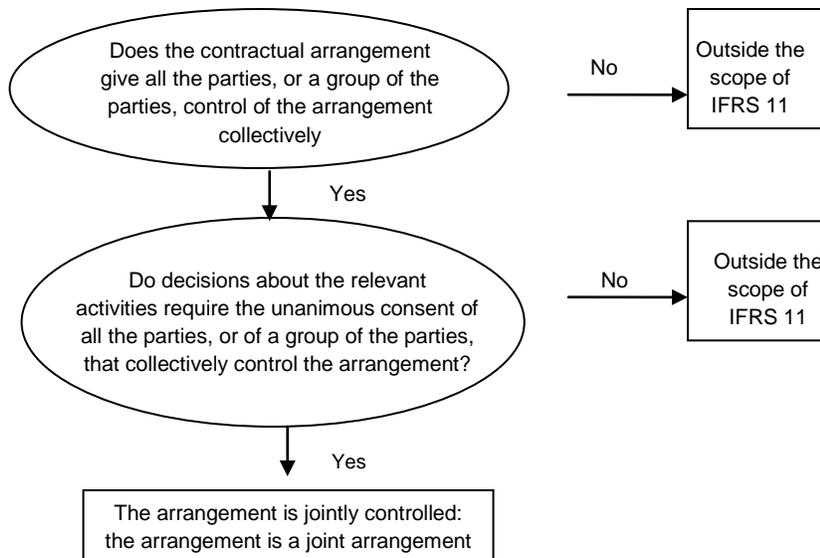
**Example 3**

Assume an arrangement in which A and B each have 35 per cent of the voting rights in the arrangement with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. A and B have joint control of the arrangement only if the [binding contractual](#) arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

AG9. [B9] The requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent. If the requirement for unanimous consent relates only to decisions that give a party protective rights and not to decisions about the relevant activities of an arrangement, that party is not a party with joint control of the arrangement.

AG10. [B10] A [binding contractual](#) arrangement might include clauses on the resolution of disputes, such as arbitration. These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control. The existence of such provisions does not prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement.

**Assessing joint control**



AG11. [B11] When an arrangement is outside the scope of [IPSAS X \[IFRS 11\]](#), an entity accounts for its interest in the arrangement in accordance with relevant ~~IPSASs/IFRSs~~, such as [IPSAS X \[IFRS 10\]](#), [IPSAS 7/IAS 28](#) (as amended in [\[Date\]2014](#)) or [IPSAS 29/IFRS 9](#).

## Types of Joint Arrangement (paragraphs 14–19)

- AG12. [B12] Joint arrangements are established for a variety of purposes (e.g., as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets), and can be established using different structures and legal forms.
- AG13. [B13] Some arrangements do not require the activity that is the subject of the arrangement to be undertaken in a separate vehicle. However, other arrangements involve the establishment of a separate vehicle.
- AG14. [B14] The classification of joint arrangements required by this [Standard](#) depends upon the parties' rights and obligations arising from the arrangement in the normal course of [business operations](#). This [Standard](#) classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs AG16–AG33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

### Classification of a Joint Arrangement

- AG15. [B15] As stated in paragraph AG14, the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:
- (a) The structure of the joint arrangement (see paragraphs AG16–AG21).
  - (b) When the joint arrangement is structured through a separate vehicle:
    - (i) The legal form of the separate vehicle (see paragraphs AG22–AG24);
    - (ii) The terms of the [binding contractual](#) arrangement (see paragraphs AG25–AG28); and
    - (iii) When relevant, other facts and circumstances (see paragraphs AG29–AG33).

### Structure of the Joint Arrangement

#### *Joint Arrangements not Structured Through a Separate Vehicle*

- AG16. [B16] A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the [binding contractual](#) arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.
- AG17. [B17] The [binding contractual](#) arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to [deliver services or](#) manufacture a product together, with each party being responsible for [a specific areas task](#) and each using its own assets and incurring its own liabilities. The [binding contractual](#) arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognizes in its financial statements the assets and liabilities used for the specific task, and recognizes its share of the revenues and expenses in accordance with the [binding contractual](#) arrangement.

AG18. [B18] In other cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. In such a case, the ~~binding contractual~~ arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each joint operator accounts for its share of the joint asset and its agreed share of any liabilities, and recognizes its share of the output, revenues and expenses in accordance with the ~~binding contractual~~ arrangement.

*Joint Arrangements Structured through a Separate Vehicle*

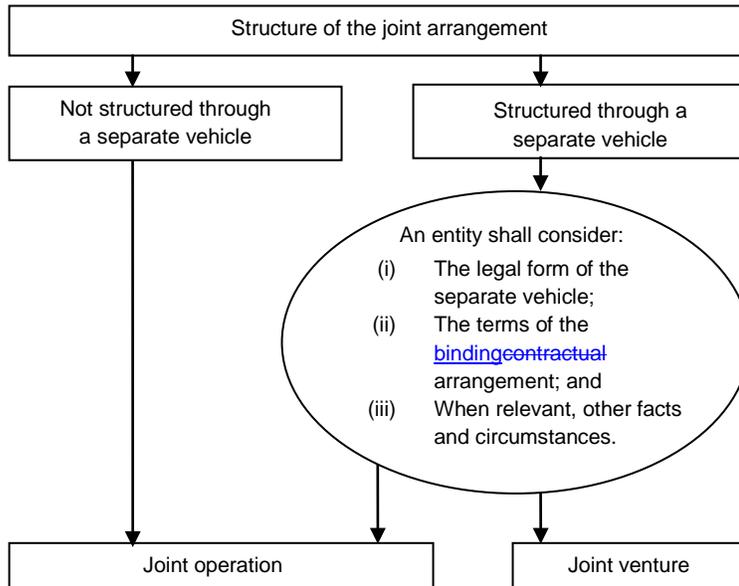
AG19. [B19] A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

AG20. [B20] Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement that are held in the separate vehicle.

AG21. [B21] As stated in paragraph AG15, when the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the ~~binding contractual~~ arrangement and, when relevant, any other facts and circumstances give them:

- (a) Rights to the assets, and obligations for the liabilities, relating to the arrangement (i.e., the arrangement is a joint operation); or
- (b) Rights to the net assets of the arrangement (i.e., the arrangement is a joint venture).

### Classification of a joint arrangement: assessment of the parties' rights and obligations arising from the arrangement



#### The Legal Form of the Separate Vehicle

- AG22. [B22] The legal form of the separate vehicle is relevant when assessing the type of joint arrangement. The legal form assists in the initial assessment of the parties' rights to the assets and obligations for the liabilities held in the separate vehicle, such as whether the parties have interests in the assets held in the separate vehicle and whether they are liable for the liabilities held in the separate vehicle.
- AG23. [B23] For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their ~~binding contractual~~ arrangement (see paragraphs AG25–AG28) and, when relevant, other facts and circumstances (see paragraphs AG29–AG33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.
- AG24. [B24] The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

#### Assessing the Terms of the ~~Binding Contractual~~ Arrangement

- AG25. [B25] In many cases, the rights and obligations agreed to by the parties in their ~~binding contractual~~ arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured.

AG26. [B26] In other cases, the parties use the ~~binding contractual~~ arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

**Application example**

**Example 4**

Assume that two parties structure a joint arrangement in an incorporated entity. Each party has a 50 per cent ownership interest in the incorporated entity. The incorporation enables the separation of the entity from its owners and as a consequence the assets and liabilities held in the entity are the assets and liabilities of the incorporated entity. In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the parties have rights to the net assets of the arrangement.

However, the parties modify the features of the corporation through their ~~binding contractual~~ arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporated entity in a specified proportion. Such ~~binding contractual~~ modifications to the features of a corporation can cause an arrangement to be a joint operation.

AG27. [B27] The following table compares common terms in ~~binding contractual~~ arrangements of parties to a joint operation and common terms in ~~binding contractual~~ arrangements of parties to a joint venture. The examples of the ~~binding contractual~~ terms provided in the following table are not exhaustive.

<b>Assessing the terms of the <u>binding contractual</u> arrangement</b>		
	<b>Joint operation</b>	<b>Joint venture</b>
<b>The terms of the <u>binding contractual</u> arrangement</b>	The <u>binding contractual</u> arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The <u>binding contractual</u> arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (i.e., it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
<b>Rights to assets</b>	The <u>binding contractual</u> arrangement establishes that the parties to the joint arrangement share all interests (e.g., rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The <u>binding contractual</u> arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (i.e., no rights, title or ownership) in the assets of the arrangement.
<b>Obligations for liabilities</b>	The <u>binding contractual</u> arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	<p>The <u>binding contractual</u> arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.</p> <p>The <u>binding contractual</u> arrangement establishes that the parties to the joint arrangement are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both.</p>

<b>Assessing the terms of the <u>binding contractual</u> arrangement</b>		
	<b>Joint operation</b>	<b>Joint venture</b>
	<p>The <u>binding contractual</u> arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.</p>	<p>The <u>binding contractual</u> arrangement states that creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.</p>
<p><b>Revenues, expenses, <u>surplus or deficit</u><del>profit or loss</del></b></p>	<p>The <u>binding contractual</u> arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the <u>binding contractual</u> arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement. In other instances, the parties might have agreed to share the <u>surplus or deficit</u><del>profit or loss</del> relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.</p>	<p>The <u>binding contractual</u> arrangement establishes each party's share in the <u>surplus or deficit</u><del>profit or loss</del> relating to the activities of the arrangement.</p>

Assessing the terms of the <del>binding contractual</del> arrangement		
	Joint operation	Joint venture
<b>Guarantees</b>	The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).	

AG28. [B28] When the ~~binding contractual~~ arrangement specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances (paragraphs ~~AGB29~~–~~BAG33~~) for the purposes of classifying the joint arrangement.

#### Assessing Other Facts and Circumstances

AG29. [B29] When the terms of the ~~binding contractual~~ arrangement do not specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, the parties shall consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.

AG30. [B30] A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The ~~binding contractual~~ terms agreed among the parties might not specify the parties' rights to the assets and obligations for the liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation. This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.

AG31. [B31] When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.

AG32. [B32] The effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement.

## Application example

### Example 5

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The ~~binding contractual~~ arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the ~~binding contractual~~ arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

From the fact pattern above, the following facts and circumstances are relevant:

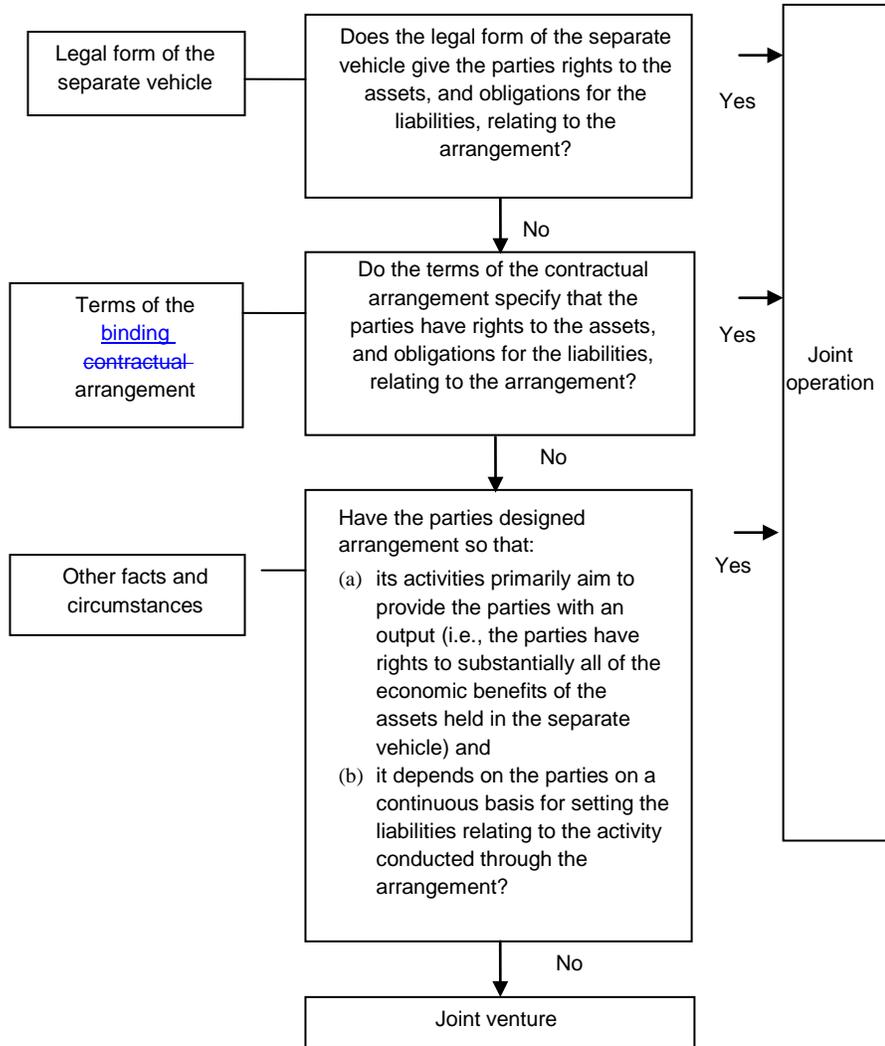
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of entity C.

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the ~~binding contractual~~ arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

AG33. [B33] The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle:

### Classification of a joint arrangement structured through a separate vehicle



## **Financial Statements of Parties to a Joint Arrangement (paragraph 22)**

### **Accounting for Sales or Contributions of Assets to a Joint Operation**

- AG34. [B34] When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognize gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.
- AG35. [B35] When such transactions provide evidence of a reduction in the net realizable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses shall be recognized fully by the joint operator.

### **Accounting for Purchases of Assets from a Joint Operation**

- AG36. [B36] When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognize its share of the gains and losses until it resells those assets to a third party.
- AG37. [B37] When such transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognize its share of those losses.

## Amendments to Other IPSASs

*This appendix sets out amendments to other IFRSs that are a consequence of the issuance of IPSAS X [IFRS 11]. An entity shall apply the amendments for annual periods beginning on or after [Date]. If an entity applies IPSAS X [IFRS 11] for an earlier period, it shall apply the amendments for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.*

### Note to IPSASB

The consequential amendments set out in IFRS 11 have been used as a basis for developing this appendix.

The amendments will be reviewed when all the EDs in this project have been developed.

Amendments to the following IASB pronouncements (that were amended as a result of IFRS 11) are not shown in this Appendix because there is no equivalent IPSAS:

- IFRS 1, *First-time Adoption of International Financial Reporting Standards*
- IFRS 2, *Share-based Payment*
- IFRS 4, *Insurance Contracts*
- IFRS 9, *Financial Instruments* (2009)
- IFRS 9, *Financial Instruments* (2010)
- IAS 12, *Income Taxes*
- IAS 33, *Earnings per Share*

## IPSAS 2, Cash Flow Statements

**Paragraphs 47, 48 and 61 are amended and paragraph 63C added as follows:**

47. When accounting for an investment in an associate, a joint venture, or a controlled entity accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends or similar distributions and advances.
48. ~~An entity that reports its interest in a jointly controlled entity using proportionate consolidation includes in its consolidated cash flow statement its proportionate share of the jointly controlled entity's cash flows.~~ An entity that reports its such an interest in an associate or a joint venture using the equity method includes in its cash flow statement (a) the cash flows in respect of its investments in the associate or joint venture, jointly controlled entity, and (b) distributions and other payments or receipts between it and the associate or joint venture jointly controlled entity.
61. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged, and may include:
- (a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and
  - ~~(b) The aggregate amounts of the cash flows from each of operating, investing, and financing activities related to interests in joint ventures reported using proportionate consolidation; and~~

(b~~e~~) The amount and nature of restricted cash balances.

63C. IPSAS X [IFRS 10] and IPSAS X, [IFRS 11] *Joint Arrangements*, issued in [Date], amended paragraphs 47, 48, added paragraphs 52A and 52B and deleted paragraph 61(b). An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11]. [Check]

## **IPSAS 4, *The Effects of Changes in Foreign Exchange Rates***

**Paragraphs 3, 10, 13, 21, 38, 50 51, 55, 57, 58 are amended and paragraphs 57A-57D and 71A added as follows:**

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:
  - (a) In accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement*;
  - (b) In translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation, ~~proportionate consolidation~~, or by the equity method; and
  - (c) In translating an entity's financial performance and financial position into a presentation currency.

10. **The following terms are used in this Standard with the meanings specified:**

...

**Foreign operation is an entity that is a controlled entity, associate, joint ~~venture arrangement~~, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.**

13. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate, or joint ~~venture arrangement~~):

...

21. Many reporting entities comprise a number of individual entities (e.g., an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint ~~ventures arrangements~~. ....

38. When a monetary item forms part of a reporting entity's net investment in a foreign operation, and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 32. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 32. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 32. Such exchange differences are reclassified to the separate component of net assets/equity in the financial statements

that include the foreign operation and the reporting entity (i.e., financial statements in which the foreign operation is consolidated, ~~proportionately consolidated~~, or accounted for using the equity method).

50. Paragraphs 51-56, in addition to paragraphs 43-49, apply when the financial performance and financial position of a foreign operation are translated into a presentation currency, so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, ~~proportionate consolidation~~, or the equity method.
51. The incorporation of the financial performance and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS X, Consolidated Financial Statements ~~IPSAS 6 and IPSAS 8, Interests in Joint Ventures.~~)
55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS X [IFRS 10] ~~IPSAS 6~~. The same approach is used in applying the equity method to associates and joint ventures, and in applying ~~proportionate consolidation to joint ventures~~ in accordance with IPSAS 7 (as amended in [Date]), ~~Investments in Associates~~, and IPSAS 8.

[Note to IPSASB: Paragraphs 57-58 below have been amended to provide guidance on partial disposals of a foreign operation]

#### **Disposal or Partial Disposal of a Foreign Operation**

57. **On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation and accumulated in a ~~deferred in the separate component of net assets/equity relating to that foreign operation~~ shall be reclassified from net assets/equity to recognized in surplus or deficit (as a reclassification adjustment) when the gain or loss on disposal is recognized (see IPSAS 1 Presentation of Financial Statements).**

57A. In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals:

- (a) When the partial disposal involves the loss of control of a controlled entity that includes a foreign operation, regardless of whether the entity retains a non-controlling interest in its former controlled entity after the partial disposal; and
- (b) When the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation. [Based on IAS 21 paragraph 48A), including amendments from IFRS 11]

57B. On disposal of a controlled entity that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be transferred directly to accumulated surplus/deficit. [Note: this treatment is consistent with the treatment of revaluations on disposal of an item of PPE in IPSAS 17.57]

**57C. On the partial disposal of a controlled entity that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences accumulated in a separate category of net assets/equity to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall transfer to accumulated surplus/deficit only the proportionate share of the cumulative amount of the exchange differences accumulated in net assets/equity.**

57D. A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph 57A that are accounted for as disposals.

58. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital, or abandonment of all or part of that entity. The payment of a dividend or similar distribution is part of a disposal only when it constitutes a return of the investment, for example when the dividend or similar distribution is paid out of pre-acquisition surplus. ~~In the case of a partial disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss.~~ A writedown of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the investor, does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized in surplus or deficit at the time of a writedown.

[Note: Guidance on partial disposals has been deleted from this paragraph because partial disposals are now dealt with in paragraph 57C.]

71A. IPSAS X [IFRS 10] and IPSAS X, [IFRS 11] *Joint Arrangements*, issued in [Date], amended paragraphs 3(b), 10, 13, 21, 22, 38, 47, 50 to 51, 53, 55, and 57 to 58 [check]. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

## **IPSAS 9, Revenue from Exchange Transactions**

**Paragraph 10(b) is amended and paragraph 42A added as follows:**

10. This Standard does not deal with revenues arising from:

- (a) Lease agreements (see IPSAS 13, *Leases*);
- (b) Dividends or similar distributions arising from investments that are accounted for under the equity method (see IPSAS 7, *Investments in Associates and Joint Ventures*);

....

42A. IPSAS X, [IFRS 11] *Joint Arrangements*, issued in [Date], amended paragraph 10(b). An entity shall apply that amendment when it applies IPSAS X [IFRS 11].

## **IPSAS 18, Segment Reporting**

**Paragraphs 27, 32 and 61 to 63 are amended and paragraph 77A added as follows:**

27. **The following additional terms are used in this Standard with the meanings specified:**

**Segment assets include investments accounted for under the equity method only if the net surplus (deficit) from such investments is included in segment revenue. ~~Segment assets include a joint venturer's share of the operating assets of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8, *Interests in Joint Ventures*.~~**

**~~Segment expense includes a joint venturer's share of the expenses of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8.~~**

**~~Segment liabilities include a joint venturer's share of the liabilities of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8.~~**

~~Segment revenue includes a joint venturer's share of the revenue of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8.~~

32. Governments and their agencies may enter into arrangements with private sector entities for the delivery of goods and services, or to conduct other activities. In some jurisdictions, these arrangements take the form of a joint venture or an investment in an associate that is accounted for by the equity method of accounting. Where this is the case, segment revenue will include the segment's share of the equity accounted net surplus (deficit), where the equity accounted surplus (deficit) is included in entity revenue, and it can be directly attributed or reliably allocated to the segment on a reasonable basis. ~~In similar circumstances, segment revenue and segment expense will include the segment's share of revenue and expense of a jointly controlled entity that is accounted for by proportionate consolidation.~~

77A. **IPSAS X, [IFRS 11] *Joint Arrangements*, issued in [Date], amended paragraphs (the descriptions of segment assets, segment expenses, segment liabilities and segment revenue), 32 and 61 to 63 and the implementation guidance. An entity shall apply those amendments when it applies IPSAS X [IFRS 11].**

### **IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets***

Paragraph 37 is amended and paragraph 111B added as follows:

37. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. For example, in the case of joint ~~venture~~ arrangement debt, that part of the obligation that is to be met by other joint ~~venture~~ arrangement participants is treated as a contingent liability. The entity recognizes a provision for the part of the obligation for which an outflow of resources embodying economic benefits or service potential is probable, except in the rare circumstances where no reliable estimate can be made.

111B. **IPSAS X [IFRS 11] issued in [Date], amended paragraph 37 [check]. An entity shall apply that amendment when it applies IPSAS X [IFRS 11].**

### **IPSAS 20, *Related Party Disclosures***

Paragraphs 4 and 15 are amended and paragraph 42A added as follows:

4. **The following terms are used in this Standard with the meanings specified:**

Related party means parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include:

- (a) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity;
- (b) Associates (see IPSAS 7, *Investments in Associates and Joint Ventures*);

...

15. The definition of related party includes entities owned by key management personnel, close family members of such individuals or major shareholders (or equivalent where the entity does not have a formal equity structure) of the reporting entity. The definition of related party also includes circumstances

in which one party has the ability to exercise significant influence over the other party. In the public sector, an individual or entity may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. For the purposes of this Standard, significant influence is defined to encompass joint ventures ~~entities subject to joint control~~.

- 42A. IPSAS X [IFRS 10], IPSAS X, [IFRS 11] *Joint Arrangements* and IPSAS X [IFRS 12], issued in [Date], amended paragraphs 4 and 15 [check]. An entity shall apply that amendment when it applies IPSAS X [IFRS 10], IPSAS X [IFRS 11] and IPSAS X [IFRS 12].

## **IPSAS 21, *Impairment of Non-Cash-Generating Assets***

Paragraph 13 is amended and paragraph 82C added as follows:

13. Investments in:

....

- (b) Associates, as defined in IPSAS 7, *Investments in Associates and Joint Ventures*; and
- (c) Joint arrangements ~~ventures~~, as defined in ~~IPSAS 8, *Interests in Joint Ventures*~~ IPSAS X, [IFRS 11] *Joint Arrangements*;

- 82C. IPSAS X [IFRS 11] issued in [Date], amended paragraph 13 [check]. An entity shall apply that amendment when it applies IPSAS X [IFRS 11].

## **IPSAS 26, *Impairment of Cash-Generating Assets***

Paragraph 12 is amended and paragraph 47A added as follows:

12. Investments in:

...

- (b) Associates, as defined in IPSAS 7, *Investments in Associates and Joint Ventures*; and
- (c) Joint arrangements ~~ventures~~, as defined in ~~IPSAS 8, *Interests in Joint Ventures*~~ IPSAS X, [IFRS 11] *Joint Arrangements*;

- 47A. IPSAS X [IFRS 10] and IPSAS X [IFRS 12] issued in [date], amended paragraph 12 [check]. An entity shall apply that amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

## **IPSAS 28, *Financial Instruments: Presentation***

Paragraph 3(a) is amended and paragraph 60A added as follows:

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to all types of financial instruments except:

- (a) Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with IPSAS X, *Consolidated Financial Statements*, ~~IPSAS 6, *Consolidated and Separate Financial Statements*, or IPSAS 7, *Investments in Associates and Joint Ventures*, or IPSAS 8, *Interests in Joint Ventures*~~. However, in some cases, ~~IPSAS 6, or IPSAS 7, or IPSAS 8~~ permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; ...

- 60A. IPSAS X [IFRS 10] and IPSAS X [IFRS 11], issued in [date], amended paragraph 3 [check]. An entity shall apply this amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

## IPSAS 29 *Financial Instruments: Recognition and Measurement*

Paragraphs 2(a) is amended and paragraph 125B added as follows:

2. This Standard shall be applied by all entities to all types of financial instruments, except:
- (a) Those interests in controlled entities, associates and joint ventures that are accounted for under in accordance with IPSAS X, Consolidated Financial Statements, IPSAS 6, Consolidated and Separate Financial Statements, or IPSAS 7, Investments in Associates and Joint Ventures, or IPSAS 8, Interests in Joint Ventures. However, entities shall apply this Standard to an interest in a controlled entity, associate, or joint venture that according to IPSAS 6, or IPSAS 7, or IPSAS 8 is accounted for under this Standard. ...

125B. IPSAS X [IFRS 10] and IPSAS X, Joint Arrangements, issued in [date], amended paragraph 2(a), 17, AG2 and AG14 [check]. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

In Appendix A paragraphs AG2 and AG14 are amended as follows:

*Investments in Controlled Entities, Associates, and Joint Ventures*

- AG2. Sometimes, an entity makes what it views as a “strategic investment” in equity instruments issued by another entity, with the intention of establishing or maintaining a long-term operating relationship with the entity in which the investment is made. The investor or joint venturer entity uses IPSAS 7 to determine whether the equity method of accounting is appropriate for such an investment. ~~Similarly, the investor entity uses IPSAS 8 to determine whether proportionate consolidation or the equity method is appropriate for such an investment.~~ If neither the equity method ~~nor proportionate consolidation~~ is not appropriate, the entity applies this Standard to that strategic investment.
- AG14. The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through surplus or deficit only if it meets the principle in paragraph 10(b)(ii).
- (a) The entity is a venture capital organization, mutual fund, unit trust or similar entity whose business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or similar distributions and changes in fair value. ~~IPSAS 7 and IPSAS 8 allows~~ such investments to be ~~excluded from their scope provided they are~~ measured at fair value through surplus or deficit in accordance with this Standard. An entity may apply the same accounting policy to other investments managed on a total return basis but over which its influence is insufficient for them to be within the scope of IPSAS 7 ~~or IPSAS 8.~~

In Appendix C paragraph C2 is amended as follows:

- C2. Hedge accounting of the foreign currency risk arising from a net investment in a foreign operation will apply only when the net assets of that foreign operation are included in the financial statements. This will be the case for consolidated financial statements, financial statements in which investments such as associates or joint ventures are accounted for using the equity method, ~~and financial statements in which venturers' interests in joint ventures are proportionately consolidated~~ and financial statements that include a branch or a joint operation as defined in IPSAS X, [IFRS 11] Joint Arrangements. The item being hedged with respect to the foreign currency risk arising from the net investment in a foreign operation may be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation.

## **IPSAS 30, *Financial Instruments: Disclosures***

Paragraph 3(a) is amended and paragraph 52A added as follows:

3. This Standard shall be applied by all entities to all types of financial instruments, except:
- (a) Those interests in controlled entities, associates, or joint ventures that are accounted for in accordance with IPSAS X, *Consolidated Financial Statements*, IPSAS 6, *Consolidated and Separate Financial Statements*, or IPSAS 7, *Investments in Associates and Joint Ventures*, or IPSAS 8, *Interests in Joint Ventures*. However, in some cases, IPSAS 6, or IPSAS 7, or IPSAS 8 permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; in those cases ....
- 52A. IPSAS X [IFRS 10] and IPSAS X [IFRS 11], *Joint Arrangements*, issued in [date], amended paragraph 3(a) [check]. An entity shall apply that amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

## **IPSAS 31, *Intangible Assets***

Paragraph 6(d) is amended and paragraph 132A added as follows:

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:
- (a) ...
  - (d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS X, *Consolidated Financial Statements*, IPSAS 6, *Consolidated and Separate Financial Statements*, and IPSAS 7, *Investments in Associates and Joint Ventures*, and IPSAS 8, *Interests in Joint Ventures*; and....
- 132A. IPSAS X [IFRS 10] and IPSAS X, *Joint Arrangements*, issued in [date], amended paragraph 6(d) [check]. An entity shall apply that amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, ED X.*

To be developed following the IPSASB's decisions and the reasons for those decisions.
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### **Objective**

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS X, *Joint Arrangements*. As this Standard is based on IFRS 11, *Joint Arrangements* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS X departs from the main requirements of IFRS 11.

### **Classification of Joint Arrangements**

- BC2. IPSAS X classifies joint arrangements as joint ventures or joint operations based on whether an entity has (i) rights to assets and obligations for liabilities, or (ii) rights to net assets. This differs from IPSAS 8 which referred to three types of arrangements, being jointly controlled entities, jointly controlled operations and jointly controlled assets. [Insert any IPSASB views on classification requirements]

### **Elimination of Accounting Option**

- BC3. IPSAS X requires that joint ventures be accounted for in consolidated financial statements using the equity method. Previously IPSAS 8 permitted jointly controlled entities to be accounted for using either the equity method or proportionate consolidation. [Insert IPSASB views on removal of option to use proportionate consolidation]

## ILLUSTRATIVE EXAMPLES

### CONTENTS

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	Paragraph
1 Construction Services .....	IE2–IE8
2 <a href="#">ServiceShopping</a> Centre Operated Jointly .....	IE9–IE13
3 Joint Manufacturing and Distribution of a Product .....	IE14–IE28
4 Bank Operated Jointly .....	IE29–IE33
5 Oil and Gas Exploration, Development and Production Activities .....	IE34–IE43
6 Liquefied Natural Gas Arrangement.....	IE44–IE52

## Illustrative examples

These examples accompany, but are not part of, [IPSAS X \[IFRS 11\]](#). ~~They illustrate aspects of IFRS 11 but are not intended to provide interpretative guidance.~~

IE1 These examples portray hypothetical situations illustrating the judgements that might be used when applying [IPSAS X \[IFRS 11\]](#) in different situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [IPSAS X \[IFRS 11\]](#).

### Example 1 – Construction services

IE2 A and B (the parties) are two ~~entities~~[companies](#) whose ~~activities~~[businesses include](#) the provision of many types of public and private construction services. [Entity A is a private sector entity. Entity B is government owned.](#) They set up a ~~binding contractual~~ arrangement to work together for the purpose of fulfilling a contract with a government for the design and construction of a road between two cities. The ~~binding contractual~~ arrangement determines the participation shares of A and B and establishes joint control of the arrangement, the subject matter of which is the delivery of the road.

IE3 The parties set up a separate vehicle (entity Z) through which to conduct the arrangement. Entity Z, on behalf of A and B, enters into the contract with the government. In addition, the assets and liabilities relating to the arrangement are held in entity Z. The main feature of entity Z's legal form is that the parties, not entity Z, have rights to the assets, and obligations for the liabilities, of the entity.

IE4 The ~~binding contractual~~ arrangement between A and B additionally establishes that:

- (a) The rights to all the assets needed to undertake the activities of the arrangement are shared by the parties on the basis of their participation shares in the arrangement;
- (b) The parties have several and joint responsibility for all operating and financial obligations relating to the activities of the arrangement on the basis of their participation shares in the arrangement; and
- (c) The ~~surplus~~[profit](#) or ~~deficit~~[loss](#) resulting from the activities of the arrangement is shared by A and B on the basis of their participation shares in the arrangement.

IE5 For the purposes of co-ordinating and overseeing the activities, A and B appoint an operator, who will be an employee of one of the parties. After a specified time, the role of the operator will rotate to an employee of the other party. A and B agree that the activities will be executed by the operator's employees on a 'no gain or loss' basis.

IE6 In accordance with the terms specified in the contract with the government, entity Z invoices the construction services to the government on behalf of the parties.

### Analysis

IE7 The joint arrangement is carried out through a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in entity Z are the parties' assets and liabilities). This is reinforced by the terms agreed by the parties in their ~~binding contractual~~ arrangement, which state that A and B have rights to the assets, and obligations for the liabilities, relating to the arrangement that is conducted through entity Z. The joint arrangement is a joint operation.

IE8 A and B each recognise in their financial statements their share of the assets (e.g., property, plant and equipment, accounts receivable) and their share of any liabilities resulting from the arrangement (e.g., accounts payable to third parties) on the basis of their agreed participation share. Each also recognises its share of the revenue and expenses resulting from the construction services provided to the government through entity Z.

### Example 2 – Service Shopping centre operated jointly

IE9 Two ~~entities/real estate companies~~ (the parties) set up a separate vehicle (entity X) for the purpose of ~~establishing/acquiring~~ and operating a joint serviceshopping centre. The ~~binding contractual~~ arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form is that the entity, not the parties, has rights to the assets, and obligations for the liabilities, relating to the arrangement. These activities include the allocation of office space to services/rental of the retail units, managing the car park, maintaining the centre and its equipment, such as lifts, ~~and~~ building the reputation of the centre and managing the client/customer base for the centre ~~as a whole~~.

IE10 The terms of the ~~binding contractual~~ arrangement are such that:

- (a) Entity X owns the serviceshopping centre. The ~~binding contractual~~ arrangement does not specify that the parties have rights to the serviceshopping centre.
- (b) The parties are not liable in respect of the debts, liabilities or obligations of entity X. If entity X is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party will be limited to the unpaid amount of that party's capital contribution.
- (c) The parties have the right to sell or pledge their interests in entity X.
- (d) Each party pays for its share of expenses for ~~receives a share of the income from~~ operating the serviceshopping centre (which is the rental income net of the operating costs) in accordance with its interest in entity X.

### Analysis

IE11 The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the ~~binding contractual~~ arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the ~~binding contractual~~ arrangement establish that the parties have rights to the net assets of entity X.

IE12 On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.

IE13 The parties recognise their rights to the net assets of entity X as investments and account for them using the equity method.

### Example 3 – Joint manufacturing and distribution of a product

- IE14 ~~Entities~~Companies A and B (the parties) have set up a strategic and operating agreement (the framework agreement) in which they have agreed the terms according to which they will conduct the manufacturing and distribution of a product (product P) in different markets.
- IE15 The parties have agreed to conduct manufacturing and distribution activities by establishing joint arrangements, as described below:
- (a) Manufacturing activity: the parties have agreed to undertake the manufacturing activity through a joint arrangement (the manufacturing arrangement). The manufacturing arrangement is structured in a separate vehicle (entity M) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity M are the assets and liabilities of entity M and not the assets and liabilities of the parties). In accordance with the framework agreement, the parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement in accordance with their ownership interests in entity M. The parties subsequently sell product P to another arrangement, jointly controlled by the two parties themselves, that has been established exclusively for the distribution of product P as described below. Neither the framework agreement nor the ~~binding contractual~~ arrangement between A and B dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity.
  - (b) Distribution activity: the parties have agreed to undertake the distribution activity through a joint arrangement (the distribution arrangement). The parties have structured the distribution arrangement in a separate vehicle (entity D) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity D are the assets and liabilities of entity D and not the assets and liabilities of the parties). In accordance with the framework agreement, the distribution arrangement orders its requirements for product P from the parties according to the needs of the different markets where the distribution arrangement sells the product. Neither the framework agreement nor the ~~binding contractual~~ arrangement between A and B dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.
- IE16 In addition, the framework agreement establishes:
- (a) That the manufacturing arrangement will produce product P to meet the requirements for product P that the distribution arrangement places on the parties;
  - (b) The commercial terms relating to the sale of product P by the manufacturing arrangement to the parties. The manufacturing arrangement will sell product P to the parties at a price agreed by A and B that covers all production costs incurred. Subsequently, the parties sell the product to the distribution arrangement at a price agreed by A and B.
  - (c) That any cash shortages that the manufacturing arrangement may incur will be financed by the parties in accordance with their ownership interests in entity M.

#### Analysis

- IE17 The framework agreement sets up the terms under which parties A and B conduct the manufacturing and distribution of product P. These activities are undertaken through joint arrangements whose purpose is either the manufacturing or the distribution of product P.

- IE18 The parties carry out the manufacturing arrangement through entity M whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the ~~binding contractual~~ arrangement dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, when considering the following facts and circumstances the parties have concluded that the manufacturing arrangement is a joint operation:
- (a) The parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement. Consequently, A and B have rights to substantially all the service potential or economic benefits of the assets of the manufacturing arrangement.
  - (b) The manufacturing arrangement manufactures product P to meet the quantity and quality needs of the parties so that they can fulfil the demand for product P of the distribution arrangement. The exclusive dependence of the manufacturing arrangement upon the parties for the generation of cash flows and the parties' commitments to provide funds when the manufacturing arrangement incurs any cash shortages indicate that the parties have an obligation for the liabilities of the manufacturing arrangement, because those liabilities will be settled through the parties' purchases of product P or by the parties' direct provision of funds.
- IE19 The parties carry out the distribution activities through entity D, whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the ~~binding contractual~~ arrangement dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.
- IE20 There are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets relating to the distribution arrangement or that the parties have an obligation for the liabilities relating to that arrangement. The distribution arrangement is a joint venture.
- IE21 A and B each recognise in their financial statements their share of the assets (e.g., property, plant and equipment, cash) and their share of any liabilities resulting from the manufacturing arrangement (e.g., accounts payable to third parties) on the basis of their ownership interest in entity M. Each party also recognises its share of the expenses resulting from the manufacture of product P incurred by the manufacturing arrangement and its share of the revenues relating to the sales of product P to the distribution arrangement.
- IE22 The parties recognise their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

### **Variation**

- IE23 Assume that the parties agree that the manufacturing arrangement described above is responsible not only for manufacturing product P, but also for its distribution to third-party customers.
- IE24 The parties also agree to set up a distribution arrangement like the one described above to distribute product P exclusively to assist in widening the distribution of product P in additional specific markets.
- IE25 The manufacturing arrangement also sells product P directly to the distribution arrangement. No fixed proportion of the production of the manufacturing arrangement is committed to be purchased by, or to be reserved to, the distribution arrangement.

## Analysis

- IE26 The variation has affected neither the legal form of the separate vehicle in which the manufacturing activity is conducted nor the ~~binding contractual~~ terms relating to the parties' rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, it causes the manufacturing arrangement to be a self-financed arrangement because it is able to undertake trade on its own behalf, distributing product P to third-party customers and, consequently, assuming demand, inventory and credit risks. Even though the manufacturing arrangement might also sell product P to the distribution arrangement, in this scenario the manufacturing arrangement is not dependent on the parties to be able to carry out its activities on a continuous basis. In this case, the manufacturing arrangement is a joint venture.
- IE27 The variation has no effect on the classification of the distribution arrangement as a joint venture.
- IE28 The parties recognise their rights to the net assets of the manufacturing arrangement and their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

## Example 4 – Bank operated jointly

- IE29 Banks A, a government owned bank, and Bank B, a privately owned bank, (the parties) agreed to combine ~~certain their~~ corporate, investment banking, asset management and services activities by establishing a separate vehicle (bank C). Both parties expect the arrangement to benefit them in different ways. Bank A believes that the arrangement could enable it to achieve its strategic plans to ~~improve its profitability increase its size, offering an opportunity to exploit its full potential for organic growth~~ through an enlarged offering of products and services. Bank B expects the arrangement to reinforce its offering in financial savings and market products.
- IE30 The main feature of bank C's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). Banks A and B each have a 40 per cent ownership interest in bank C, with the remaining 20 per cent being listed and widely held. The ~~shareholders'~~ agreement between bank A and bank B establishes joint control of the activities of bank C.
- IE31 In addition, bank A and bank B entered into an irrevocable agreement under which, even in the event of a dispute, both banks agree to provide the necessary funds in equal amount and, if required, jointly and severally, to ensure that bank C complies with the applicable legislation and banking regulations, and honours any commitments made to the banking authorities. This commitment represents the assumption by each party of 50 per cent of any funds needed to ensure that bank C complies with legislation and banking regulations.

## Analysis

- IE32 The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the ~~binding contractual~~ arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of bank C, but it establishes that the parties have rights to the net assets of bank C. The commitment by the parties to provide support if bank C is not able to comply with the applicable legislation and banking regulations is not by itself a determinant that the parties have an obligation for the liabilities of bank C. There are no other facts and circumstances that indicate that the parties have rights to substantially all the

economic benefits of the assets of bank C and that the parties have an obligation for the liabilities of bank C. The joint arrangement is a joint venture.

- IE33 Both banks A and B recognise their rights to the net assets of bank C as investments and account for them using the equity method.

### Example 5 – Oil and gas exploration, development and production activities

- IE34 ~~Entities~~Companies A and B (the parties) set up a separate vehicle (entity H) and a Joint Operating Agreement (JOA) to undertake oil and gas exploration, development and production activities in country O. The main feature of entity H's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

- IE35 Country O has granted entity H permits for the oil and gas exploration, development and production activities to be undertaken in a specific assigned block of land (fields).

- IE36 The ~~shareholders'~~ agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarised below.

#### ~~Shareholders'~~aAgreement

- IE37 The board of entity H consists of a director from each party. Each party has a 50 per cent ~~share~~holding in entity H. The unanimous consent of the directors is required for any resolution to be passed.

#### Joint Operating Agreement (JOA)

- IE38 The JOA establishes an Operating Committee. This Committee consists of one representative from each party. Each party has a 50 per cent participating interest in the Operating Committee.

- IE39 The Operating Committee approves the budgets and work programmes relating to the activities, which also require the unanimous consent of the representatives of each party. One of the parties is appointed as operator and is responsible for managing and conducting the approved work programmes.

- IE40 The JOA specifies that the rights and obligations arising from the exploration, development and production activities shall be shared among the parties in proportion to each party's shareholding in entity H. In particular, the JOA establishes that the parties share:

- (a) the rights and the obligations arising from the exploration and development permits granted to entity H (e.g., the permits, rehabilitation liabilities, any royalties and taxes payable);
- (b) the production obtained; and
- (c) all costs associated with all work programmes.

- IE41 The costs incurred in relation to all the work programmes are covered by cash calls on the parties. If either party fails to satisfy its monetary obligations, the other is required to contribute to entity H the amount in default. The amount in default is regarded as a debt owed by the defaulting party to the other party.

## Analysis

- IE42 The parties carry out the joint arrangement through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The parties have been able to reverse the initial assessment of their rights and obligations arising from the legal form of the separate vehicle in which the arrangement is conducted. They have done this by agreeing terms in the JOA that entitle them to rights to the assets (e.g., exploration and development permits, production, and any other assets arising from the activities) and obligations for the liabilities (e.g., all costs and obligations arising from the work programmes) that are held in entity H. The joint arrangement is a joint operation.
- IE43 Both ~~entitycompany~~ A and ~~entitycompany~~ B recognise in their financial statements their own share of the assets and of any liabilities resulting from the arrangement on the basis of their agreed participating interest. On that basis, each party also recognises its share of the revenue (from the sale of their share of the production) and its share of the expenses.

## Example 6 – Liquefied natural gas arrangement

- IE44 ~~EntityCompany~~ A owns an undeveloped gas field that contains substantial gas resources. ~~EntityCompany~~ A determines that the gas field will be economically viable only if the gas is sold to customers in overseas markets. To do so, a liquefied natural gas (LNG) facility must be built to liquefy the gas so that it can be transported by ship to the overseas markets.
- IE45 ~~EntityCompany~~ A enters into a joint arrangement with ~~entitycompany~~ B in order to develop and operate the gas field and the LNG facility. Under that arrangement, ~~entities companies~~ A and B (the parties) agree to contribute the gas field and cash, respectively, to a new separate vehicle, entity C. In exchange for those contributions, the parties each take a 50 per cent ownership interest in entity C. The main feature of entity C's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).
- IE46 The ~~binding contractual~~ arrangement between the parties specifies that:
- (a) ~~Entitiescompanies~~ A and B must each appoint two members to the board of entity C. The board of directors must unanimously agree the strategy and investments made by entity C.
  - (b) Day-to-day management of the gas field and LNG facility, including development and construction activities, will be undertaken by the staff of ~~entitycompany~~ B in accordance with the directions jointly agreed by the parties. Entity C will reimburse B for the costs it incurs in managing the gas field and LNG facility.
  - (c) Entity C is liable for taxes and royalties on the production and sale of LNG as well as for other liabilities incurred in the ordinary course of business, such as accounts payable, site restoration and decommissioning liabilities.
  - (d) ~~EntitiesCompanies~~ A and B have equal shares in the ~~surplusprofit~~ from the activities carried out in the arrangement and, as such, are entitled to equal shares of any dividends ~~or similar distributions made distributed~~ by entity C.
- IE47 The ~~binding contractual~~ arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity C.

- IE48 The board of entity C decides to enter into a financing arrangement with a syndicate of lenders to help fund the development of the gas field and construction of the LNG facility. The estimated total cost of the development and construction is CU1,000 million.<sup>1</sup>
- IE49 The lending syndicate provides entity C with a CU700 million loan. The arrangement specifies that the syndicate has recourse to [entitisecompanies](#) A and B only if entity C defaults on the loan arrangement during the development of the field and construction of the LNG facility. The lending syndicate agrees that it will not have recourse to [entitisecompanies](#) A and B once the LNG facility is in production because it has assessed that the cash inflows that entity C should generate from LNG sales will be sufficient to meet the loan repayments. Although at this time the lenders have no recourse to [entitisecompanies](#) A and B, the syndicate maintains protection against default by entity C by taking a lien on the LNG facility.

### Analysis

- IE50 The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the [binding contractual](#) arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of entity C, but they establish that the parties have rights to the net assets of entity C. The recourse nature of the financing arrangement during the development of the gas field and construction of the LNG facility (i.e., [entitisecompanies](#) A and B providing separate guarantees during this phase) does not, by itself, impose on the parties an obligation for the liabilities of entity C (i.e., the loan is a liability of entity C). [EntitiesCompanies](#) A and B have separate liabilities, which are their guarantees to repay that loan if entity C defaults during the development and construction phase.
- IE51 There are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets of entity C and that the parties have an obligation for the liabilities of entity C. The joint arrangement is a joint venture.
- IE52 The parties recognise their rights to the net assets of entity C as investments and account for them using the equity method.

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<sup>1</sup> In this example monetary amounts are denominated in 'currency units (CU)'.

### Comparison with IFRS 11

[This comparison will be completed when the Exposure Draft is completed]

IPSAS X, *Joint Arrangements* is drawn primarily from IFRS 11, *Joint Arrangements* (originally issued in 2011, including amendments published in July 2012). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 11 are therefore replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS X and IFRS 11 are as follows:

- Commentary additional to that in IFRS 11 has been included in IPSAS X to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS X uses different terminology, in certain instances, from IFRS 11. The most significant examples are the use of the terms “binding arrangement” “controlling entity”, “surplus or deficit” and “accumulated surplus or deficit” in IPSAS X. The equivalent terms in IFRS 11 are “contractual arrangement”, “parent,” “profit or loss” and “retained earnings.”
- IPSAS X does not provide guidance on the allocation of goodwill to joint ventures. Such guidance is included in IFRS 11.
- IPSAS X contains additional illustrative examples that reflect the public sector context.
- IPSAS X does not contain guidance on accounting for acquisitions of joint interests that constitute a business [This difference will occur only if amendments currently being considered to IFRS 11 occur]

**IPSAS X— DISCLOSURE OF INTERESTS IN OTHER ENTITIES  
[BASED ON IFRS 12]**

**CONTENTS**

	Paragraph
Objective .....	1–4
Scope .....	5–6
Definitions .....	6.1-6.4
Significant Judgments and Assumptions .....	7–9
Interests in Controlled Entities .....	10–19
The Interest that Non-controlling Interests Have in the Economic Entity's Activities and Cash Flows .....	12
The Nature and Extent of Significant Restrictions .....	13
Nature of the Risks Associated with an Entity's Interests in Consolidated Structured Entities .....	14–17
Consequences of Changes in a Controlling Entity's Ownership Interest in a Controlled Entity That Do Not Result in a Loss of Control .....	18
Consequence of Losing Control of a Controlled Entity during the Reporting Period .....	19
Interests in Joint Arrangements and Associates .....	20–23
Nature, Extent and Financial Effects of an Entity's Interests in Joint Arrangements and Associates .....	21–22
Risks Associated with an Entity's Interests in Joint Ventures and Associates .....	23
Interests in Unconsolidated Structured Entities .....	24–31
Nature of Interests .....	26–28
Nature of Risks .....	29–31
Transitional Provisions .....	C2
Effective Date .....	C1
 Appendix A: Application Guidance .....	 AG1–AG
Aggregation (paragraph 4) .....	AG2–AG6
Interests in Other Entities .....	AG7–AG9
Summarized Financial Information for Controlled entities, Joint Ventures and Associates (paragraphs 12 and 21) .....	AG10–AG17
Commitments for Joint Ventures (paragraph 23(a)) .....	AG18–AG20
Interests in Unconsolidated Structured Entities (paragraphs 24–31) .....	AG21–AG26
Structured Entities .....	AG21–AG24
Nature of Risks from Interests in Unconsolidated Structured Entities (paragraphs 29–31) .....	AG25–AG26
Appendix B: Amendments to Other IPSASs	
Basis for Conclusions	
Comparison with IFRS 12	

## Objective

1. The objective of this ~~Standard~~[IFRS](#) is to require an entity to disclose information that enables users of its financial statements to evaluate:
  - (a) The nature of, and risks associated with, *its interests in other entities*; and
  - (b) The effects of those interests on its financial position, financial performance and cash flows.

## ~~Meeting the objective~~

2. To meet the objective in paragraph 1, an entity shall disclose:
  - (a) The significant judgments and assumptions it has made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest (paragraphs 7–9); and
  - (b) Information about its interests in:
    - (i) ~~Controlled entities~~[Subsidiaries](#) (paragraphs 10–19);
    - (ii) Joint arrangements and associates (paragraphs 20–23); and
    - (iii) *Structured entities* that are not controlled by the entity (unconsolidated structured entities) (paragraphs 24–31).  
[Note to IPSASB: If the IPSASB decides to allow an exemption from consolidation for temporarily controlled entities then disclosure of such entities would be proposed.]
3. If the disclosures required by this ~~Standard~~[IFRS](#), together with disclosures required by other ~~IPSASs~~[IFRSs](#), do not meet the objective in paragraph 1, an entity shall disclose whatever additional information is necessary to meet that objective.
4. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements in this ~~Standard~~[IFRS](#). It shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics (see paragraphs AG2–AG6).

## Scope

5. This ~~Standard~~[IFRS](#) shall be applied by an entity that has an interest in any of the following:
  - (a) ~~Controlled entities~~[subsidiaries](#);
  - (b) Joint arrangements (i.e., joint operations or joint ventures);
  - (c) Associates; ~~or~~
  - (d) Unconsolidated structured entities.
6. This ~~Standard~~[IFRS](#) does not apply to:
  - (a) Post-employment benefit plans or other long-term employee benefit plans to which ~~IPSAS 25, IAS 19~~[Employee Benefits](#) applies.
  - (b) An entity's separate financial statements to which ~~IPSAS 6, IAS 27~~[Separate Financial Statements](#) applies. However, if an entity has interests in unconsolidated structured entities and prepares

separate financial statements as its only financial statements, it shall apply the requirements in paragraphs 24–31 when preparing those separate financial statements.

[Note to IPSASB: If the IPSASB decides to permit an exemption from consolidation for temporarily controlled entities it would need to also refer to temporarily controlled entities in paragraph 6(b).]

- (c) An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.
- (d) An interest in another entity that is accounted for in accordance with [IPSAS 29, IFRS-9 \*Financial Instruments: Recognition and Measurement\*](#). However, an entity shall apply this [Standard/IFRS](#):
  - (i) When that interest is an interest in an associate or a joint venture that, in accordance with [IPSAS 7, IAS-28 \*Investments in Associates and Joint Ventures\*](#), is measured at fair value through [surplus or deficit/profit or loss](#); or
  - (ii) When that interest is an interest in an unconsolidated structured entity.

### 6.1 This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).

6.2 The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.

## Definitions

### 6.3 The following terms are used in this Standard with the meanings specified:

**An interest in another entity**, for the purpose of this [Standard/IFRS](#), ~~an interest in another entity~~ refers to ~~contractual and non-contractual~~ involvement by way of binding arrangements (including rights from contracts or other legal rights) or otherwise that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical funder/recipient or customer/supplier relationship.

Paragraphs AG7–AG9 provide further information about interests in other entities.

Paragraphs AG55–AG57 of IPSAS X [IFRS 10] explain variability of returns.

**Revenue/income from a structured entity**, for the purpose of this [Standard/IFRS](#), ~~income from a structured entity~~ includes, but is not limited to, recurring and non-recurring fees, interest, dividends or similar distributions, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

**A structured entity is** an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding contractual arrangements.

Paragraphs AG22–AG24 provide further information about structured entities.

**Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.**

The following terms are defined in IAS 27 (as amended in 2011), IAS 28 (as amended in 2011), IFRS 10 and IFRS 11 *Joint Arrangements* and are used in this IFRS with the meanings specified in those IFRSs:

- associate
- consolidated financial statements
- control of an entity
- equity method
- group
- joint arrangement
- joint control
- joint operation
- joint venture
- non-controlling interest
- parent
- protective rights
- relevant activities
- separate financial statements
- separate vehicle
- significant influence
- subsidiary

**6.4. For the purposes of this Standard a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights. [Based on IPSAS 31.20]**

## Significant Judgments and Assumptions

7. **An entity shall disclose information about significant judgments and assumptions it has made (and changes to those judgments and assumptions) in determining:**

- (a) **That it has control of another entity, ~~ie an investee~~ as described in paragraphs 5 and 6 of IPSAS X, [IFRS 10] *Consolidated Financial Statements*;**
- (b) **That it has joint control of an arrangement or significant influence over another entity; and**
- (c) **The type of joint arrangement (i.e., joint operation or joint venture) when the arrangement has been structured through a separate vehicle.**

8. The significant judgments and assumptions disclosed in accordance with paragraph 7 include those made by the entity when changes in facts and circumstances are such that the conclusion about whether it has control, joint control or significant influence changes during the reporting period.

9. To comply with paragraph 7, an entity shall disclose, for example, significant judgments and assumptions made in determining that:

**(a) It controls another entity where the interest in the other entity is not evidenced by the holding of equity or debt instruments;** [New: proposed because this would be a common scenario in the public sector]

~~(a)(b)~~ **It does not control another entity even though it holds more than half of the voting rights of the other entity. [Similar to IPSAS 6.62(e). If the IPSASB decides that temporarily controlled entities should be exempt from consolidation, the non-consolidation of such entities would be required here]**

~~(b)(c)~~ **It controls another entity even though it holds less than half of the voting rights of the other entity. [Similar to IPSAS 6.62(d)]**

- ~~(d)~~ It is an agent or a principal (see paragraphs AG58–AG72 of IPSAS X [IFRS 10]).
- ~~(e)~~ It does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity. [\[Similar to IPSAS 7.43\(d\)\]](#)
- ~~(f)~~ It has significant influence even though it holds less than 20 per cent of the voting rights of another entity. [\[Similar to IPSAS 7.43\(c\)\]](#)

## Interests in **Controlled Entities**~~Subsidiaries~~

10. An entity shall disclose information that enables users of its consolidated financial statements:
- (a) To understand:
- (i) The composition of the **economic entity**~~group~~; and
- (ii) The interest that non-controlling interests have in the **economic entity's**~~group's~~ activities and cash flows (paragraph 12); and
- (b) To evaluate:
- (i) The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the **economic entity**~~group~~ (paragraph 13);
- (ii) The nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 14–17);
- (iii) The consequences of changes in its ownership interest in a **controlled entity**~~subsidiary~~ that do not result in a loss of control (paragraph 18); and
- (iv) The consequences of losing control of a **controlled entity**~~subsidiary~~ during the reporting period (paragraph 19).
11. When the financial statements of a **controlled entity**~~subsidiary~~ used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (see paragraphs AG92 and AG93 of IPSAS X [IFRS 10]), an entity shall disclose:
- (a) The date of the end of the reporting period of the financial statements of that **controlled entity**~~subsidiary~~; and
- (b) The reason for using a different date or period.

## The Interest that Non-controlling Interests have in the **Economic Entity's**~~group's~~ Activities and Cash Flows

12. An entity shall disclose for each of its **controlled entities**~~subsidiaries~~ that have non-controlling interests that are material to the reporting entity:
- (a) The name of the **controlled entity**~~subsidiary~~.
- (b) The principal place of business (and country of incorporation if different from the principal place of business) of the **controlled entity**~~subsidiary~~.
- (c) The proportion of ownership interests held by non-controlling interests.
- (d) The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.

- (e) The ~~profit or loss surplus or deficit~~ allocated to non-controlling interests of the controlled entity/subsidiary during the reporting period.
- (f) Accumulated non-controlling interests of the controlled entity/subsidiary at the end of the reporting period.
- (g) Summarized financial information about the controlled entity/subsidiary (see paragraph AG10).

### The Nature and Extent of Significant Restrictions

13. An entity shall disclose:

- (a) Significant restrictions (e.g., statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the economic entity/group, such as:
  - (i) Those that restrict the ability of a controlling entity/parent or its controlled entities/subsidiaries to transfer cash or other assets to (or from) other entities within the economic entity/group.
  - (ii) Guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the economic entity/group. [Similar to IPSAS 6.62(g)]
- (b) The nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the economic entity/group (such as when a controlling entity/parent is obliged to settle liabilities of a controlled entity/subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a controlled entity/subsidiary).
- (c) The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

### Nature of the Risks Associated with an Entity's Interests in Consolidated Structured Entities

- 14. An entity shall disclose the terms of any ~~binding/contractual~~ arrangements (including rights from contracts or other legal rights) that could require the controlling entity/parent or its controlled entities/subsidiaries to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).
- 15. If during the reporting period a controlling entity/parent or any of its controlled entities/subsidiaries has, without having an ~~contractual~~ obligation under a binding arrangement (including rights from contracts or other legal rights) to do so, provided financial or other support to a consolidated structured entity (e.g., purchasing assets of or instruments issued by the structured entity), the entity shall disclose:
  - (a) The type and amount of support provided, including situations in which the controlling entity/parent or its controlled entities/subsidiaries assisted the structured entity in obtaining financial support; and
  - (b) The reasons for providing the support.
- 16. If during the reporting period a parent or any of its controlled entities/subsidiaries has, without having a ~~contractual~~ obligation under a binding arrangement (including rights from contracts or other legal rights) to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision.

17. An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

#### **Consequences of Changes in a Parent's Ownership Interest in a Subsidiary that do not Result in a Loss of Control**

18. An entity shall present a schedule that shows the effects on the net assets/equity attributable to owners of the controlling entity~~parent~~ of any changes in its ownership interest in a controlled entity~~subsidiary~~ that do not result in a loss of control.

#### **Consequences of Losing Control of a Controlled Entity~~subsidiary~~ During the Reporting Period**

19. An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph 25 of IPSAS X [IFRS 10], and:
- (a) The portion of that gain or loss attributable to measuring any investment retained in the former controlled entity~~subsidiary~~ at its fair value at the date when control is lost; and
  - (b) The line item(s) in surplus or deficit ~~profit or loss~~ in which the gain or loss is recognized (if not presented separately).

#### **Interests in Joint Arrangements and Associates**

20. **An entity shall disclose information that enables users of its financial statements to evaluate:**
- (a) **The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22); and**
  - (b) **The nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 23).**

#### **Nature, Extent and Financial Effects of an Entity's Interests in Joint Arrangements and Associates**

21. An entity shall disclose:
- (a) For each joint arrangement and associate that is material to the reporting entity:
    - (i) The name of the joint arrangement or associate.
    - (ii) The nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities).
    - (iii) The domicile and legal form of the joint arrangement or associate and the jurisdiction in which it operates~~principal place of business (and country of incorporation, if applicable and different from the principal place of business)~~ of the joint arrangement or associate. [Based on IPSAS 1.1.50(a)]
    - (iv) The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable). [Similar to IPSAS 8.63, in part]
  - (b) For each joint venture and associate that is material to the reporting entity:

- (i) Whether the investment in the joint venture or associate is measured using the equity method or at fair value. [\[Similar to IPSAS 7.43 and IPSAS 8.64\]](#)
  - (ii) Summarized financial information about the joint venture or associate as specified in paragraphs AG12 and AG13. [These disclosures require information about *each material* joint venture or associate, as opposed to IPSAS 7.43(b) and (i) and IPSAS 8.63 which required only *aggregate* information]
  - (iii) If the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment. [Similar to IPSAS 7.43(a)]
- (c) Financial information as specified in paragraph AG16 about the entity's investments in joint ventures and associates that are not individually material:
- (i) In aggregate for all individually immaterial joint ventures and, separately,
  - (ii) In aggregate for all individually immaterial associates.

22. An entity shall also disclose:

- (a) The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements or ~~contractual-binding~~ arrangements [\(including rights from contracts or other legal rights\)](#) between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends [or similar distributions](#), or to repay loans or advances made by the entity.
- (b) When the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:
  - (i) The date of the end of the reporting period of the financial statements of that joint venture or associate; and
  - (ii) The reason for using a different date or period.
- (c) The unrecognized share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognizing its share of losses of the joint venture or associate when applying the equity method.

### **Risks Associated with an Entity's Interests in Joint Ventures and Associates**

23. An entity shall disclose:

- (a) Commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs AG18–AG20.
- (b) In accordance with [IPSAS 19, IAS 37 Provisions, Contingent Liabilities and Contingent Assets](#), unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.

## Interests in Unconsolidated Structured Entities

24. An entity shall disclose information that enables users of its financial statements:
- (a) To understand the nature and extent of its interests in unconsolidated structured entities (paragraphs 26–28); and
  - (b) To evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (paragraphs 29–31).
25. The information required by paragraph 24(b) includes information about an entity's exposure to risk from involvement that it had with unconsolidated structured entities in previous periods (e.g., sponsoring the structured entity), even if the entity no longer has any ~~contractual~~ involvement by way of binding arrangement (including by way of rights from contracts or other legal rights) with the structured entity at the reporting date.

### Nature of Interests

26. An entity shall disclose qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.
27. If an entity has sponsored an unconsolidated structured entity for which it does not provide information required by paragraph 29 (e.g., because it does not have an interest in the entity at the reporting date), the entity shall disclose:
- (a) How it has determined which structured entities it has sponsored;
  - (b) ~~Revenue~~Income from those structured entities during the reporting period, including a description of the types of revenue~~income~~ presented; and
  - (c) The carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.
28. An entity shall present the information in paragraph 27(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs AG2–AG6).

### Nature of Risks

29. An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:
- (a) The carrying amounts of the assets and liabilities recognized in its financial statements relating to its interests in unconsolidated structured entities.
  - (b) The line items in the statement of financial position in which those assets and liabilities are recognized.
  - (c) The amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons.
  - (d) A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.

30. If during the reporting period an entity has, without having an ~~an contractual~~ obligation under a binding arrangement (including rights from contracts or other legal rights) to do so, provided financial or other support to an unconsolidated structured entity in which it previously had or currently has an interest (for example, purchasing assets of or instruments issued by the structured entity), the entity shall disclose:
- (a) The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and
  - (b) The reasons for providing the support.
31. An entity shall disclose any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

## Transitional Provisions

- C2 An entity is encouraged to provide information required by this ~~Standard~~IFRS earlier than annual periods beginning on or after ~~Date~~1 January 2013. Providing some of the disclosures required by this ~~Standard~~IFRS does not compel the entity to comply with all the requirements of this ~~Standard~~IFRS or to apply ~~IPSAS X [IFRS 10], IPSAS X [IFRS 11], IPSAS 6 IAS-27~~ (as amended in ~~Date~~2014) and ~~IPSAS 7 IAS-28~~ (as amended in ~~Date~~2014) early.
- C2A The disclosure requirements of this ~~Standard~~IFRS need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which ~~IPSAS X~~ [IFRS 12] is applied.
- C2B The disclosure requirements of paragraphs 24–31 and the corresponding guidance in paragraphs AG21–AG26 of this ~~Standard~~IFRS need not be applied for any period presented that begins before the first annual period for which ~~IPSAS X~~ [IFRS 12] is applied.

## Effective Date

- C1 An entity shall apply this ~~Standard~~IFRS for annual financial statements covering periods beginning on or after ~~[Date]~~1 January 2013. Earlier application is encouraged~~permitted~~.
- ~~C1A Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12), issued in June 2012, added paragraphs C2A–C2B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies IFRS 12 for an earlier period, it shall apply those amendments for that earlier period.~~

## References to IFRS 9

- ~~C3 If an entity applies this IFRS but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.~~

## Appendix A

### Application Guidance

~~This Appendix is an integral part of [IPSAS X](#) the Standard. It describes the application of paragraphs 1–31 and has the same authority as the other parts of the Standard.~~

AG1. [B1] The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [this Standard](#)~~IFRS 12~~.

### Aggregation (paragraph 4)

AG2. [B2] An entity shall decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

AG3. [B3] An entity may aggregate the disclosures required by this [Standard](#)~~IFRS~~ for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in paragraph AG4, and does not obscure the information provided. An entity shall disclose how it has aggregated its interests in similar entities.

AG4. [B4] An entity shall present information separately for interests in:

- (a) [Controlled entities](#)~~Subsidiaries~~;
- (b) Joint ventures;
- (c) Joint operations;
- (d) Associates; and
- (e) Unconsolidated structured entities.

AG5. [B5] In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and return characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity shall present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.

AG6. [B6] Examples of aggregation levels within the classes of entities set out in paragraph AG4 that might be appropriate are:

- (a) Nature of activities (e.g., a research and development entity, a revolving credit card securitization entity).
- (b) Industry classification. [\[Note: Disclosure not changed because other IPSASs refer to industries\]](#)
- (c) Geography (e.g., country or region).

## Interests in Other Entities

- AG7. [B7] An interest in another entity refers to ~~contractual and non-contractual~~ involvement by way of binding arrangements (including rights from contracts or other legal rights) or otherwise that exposes the reporting entity to variability of ~~benefits~~returns from the performance of the other entity. Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in this ~~Standard~~IFRS. That assessment shall include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entity and other parties.
- AG8. [B8] A reporting entity is typically exposed to variability of ~~benefits~~returns from the performance of another entity by holding instruments (such as equity or debt instruments issued by the other entity) or having another involvement that absorbs variability. For example, assume a structured entity holds a loan portfolio. The structured entity obtains a credit default swap from another entity (the reporting entity) to protect itself from the default of interest and principal payments on the loans. The reporting entity has involvement that exposes it to variability of ~~benefits~~returns from the performance of the structured entity because the credit default swap absorbs variability of ~~benefits~~in the form of returns, of the structured entity.
- AG9. [B9] Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of ~~benefits~~returns for the other entity but do not typically expose the reporting entity to variability of ~~benefits~~returns from the performance of the other entity. For example, assume a structured entity is established to provide investment opportunities for investors who wish to have exposure to entity Z's credit risk (entity Z is unrelated to any party involved in the arrangement). The structured entity obtains funding by issuing to those investors notes that are linked to entity Z's credit risk (credit-linked notes) and uses the proceeds to invest in a portfolio of risk-free financial assets. The structured entity obtains exposure to entity Z's credit risk by entering into a credit default swap (CDS) with a swap counterparty. The CDS passes entity Z's credit risk to the structured entity in return for a fee paid by the swap counterparty. The investors in the structured entity receive a higher return that reflects both the structured entity's return from its asset portfolio and the CDS fee. The swap counterparty does not have involvement with the structured entity that exposes it to variability of ~~benefits~~returns from the performance of the structured entity because the CDS transfers variability to the structured entity, rather than absorbing variability of ~~benefits~~returns of the structured entity.

## Summarized Financial Information for Controlled EntitiesSubsidiaries, Joint Ventures and Associates (paragraphs 12 and 21)

- AG10. [B10] For each ~~subsidiary-controlled entity~~ that has non-controlling interests that are material to the reporting entity, an entity shall disclose:
- (a) Dividends or similar distributions paid to non-controlling interests.
  - (b) Summarized financial information about the assets, liabilities, ~~surplus or deficit~~profit or loss and cash flows of the ~~subsidiary-controlled entity~~ that enables users to understand the interest that non-controlling interests have in the ~~economic entity's group's~~ activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities non-current liabilities, revenue, ~~and surplus or deficit~~profit or loss and total comprehensive income.

- AG11. [B11] The summarized financial information required by paragraph AG10(b) shall be the amounts before inter-company eliminations.
- AG12. [B12] For each joint venture and associate that is material to the reporting entity, an entity shall disclose:
- (a) Dividends or similar distributions received from the joint venture or associate.
  - (b) Summarized financial information for the joint venture or associate (see paragraphs AG14 and AG15) including, but not necessarily limited to:
    - (i) Current assets.
    - (ii) Non-current assets.
    - (iii) Current liabilities.
    - (iv) Non-current liabilities.
    - (v) Revenue.
    - (vi) Tax expense~~Profit or loss from continuing operations.~~
    - (vii) Post-tax profit or loss from discontinued operations. Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations
    - (viii) Surplus or deficit~~Other comprehensive income.~~
    - (ix) Total comprehensive income. [Aligned with IPSAS 1.102]
- AG13. [B13] In addition to the summarized financial information required by paragraph AG12, an entity shall disclose for each joint venture that is material to the reporting entity the amount of:
- (a) Cash and cash equivalents included in paragraph AG12(b)(i).
  - (b) Current financial liabilities (excluding taxes and transfers payable, payables under exchange transaction~~trade and other payables~~ and provisions) included in paragraph AG12(b)(iii). [Aligned with IPSAS 1.88(j) to (l)]
  - (c) Non-current financial liabilities (excluding taxes and transfers payable, payables under exchange transaction~~trade and other payables~~ and provisions) included in paragraph AG12(b)(iv).
  - (d) Depreciation and amortization.
  - (e) Interest ~~income~~revenue.
  - (f) Interest expense.
  - (g) Income tax expense ~~or income~~.
- AG14. [B14] The summarized financial information presented in accordance with paragraphs AG12 and AG13 shall be the amounts included in the IPSAS~~IFRS~~ financial statements of the joint venture or associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:
- (a) The amounts included in the IFRS~~IPSAS~~ financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity

method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

- (b) The entity shall provide a reconciliation of the summarized financial information presented to the carrying amount of its interest in the joint venture or associate.

AG15. [B15] An entity may present the summarized financial information required by paragraphs AG12 and AG13 on the basis of the joint venture's or associate's financial statements if:

- (a) The entity measures its interest in the joint venture or associate at fair value in accordance with [IPSAS 7/IAS 28](#) (as amended in [\[Date\]2014](#)); and
- (b) The joint venture or associate does not prepare [IPSAS/IFRS](#) financial statements and preparation on that basis would be impracticable or cause undue cost.

In that case, the entity shall disclose the basis on which the summarized financial information has been prepared.

AG16. [B16] An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

- (a) [Revenue](#)~~Profit or loss from continuing operations.~~
- (b) [Tax expense](#)~~Post-tax profit or loss from discontinued operations.~~
- (c) [Other comprehensive income](#) ~~Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations.~~
- (d) [Surplus or deficit](#)~~Total comprehensive income.~~ [Aligned with IPSAS 1.102]

An entity provides the disclosures separately for joint ventures and associates.

[Similar to the aggregate disclosures required by IPSAS 7.43(b) and IPSAS 8.63 in respect of all joint ventures or associates.]

AG17. [B17] When an entity's interest in a [subsidiary controlled entity is not consolidated in accordance with paragraph x of IPSAS, Consolidated Financial Statements, or its interest in](#) a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is [not accounted for using the equity method in accordance with paragraph x of IPSAS X, Investments in Associates and Joint Ventures](#)~~classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations~~, the entity is not required to disclose summarized financial information for that [controlled entity](#)~~subsidiary~~, joint venture or associate in accordance with paragraphs AG10–AG16.

[Note: This paragraph would be appropriate if the IPSASB decides to permit an exemption from consolidation or equity accounting due to temporary control. If not, the paragraph should be omitted.]

### **Commitments for Joint Ventures (paragraph 23(a))**

AG18. [B18] An entity shall disclose total commitments it has made but not recognized at the reporting date (including its share of commitments made jointly with other investors with joint control of a joint venture) relating to its interests in joint ventures. Commitments are those that may give rise to a future outflow of cash or other resources. [For comparison see IPSAS 8.72]

- AG19. [B19] Unrecognized commitments that may give rise to a future outflow of cash or other resources include:
- (a) Unrecognized commitments to contribute funding or resources as a result of, for example:
    - (i) The constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period).
    - (ii) Capital-intensive projects undertaken by a joint venture.
    - (iii) Unconditional purchase obligations, comprising procurement of equipment, inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture.
    - (iv) Unrecognized commitments to provide loans or other financial support to a joint venture.
    - (v) Unrecognized commitments to contribute resources to a joint venture, such as assets or services.
    - (vi) Other non-cancellable unrecognized commitments relating to a joint venture.
  - (b) Unrecognized commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future.
- AG20. [B20] The requirements and examples in paragraphs AG18 and AG19 illustrate some of the types of disclosure required by paragraph [2748](#) of [IPSAS 2014AS-24](#) *Related Party Disclosures*.

## Interests in Unconsolidated Structured Entities (paragraphs 24–31)

### Structured Entities

- AG21. [B21] A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.
- AG22. [B22] A structured entity often has some or all of the following features or attributes:
- (a) Restricted activities.
  - (b) A narrow and well-defined objective, such as to ~~effect a tax-efficient lease~~, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.
  - (c) Insufficient [net assets](#)/equity to permit the structured entity to finance its activities without subordinated financial support.
  - (d) Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).
- AG23. [B23] Examples of entities that are regarded as structured entities include, but are not limited to:
- (a) Securitization vehicles.

- (b) Asset-backed financings.
- (c) Some investment funds.

AG24. [B24] An entity that is controlled by voting rights is not a structured entity simply because, for example, it receives funding from third parties following a restructuring.

### **Nature of Risks from Interests in Unconsolidated Structured Entities (paragraphs 29–31)**

AG25. [B25] In addition to the information required by paragraphs 29–31, an entity shall disclose additional information that is necessary to meet the disclosure objective in paragraph 24(b).

AG26. [B26] Examples of additional information that, depending on the circumstances, might be relevant to an assessment of the risks to which an entity is exposed when it has an interest in an unconsolidated structured entity are:

- (a) The terms of an arrangement that could require the entity to provide financial support to an unconsolidated structured entity (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support), including:
  - (i) A description of events or circumstances that could expose the reporting entity to a loss.
  - (ii) Whether there are any terms that would limit the obligation.
  - (iii) Whether there are any other parties that provide financial support and, if so, how the reporting entity's obligation ranks with those of other parties.
- (b) Losses incurred by the entity during the reporting period relating to its interests in unconsolidated structured entities.
- (c) The types of ~~income-revenue~~ the entity received during the reporting period from its interests in unconsolidated structured entities.
- (d) Whether the entity is required to absorb losses of an unconsolidated structured entity before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity's interest in the unconsolidated structured entity.
- (e) Information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in unconsolidated structured entities.
- (f) Any difficulties an unconsolidated structured entity has experienced in financing its activities during the reporting period.
- (g) In relation to the funding of an unconsolidated structured entity, the forms of funding (e.g., commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analyses of the assets and funding of an unconsolidated structured entity if the structured entity has longer-term assets funded by shorter-term funding.

## Amendments to Other IPSASs

### Note to IPSASB

The consequential amendments set out in IFRS 12 have been used as a basis for developing this appendix.

They will need to be reviewed when all the standards in this project have been developed.

Amendments to the following IASB pronouncements (that were amended as a result of IFRS 12) are not shown in this Appendix because there is no IPSAS equivalent:

IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

IFRS 9, *Financial Instruments* (2010)

Amendments to the following IASB pronouncements (that were amended as a result of IFRS 12) are not shown in this Appendix because they have already been amended in IPSAS X [IFRS 11]:

- IAS 36 *Impairment of Assets* (IPSAS 21 and 26)

## IPSAS 1, *Presentation of Financial Statements*

Paragraphs 134 and 139 are amended and paragraph 153E added as follows:

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IPSAS 16, *Investment Property*) ~~a venturer recognizes its interest in a jointly controlled entity using proportionate consolidation or the equity method (see IPSAS 8, *Interests in Joint Ventures*.) ...~~
139. Some of the disclosures made in accordance with paragraph 137 are required by other IPSASs. For example, IPSAS X, [IFRS 12] *Disclosure of Interests in Other Entities* requires an entity to disclose the judgments it has made in determining whether it controls another entity ~~IPSAS 6 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a controlled entity, even though more than half of its voting or potential voting power is owned directly or indirectly through controlled entities.~~ IPSAS 16, *Investment Property*, requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property, and from property held for sale in the ordinary course of business, when classification of the property is difficult.
- 153E IPSAS X [IFRS 101], IPSAS X [IFRS 11] and IPSAS 12, issued in [Date], amended paragraph 134. [Check prior to finalization] An entity shall apply that amendment when it applies IPSAS X-X [IFRS 10-12].
- 153E. IPSAS X ~~IFRS 10~~ and IPSAS X ~~IFRS 12~~, issued in [date], amended paragraphs 4, 12, 88(n), 95(d), 97, 103, 118, 135 and 139. [check prior to finalization]. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 12].

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, ED X, Disclosure of Interests in Other Entities.*

To be developed following the IPSASB's decisions and the reasons for those decisions.
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### **Objective**

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS X, *Disclosure of Interests in Other Entities*. As this Standard is based on IFRS 11, *Joint Arrangements* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS X departs from the main requirements of IFRS 11.

[To be completed]

### **Terminology (paragraphs )**

BC2. The IPSASB agreed....[repeat discussion of terminology from the Basis for Conclusions on ED X, *Consolidated Financial Statements*, or refer readers back to that standard].

### **Significant Judgments and Assumptions (paragraphs )**

BC3. The IPSASB agreed.....

### **Definition of Structured Entity (paragraphs )**

BC4. The IPSASB agreed.....

### **Consolidated Structured Entities (paragraphs )**

BC5. The IPSASB agreed.....

### **Unconsolidated Structured Entities Entity (paragraphs )**

BC6. The IPSASB agreed.....

### **Controlled Entities with Material Non-Controlling Interests (paragraphs )**

BC7. The IPSASB agreed.....

### **Joint Arrangements and Associates (paragraphs )**

BC8. The IPSASB agreed.....

### Comparison with IFRS 12

[This comparison will be completed when the Exposure Draft is completed]

IPSAS X, *Disclosure of Interests in Other Entities* is drawn primarily from IFRS 12, *Disclosure of Interests in Other Entities* (originally issued in 2011, including amendments published in July 2012). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 12 are therefore replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS X and IFRS 12 are as follows:

- Commentary additional to that in IFRS 12 has been included in IPSAS X to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS X uses different terminology, in certain instances, from IFRS 12. The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity,” “revenue” in IPSAS X. The equivalent terms in IFRS 12 are “equity,” “group,” “parent,” “subsidiary” and “income.”
- [To be completed ]

**UPDATE ON IASB INVESTMENT ENTITIES PROJECT****Objective of this Paper**

1. The purpose of this paper is to summarize issues considered during the IASB's Investment Entities project and the development of the resulting amendments to IFRSs. The IASB issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) in October 2012.

**Background**

2. The purpose of the IASB's investment entities project was to examine how an investment entity should account for its interests in subsidiaries, joint ventures and associates and what disclosures an investment entity should make about those interests.

**Exposure Draft (2011)**

3. The IASB issued ED/2011/4 *Investment Entities* in August 2011<sup>1</sup>. The ED proposed that an investment entity<sup>2</sup> should:
  - (a) Be exempt from the consolidation requirements in IFRS 10, *Consolidated Financial Statements*;
  - (b) Measure investments in entities that it controls at fair value, regardless of whether the controlled investee is an operating entity or an investment entity. However, the ED proposed that an investment entity should consolidate an operating entity that provides services to the investment entity; and
  - (c) Recognize changes in fair value of investments in profit or loss.
4. The proposals not to consolidate applied only to the investment entity itself. They did not extend to the parent of an investment entity (unless the parent was also an investment entity). That is, the ED proposed that a non-investment parent of a controlled investment entity should consolidate the investment entity, including its subsidiaries.

**Summary of IASB and FASB Meetings**

5. This section of the paper tracks the development of the proposals through various IASB meetings. Most of the material in this section has been included in previous IPSASB agenda papers. The more recent decisions are in the subsection headed "IASB September 2012" and "Final Amendments".

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<sup>1</sup> The investment entities project was a joint effort between the Financial Accounting Standards Board (FASB) and the IASB to develop converged criteria for determining whether an entity is an investment entity. The FASB issued a separate ED in October 2011 which contained slightly different proposals.

<sup>2</sup> The IASB's investment entity project was intended to address investment entities that have control, joint control and/or significant influence over another entity. Other investment entities may continue to use the options in IFRS 9 *Financial Instruments* in accounting for their investments. Accordingly, the scope of the IASB project was narrower than the FASB project, existing US GAAP and existing Canadian GAAP.

### **IASB and FASB 17 April 2012**

6. The IASB and FASB considered an analysis of responses to the ED, including reasons for and against the proposals. Although there was support for the proposals in the ED, there were also a number of respondents who disagreed with the proposal not to consolidate investment entities or who disagreed with the proposed definition of an investment entity. An overview of issues raised by respondents was included in the IPSASB's June 2012 agenda papers.

### **IASB and FASB 21 May 2012**

7. The IASB and FASB discussed the overall approach to providing guidance for determining whether an entity is an investment entity and the related application guidance.
8. The Boards reconsidered the criteria for the identification of investment entities, including whether all criteria must be met for an entity to meet the definition of an investment entity. Tentative decisions by the IASB at that meeting are shown below.

The definition of an investment entity would be as follows:

1. An investment entity does all of the following:
  - (a) obtains funds from an investor or investors and provides the investor(s) with professional investment management services;
  - (b) commits to its investor(s) that its business purpose and only substantive activities are investing the funds for returns from capital appreciation or capital appreciation and investment income; and
  - (c) manages and evaluates the performance of substantially all of its investments on a fair value basis.
2. An investment entity and its affiliates do not obtain, or have the objective of obtaining, returns or benefits from their investments that are either of the following:
  - (a) other than capital appreciation or capital appreciation and investment income; and
  - (b) not available to other noninvestors or are not normally attributable to ownership interests.

The IASB tentatively decided that an entity that has a significant amount of investments that are not managed on a fair value basis or held for investment income only would not be an investment company.

### **IASB 23 May 2012**

9. This session dealt with proposed clarification of transition arrangements on initial application of IFRS 10 to 12.

### **IASB and FASB 13 June 2012**

10. The IASB and FASB discussed accounting by an investment entity parent for an investment entity subsidiary and accounting by a non-investment entity parent for the investments of an investment entity subsidiary.

#### *Accounting by an investment entity parent for an investment entity subsidiary*

11. The Boards tentatively decided that an investment entity should be required to measure all controlling financial interests in another investment entity at fair value (including interests in both master-feeder and fund-of-funds structures), rather than consolidating those subsidiaries.

12. The FASB agreed to discuss at a future FASB meeting whether an investment company parent entity that is regulated under the SEC's *Investment Company Act* of 1940 should be required to consolidate its wholly-owned investment company subsidiaries.
13. The Boards also discussed whether investment entities should be required to attach the financial statements of subsidiaries to their own financial statements. The IASB tentatively decided not to require this. The FASB tentatively decided to require a feeder fund in a master-feeder structure to attach its master fund's financial statements along with its financial statements.

*Accounting by a non-investment entity parent for an investment entity subsidiary*

14. The IASB tentatively decided that a non-investment entity parent should not retain the exception from consolidation that is used for the controlled investees of an investment entity subsidiary.
15. The FASB tentatively decided to retain the requirement in current US GAAP that a non-investment company parent should retain the specialized accounting used by an investment company subsidiary.

*IASB only session (14 June 2012)*

16. The IASB discussed the consequential amendments to IAS 28 *Investment in Associates and Joint Ventures* (as amended in 2011) proposed in the Investment Entities ED.
17. The IASB tentatively decided to require an investment entity to measure:
  - (a) its investments in associates and joint ventures *that provide services to the investment entity* using the equity method of accounting; and
  - (b) its *other investments* in associates and joint ventures at fair value through profit or loss. This would differ from the current requirements in IAS 28 (as amended in 2011).
18. The IASB also tentatively decided to retain the fair value option in IAS 28 for venture capital organizations, mutual funds, unit trusts, investment-linked insurance funds and similar entities that are not investment entities. Paragraph 18 of IAS 28 contains the following fair value option:

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IFRS 9.

**IASB 16 to 20 July 2012**

*Classification as an investment entity*

19. The IASB and the FASB continued their discussion about how an entity would determine whether it is an investment entity. At the May 2012 joint board meeting, they tentatively decided that an entity would be required to meet specific criteria to be an investment entity.
20. At the 16 to 20 July meeting, the Boards tentatively decided to provide additional guidance to describe the typical characteristics of an investment entity. The Boards tentatively decided that:
  - (a) if an entity did not meet one or more of the typical characteristics it would not necessarily be precluded from being an investment entity;

- (b) when an entity does not meet one or more of the typical characteristics, it would be required to justify how its activities continue to be consistent with that of an investment entity; and
  - (c) an investment entity should have all of the following typical characteristics:
    - (i) multiple investments;
    - (ii) multiple investors;
    - (iii) investors that are not related to the parent entity or the investment manager; and
    - (iv) ownership interests in the form of equity or partnership interests.
21. In May 2012 the IASB tentatively decided that an investment entity would be required to manage its investments on a fair value basis to be an investment entity. By contrast, the FASB proposed that fair value management be a “typical characteristic”.

*Insurance industry issues*

22. The IASB noted that many insurers, particularly life insurers, have investment funds which hold controlling interests in other entities and noted two issues raised by insurers. Some insurance companies requested that:
- (a) insurance investment funds should be included in the definition of an investment entity and should not be required to consolidate their subsidiaries; and
  - (b) insurers themselves should not be required to consolidate their interests in insurance investment funds. Instead they have requested that they be permitted to measure these interests at fair value. They argue that fair value information represents more useful information than consolidated information for insurers’ interests in controlled insurance investment funds.
23. The IASB tentatively decided not to extend the exception to consolidation for insurers’ insurance investment fund subsidiaries within the scope of the Investment Entities project.

*Sweep issues*

24. The IASB tentatively decided that:
- (a) Controlled investees and investments in associates and joint ventures should be initially measured at fair value in accordance with IFRS 9 *Financial Instruments*.
  - (b) The requirements for investment entities should not include any measurement guidance for investments other than controlled investees and investments in associates and joint ventures.
  - (c) The IASB should not introduce a net asset value ('NAV') practical expedient for fair value measurement within the Investment Entities project.
  - (d) The definition of an investment entity should not make reference to existing regulatory requirements.
  - (e) An investment entity should not be prohibited from providing financial support to its investees so long as the provision of financial support does not constitute a separate substantive activity of the entity.

*Reassessment of classification as an investment entity*

25. The IASB tentatively decided to:
- (a) Require an entity to reassess its investment entity status if facts and circumstances indicate that its status has changed.
  - (b) Provide the following guidance regarding the accounting for controlled investees when an entity changes its investment entity status:
    - (i) When an entity ceases to be an investment entity, it shall apply IFRS 3 *Business Combinations* and recognize goodwill or a bargain purchase (as applicable).
    - (ii) When an entity becomes an investment entity, it shall apply the requirements of IFRS 10 *Consolidated Financial Statements* for loss of control and any resulting gain or loss shall be recognized in profit or loss.
    - (iii) Retain the proposed disclosures to be given when an entity changes its status.
    - (iv) Draft reassessment guidance in IAS 28 *Interests in Associates and Joint Ventures* and IAS 27 *Separate Financial Statements* that is consistent with the decisions made for the reassessment guidance for IFRS 10.
26. The IASB noted that paragraph 4 of IFRS 10 already provides some relief from preparing consolidated financial statements for an intermediate parent entity and tentatively decided not to provide any additional relief when an intermediate parent entity ceases to qualify as an investment entity.

*Disclosures*

27. IASB staff recommended that some of the disclosures in IFRS 12 not be required for investment entities. The IASB tentatively decided that:
- (a) The disclosure requirements should only apply to investment entities with investments in subsidiaries, associates or joint ventures.
  - (b) An investment entity with one or more subsidiaries, associates or joint ventures should not be required to provide information about all of its investment activities.
  - (c) An investment entity should be required to provide the disclosures required by IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement* in addition to the disclosure requirements for investment entities.
  - (d) Most of the 'interests in subsidiaries' disclosures in IFRS 12 *Disclosures of Interests in Other Entities* should only apply to consolidated investments of investment entities. Two disclosures should also apply to investment entities. These two disclosures are paragraph 14 (which deals with the risk of providing financial support to a controlled entity) and paragraph 16 (which deals with the provision of financial support to an entity when there is no contractual obligation to provide such support).
  - (e) Investment entities with joint ventures and associates which it accounts for using the fair value method (as per the proposals in the Investment Entities ED) would not need to comply with all the disclosures about joint ventures and associates required by IFRS 12. For

example, they would not be required to provide summarized financial information about each material joint venture or associate.

- (f) The proposal in paragraph B20 of the Investment Entities Exposure Draft should not be carried forward to the final investment entities requirements. Paragraph B20 proposed that an investment entity would not need to comply with the disclosure requirements in the ED if other IFRSs required disclosure of the same information.
- (g) An investment entity should be required to disclose that it is an investment entity and thus that it has not consolidated controlled investees.
- (h) An investment entity should be required to disclose how it has met the definition and typical characteristics to be an investment entity, with specific reasons given if it has not met one or more of the typical characteristics.

#### *Transition and effective date*

- 28. The IASB tentatively decided to develop transition guidance based on a retrospective approach, consistent with the approach used in the IFRS 10 transition guidance.

#### **IASB September 2012**

- 29. The IASB discussed sweep issues that were identified after distribution of the *Investment Entities* (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28) pre-ballot draft.
- 30. The IASB tentatively decided (emphasis added):
  - (a) To replace the requirement for an investment entity to have exit strategies for substantially all of its investments with a requirement that an investment entity should not hold any of its investments indefinitely.
  - (b) That the requirement that an investment entity should manage substantially all of its investments on a fair value basis should be changed to require an investment entity to measure *substantially* all of its investments at fair value.
  - (c) That the proposed requirement in IAS 28 *Investments in Associates and Joint Ventures* that an investment entity should measure its investment in associates and joint ventures at fair value through profit or loss should be removed and that *the current option in IAS 28 should be retained*.
  - (d) That the Basis for Conclusions should clarify that an investment entity can measure investments at fair value through Other Comprehensive Income and still meet the 'fair value measurement' component of the investment entity definition.
  - (e) That an entity should not be disqualified from investment entity status only because it provides substantive investment-related services to third parties.

#### **Final Amendments (issued October 2012)**

- 31. The IASB issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) in October 2012. A copy of the amendments is included as agenda paper 10.6. Some points of interest are as follows:
  - (a) An investment entity is defined;

- (b) The application guidance sets out the essential features that an investment entity must have. These essential features are based on the principles in the definition, and in addition, they require that an entity have an “exit strategy” to realise capital appreciation for its investments;
  - (c) Typical characteristics are identified. An entity does not have to have these typical characteristics but, if it does not have these characteristics it must make certain disclosures.
32. The IASB has achieved its aim of completing this project before IFRS 10 becomes effective (1 January 2013). The amendments have an effective date of 1 January 2014, with early adoption permitted.

**Implication for the IPSASB’s update of IPSASs 6-8**

33. The IPSASB has previously agreed to monitor the IASB project but has indicated that it does not propose to create an exemption from consolidation for investment entities. This update is therefore for information.

## **Investment Entities**

(Amendments to IFRS 10, IFRS 12 and IAS 27)

## Amendments to IFRS 10 Consolidated Financial Statements

Paragraphs 2 and 4 are amended. New text is underlined and deleted text is struck through.

- 2 To meet the objective in paragraph 1, this IFRS:
- (a) ...
  - (c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; ~~and~~
  - (d) sets out the accounting requirements for the preparation of consolidated financial statements; and
  - (e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.
- 3 ...
- 4 An entity that is a parent shall present consolidated financial statements. This IFRS applies to all entities, except as follows:
- (a) ...
  - (c) an investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 31 of this IFRS, to measure all of its subsidiaries at fair value through profit or loss.

After paragraph 26, headings and paragraphs 27–33 are added.

### Determining whether an entity is an investment entity

- 27 A parent shall determine whether it is an investment entity. An investment entity is an entity that:
- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
  - (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
  - (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.
- Paragraphs B85A–B85M provide related application guidance.**
- 28 In assessing whether it meets the definition described in paragraph 27, an entity shall consider whether it has the following typical characteristics of an investment entity:
- (a) it has more than one investment (see paragraphs B85O–B85P);
  - (b) it has more than one investor (see paragraphs B85Q–B85S);
  - (c) it has investors that are not related parties of the entity (see paragraphs B85T–B85U); and
  - (d) it has ownership interests in the form of equity or similar interests (see paragraphs B85V–B85W).
- The absence of any of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity. An investment entity that does not have all of these typical characteristics provides additional disclosure required by paragraph 9A of IFRS 12 *Disclosure of Interests in Other Entities*.
- 29 If facts and circumstances indicate that there are changes to one or more of the three elements that make up the definition of an investment entity, as described in paragraph 27, or the typical characteristics of an investment entity, as described in paragraph 28, a parent shall reassess whether it is an investment entity.
- 30 A parent that either ceases to be an investment entity or becomes an investment entity shall account for the change in its status prospectively from the date at which the change in status occurred (see paragraphs B100–B101).

## Investment entities: exception to consolidation

- 31 **Except as described in paragraph 32, an investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9.<sup>1</sup>**
- 32 Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary that provides services that relate to the investment entity's investment activities (see paragraphs B85C–B85E), it shall consolidate that subsidiary in accordance with paragraphs 19–26 of this IFRS and apply the requirements of IFRS 3 to the acquisition of any such subsidiary.
- 33 A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

In Appendix A, a new definition is added. New text is underlined.

**group**

...

**investment entity**

An entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

In Appendix B, headings and paragraphs B85A–B85W are added.

## Determining whether an entity is an investment entity

- B85A An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. An entity that possesses the three elements of the definition of an investment entity set out in paragraph 27 is an investment entity. Paragraphs B85B–B85M describe the elements of the definition in more detail.

### Business purpose

- B85B The definition of an investment entity requires that the purpose of the entity is to invest solely for capital appreciation, investment income (such as dividends, interest or rental income), or both. Documents that indicate what the entity's investment objectives are, such as the entity's offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity's business purpose. Further evidence may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees); for example, an entity may present its business as

<sup>1</sup> Paragraph C7 of IFRS 10 *Consolidated Financial Statements* states "If an entity applies this IFRS but does not yet apply IFRS 9, any reference in this IFRS to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*."

## Investment Entities

providing medium-term investment for capital appreciation. In contrast, an entity that presents itself as an investor whose objective is to jointly develop, produce or market products with its investees has a business purpose that is inconsistent with the business purpose of an investment entity, because the entity will earn returns from the development, production or marketing activity as well as from its investments (see paragraph B85I).

B85C An investment entity may provide investment-related services (eg investment advisory services, investment management, investment support and administrative services), either directly or through a subsidiary, to third parties as well as to its investors, even if those activities are substantial to the entity.

B85D An investment entity may also participate in the following investment-related activities, either directly or through a subsidiary, if these activities are undertaken to maximise the investment return (capital appreciation or investment income) from its investees and do not represent a separate substantial business activity or a separate substantial source of income to the investment entity:

- (a) providing management services and strategic advice to an investee; and
- (b) providing financial support to an investee, such as a loan, capital commitment or guarantee.

B85E If an investment entity has a subsidiary that provides investment-related services or activities, such as those described in paragraphs B85C–B85D, to the entity or other parties, it shall consolidate that subsidiary in accordance with paragraph 32.

## Exit strategies

B85F An entity's investment plans also provide evidence of its business purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realise capital appreciation from substantially all of its equity investments and non-financial asset investments. An investment entity shall also have an exit strategy for any debt instruments that have the potential to be held indefinitely, for example perpetual debt investments. The entity need not document specific exit strategies for each individual investment but shall identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments. Exit mechanisms that are only put in place for default events, such as a breach of contract or non-performance, are not considered exit strategies for the purpose of this assessment.

B85G Exit strategies can vary by type of investment. For investments in private equity securities, examples of exit strategies include an initial public offering, a private placement, a trade sale of a business, distributions (to investors) of ownership interests in investees and sales of assets (including the sale of an investee's assets followed by a liquidation of the investee). For equity investments that are traded in a public market, examples of exit strategies include selling the investment in a private placement or in a public market. For real estate investments, an example of an exit strategy includes the sale of the real estate through specialised property dealers or the open market.

B85H An investment entity may have an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or similar business reasons. In this case, the investment entity investor need not have an exit strategy for that investment, provided that the investment entity investee has appropriate exit strategies for its investments.

## Earnings from investments

B85I An entity is not investing solely for capital appreciation, investment income, or both, if the entity or another member of the group containing the entity (ie the group that is controlled by the investment entity's ultimate parent) obtains, or has the objective of obtaining, other benefits from the entity's investments that are not available to other parties that are not related to the investee. Such benefits include:

- (a) the acquisition, use, exchange or exploitation of the processes, assets or technology of an investee. This would include the entity or another group member having disproportionate, or exclusive, rights to acquire assets, technology, products or services of any investee; for example, by holding an option to purchase an asset from an investee if the asset's development is deemed successful;
- (b) joint arrangements (as defined in IFRS 11) or other agreements between the entity or another group member and an investee to develop, produce, market or provide products or services;
- (c) financial guarantees or assets provided by an investee to serve as collateral for borrowing arrangements of the entity or another group member (however, an investment entity would still be able to use an investment in an investee as collateral for any of its borrowings);

- (d) an option held by a related party of the entity to purchase, from that entity or another group member, an ownership interest in an investee of the entity;
- (e) except as described in paragraph B85J, transactions between the entity or another group member and an investee that:
  - (i) are on terms that are unavailable to entities that are not related parties of either the entity, another group member or the investee;
  - (ii) are not at fair value; or
  - (iii) represent a substantial portion of the investee's or the entity's business activity, including business activities of other group entities.

B85J An investment entity may have a strategy to invest in more than one investee in the same industry, market or geographical area in order to benefit from synergies that increase the capital appreciation and investment income from those investees. Notwithstanding paragraph B85I(e), an entity is not disqualified from being classified as an investment entity merely because such investees trade with each other.

## Fair value measurement

B85K An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results in more relevant information than, for example, consolidating its subsidiaries or using the equity method for its interests in associates or joint ventures. In order to demonstrate that it meets this element of the definition, an investment entity:

- (a) provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is required or permitted in accordance with IFRSs; and
- (b) reports fair value information internally to the entity's key management personnel (as defined in IAS 24), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

B85L In order to meet the requirement in B85K(a), an investment entity would:

- (a) elect to account for any investment property using the fair value model in IAS 40 *Investment Property*;
- (b) elect the exemption from applying the equity method in IAS 28 for its investments in associates and joint ventures; and
- (c) measure its financial assets at fair value using the requirements in IFRS 9.

B85M An investment entity may have some non-investment assets, such as a head office property and related equipment, and may also have financial liabilities. The fair value measurement element of the definition of an investment entity in paragraph 27(c) applies to an investment entity's investments. Accordingly, an investment entity need not measure its non-investment assets or its liabilities at fair value.

## Typical characteristics of an investment entity

B85N In determining whether it meets the definition of an investment entity, an entity shall consider whether it displays the typical characteristics of one (see paragraph 28). The absence of one or more of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity but indicates that additional judgement is required in determining whether the entity is an investment entity.

## More than one investment

B85O An investment entity typically holds several investments to diversify its risk and maximise its returns. An entity may hold a portfolio of investments directly or indirectly, for example by holding a single investment in another investment entity that itself holds several investments.

B85P There may be times when the entity holds a single investment. However, holding a single investment does not necessarily prevent an entity from meeting the definition of an investment entity. For example, an investment entity may hold only a single investment when the entity:

- (a) is in its start-up period and has not yet identified suitable investments and, therefore, has not yet executed its investment plan to acquire several investments;

## Investment Entities

- (b) has not yet made other investments to replace those it has disposed of;
- (c) is established to pool investors' funds to invest in a single investment when that investment is unobtainable by individual investors (eg when the required minimum investment is too high for an individual investor); or
- (d) is in the process of liquidation.

### More than one investor

- B85Q Typically, an investment entity would have several investors who pool their funds to gain access to investment management services and investment opportunities that they might not have had access to individually. Having several investors would make it less likely that the entity, or other members of the group containing the entity, would obtain benefits other than capital appreciation or investment income (see paragraph B85I).
- B85R Alternatively, an investment entity may be formed by, or for, a single investor that represents or supports the interests of a wider group of investors (eg a pension fund, government investment fund or family trust).
- B85S There may also be times when the entity temporarily has a single investor. For example, an investment entity may have only a single investor when the entity:
- (a) is within its initial offering period, which has not expired and the entity is actively identifying suitable investors;
  - (b) has not yet identified suitable investors to replace ownership interests that have been redeemed; or
  - (c) is in the process of liquidation.

### Unrelated investors

- B85T Typically, an investment entity has several investors that are not related parties (as defined in IAS 24) of the entity or other members of the group containing the entity. Having unrelated investors would make it less likely that the entity, or other members of the group containing the entity, would obtain benefits other than capital appreciation or investment income (see paragraph B85I).
- B85U However, an entity may still qualify as an investment entity even though its investors are related to the entity. For example, an investment entity may set up a separate 'parallel' fund for a group of its employees (such as key management personnel) or other related party investor(s), which mirrors the investments of the entity's main investment fund. This 'parallel' fund may qualify as an investment entity even though all of its investors are related parties.

### Ownership interests

- B85V An investment entity is typically, but is not required to be, a separate legal entity. Ownership interests in an investment entity are typically in the form of equity or similar interests (eg partnership interests), to which proportionate shares of the net assets of the investment entity are attributed. However, having different classes of investors, some of which have rights only to a specific investment or groups of investments or which have different proportionate shares of the net assets, does not preclude an entity from being an investment entity.
- B85W In addition, an entity that has significant ownership interests in the form of debt that, in accordance with other applicable IFRSs, does not meet the definition of equity, may still qualify as an investment entity, provided that the debt holders are exposed to variable returns from changes in the fair value of the entity's net assets.

In Appendix B, a heading and paragraphs B100–B101 are added.

## Accounting for a change in investment entity status

- B100 When an entity ceases to be an investment entity, it shall apply IFRS 3 to any subsidiary that was previously measured at fair value through profit or loss in accordance with paragraph 31. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase

that arises from the deemed acquisition. All subsidiaries shall be consolidated in accordance with paragraphs 19–24 of this IFRS from the date of change of status.

- B101 When an entity becomes an investment entity, it shall cease to consolidate its subsidiaries at the date of the change in status, except for any subsidiary that shall continue to be consolidated in accordance with paragraph 32. The investment entity shall apply the requirements of paragraphs 25 and 26 to those subsidiaries that it ceases to consolidate as though the investment entity had lost control of those subsidiaries at that date.

In Appendix C, new paragraph C1B is added.

- C1B *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 2, 4, C2A, C6A and Appendix A and added paragraphs 27–33, B85A–B85W, B100–B101 and C3A–C3F. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early application is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.

In Appendix C, paragraph C2A is amended. New text is underlined.

- C2A Notwithstanding the requirements of paragraph 28 of IAS 8, when this IFRS is first applied, and, if later, when the *Investment Entities* amendments to this IFRS are first applied, an entity need only present the quantitative information required by paragraph 28(f) of IAS 8 for the annual period immediately preceding the date of initial application of this IFRS (the ‘immediately preceding period’). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

In Appendix C, new paragraphs C3A–C3F are added.

- C3A At the date of initial application, an entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at that date. If, at the date of initial application, an entity concludes that it is an investment entity, it shall apply the requirements of paragraphs C3B–C3F instead of paragraphs C5–C5A.

- C3B Except for any subsidiary that is consolidated in accordance with paragraph 32 (to which paragraphs C3 and C6 or paragraphs C4–C4C, whichever is relevant, apply), an investment entity shall measure its investment in each subsidiary at fair value through profit or loss as if the requirements of this IFRS had always been effective. The investment entity shall retrospectively adjust both the annual period that immediately precedes the date of initial application and equity at the beginning of the immediately preceding period for any difference between:

- (a) the previous carrying amount of the subsidiary; and
- (b) the fair value of the investment entity’s investment in the subsidiary.

The cumulative amount of any fair value adjustments previously recognised in other comprehensive income shall be transferred to retained earnings at the beginning of the annual period immediately preceding the date of initial application.

- C3C Before the date that IFRS 13 *Fair Value Measurement* is adopted, an investment entity shall use the fair value amounts that were previously reported to investors or to management, if those amounts represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm’s length transaction at the date of the valuation.

- C3D If measuring an investment in a subsidiary in accordance with paragraphs C3B–C3C is impracticable (as defined in IAS 8), an investment entity shall apply the requirements of this IFRS at the beginning of the earliest period for which application of paragraphs C3B–C3C is practicable, which may be the current period. The investor shall retrospectively adjust the annual period that immediately precedes the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. If this is the case, the adjustment to equity shall be recognised at the beginning of the current period.

Investment Entities

- C3E If an investment entity has disposed of, or has lost control of, an investment in a subsidiary before the date of initial application of this IFRS, the investment entity is not required to make adjustments to the previous accounting for that subsidiary.
- C3F If an entity applies the *Investment Entities* amendments for a period later than when it applies IFRS 10 for the first time, references to ‘the date of initial application’ in paragraphs C3A–C3E shall be read as ‘the beginning of the annual reporting period for which the amendments in *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, are applied for the first time.’

In Appendix C, paragraph C6A is amended. New text is underlined and deleted text is struck through.

- C6A Notwithstanding the references to the annual period immediately preceding the date of initial application (the ‘immediately preceding period’) in paragraphs ~~C3B~~C4–C5A, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the ‘immediately preceding period’ in paragraphs ~~C3B~~C4–C5A shall be read as the ‘earliest adjusted comparative period presented’.

# Appendix

## Consequential amendments to other Standards

*This appendix sets out amendments to other Standards that are a consequence of the IASB issuing Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of Investment Entities is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Investment Entities at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.*

### **IFRS 1 First-time Adoption of International Financial Reporting Standards**

Paragraph 39T is added.

39T *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs D16, D17 and Appendix C and added a heading and paragraphs E6–E7. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

Appendix C is amended. New text is underlined.

*This appendix is an integral part of the IFRS. An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to IFRSs. This Appendix should only be applied to business combinations within the scope of IFRS 3 Business Combinations.*

In Appendix D, paragraphs D16–D17 are amended. New text is underlined.

D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in IFRS 10, that is required to be measured at fair value through profit or loss); or

(b) ...

D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Notwithstanding this requirement, a non-investment entity parent shall not apply the exception to consolidation that is used by any investment entity subsidiaries. ...

In Appendix E, after paragraph E5, a heading and paragraphs E6–E7 are added.

## Investment entities

- E6 A first-time adopter that is a parent shall assess whether it is an investment entity, as defined in IFRS 10, on the basis of the facts and circumstances that exist at the date of transition to IFRSs.
- E7 A first-time adopter that is an investment entity, as defined in IFRS 10, may apply the transition provisions in paragraphs C3C–C3D of IFRS 10 and paragraphs 18C–18G of IAS 27 if its first IFRS financial statements are for an annual period ending on or before 31 December 2014. The references in those paragraphs to the annual period that immediately precedes the date of initial application shall be read as the earliest annual period presented. Consequently, the references in those paragraphs shall be read as the date of transition to IFRSs.

## IFRS 3 *Business Combinations*

Paragraph 7 is amended and paragraphs 2A and 64G are added. New text is underlined and deleted text is struck through.

- 2A The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in IFRS 10 *Consolidated Financial Statements*, of an investment in a subsidiary that is required to be measured at fair value through profit or loss.
- 7 The guidance in IFRS 10 *Consolidated Financial Statements* shall be used to identify the acquirer ...
- 64G *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraph 7 and added paragraph 2A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies these amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## IFRS 7 *Financial Instruments: Disclosures*

Paragraph 3 is amended and paragraph 44X is added. New text is underlined and deleted text is struck through.

- 3 This IFRS shall be applied by all entities to all types of financial instruments, except:
- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IFRS 10, IAS 27 or IAS 28 require or permits an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, entities shall apply the requirements of this IFRS and, for those measured at fair value, the requirements of IFRS 13 *Fair Value Measurement*. Entities shall also apply this IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in IAS 32.
- 44X *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraph 3. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## IAS 7 Statement of Cash Flows

Paragraphs 42A and 42B are amended and paragraphs 40A and 58 are added. New text is underlined and deleted text is struck through.

- 40A An investment entity, as defined in IFRS 10 *Consolidated Financial Statements*, need not apply paragraphs 40(c) or 40(d) to an investment in a subsidiary that is required to be measured at fair value through profit or loss.
- 42A Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in IFRS 10, and is required to be measured at fair value through profit or loss.
- 42B Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see IFRS 10 ~~*Consolidated Financial Statements*~~), unless the subsidiary is held by an investment entity and is required to be measured at fair value through profit or loss. Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.
- 58 *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 42A and 42B and added paragraph 40A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## IAS 12 Income Taxes

Paragraphs 58 and 68C are amended and paragraph 98C is added. New text is underlined.

- 58 Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:
- (a) ...
  - (b) a business combination (other than the acquisition by an investment entity, as defined in IFRS 10 *Consolidated Financial Statements*, of a subsidiary that is required to be measured at fair value through profit or loss) (see paragraphs 66 to 68).
- 68C As noted in paragraph 68A, the amount of the tax deduction (or estimated future tax deduction, measured in accordance with paragraph 68B) may differ from the related cumulative remuneration expense. Paragraph 58 of the Standard requires that current and deferred tax should be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or event that is recognised, in the same or a different period, outside profit or loss, or (b) a business combination (other than the acquisition by an investment entity of a subsidiary that is required to be measured at fair value through profit or loss). If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the associated current or deferred tax should be recognised directly in equity.
- 98C *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 58 and 68C. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## IAS 24 Related Party Disclosures

Paragraphs 4 and 9 are amended and paragraph 28B is added. New text is underlined.

- 4 Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated, except for those between an investment entity and its subsidiaries measured at fair value through profit or loss, in the preparation of consolidated financial statements of the group.
- 9 **The terms 'control' and 'investment entity', 'joint control', and 'significant influence' are defined in IFRS 10, IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures* respectively and are used in this Standard with the meanings specified in those IFRSs.**
- 28B *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 4 and 9. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## IAS 32 Financial Instruments: Presentation

Paragraph 4 is amended and paragraph 97N is added. New text is underlined and deleted text is struck through.

- 4 This Standard shall be applied by all entities to all types of financial instruments except:
- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IFRS 10, IAS 27 or IAS 28 require or permits an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.
- 97N *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraph 4. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## IAS 34 Interim Financial Reporting

Paragraph 16A is amended and paragraph 54 is added. New text is underlined.

- 16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.
- (a) ...

(k) for entities becoming, or ceasing to be, investment entities, as defined in IFRS 10 *Consolidated Financial Statements*, the disclosures in IFRS 12 *Disclosure of Interests in Other Entities* paragraph 9B.

54 *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, added paragraph 16A. An entity shall apply that amendment for annual periods beginning 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraphs 2 and 80 are amended and paragraph 103R is added. New text is underlined and deleted text is struck through.

2 This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IFRS 10, IAS 27 or IAS 28 require or permit an entity to account for ~~entities shall apply this Standard to~~ an interest in a subsidiary, associate or joint venture ~~that according to IAS 27 or IAS 28 is accounted for under~~ in accordance with some or all of the requirements of this Standard. Entities shall also apply this Standard to derivatives on an interest in a subsidiary, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity in IAS 32 *Financial Instruments: Presentation*.

(b) ...

(g) any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of IFRS 3 *Business Combinations* at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

80 ... It follows that hedge accounting can be applied to transactions between entities in the same group only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group, except for the consolidated financial statements of an investment entity, as defined in IFRS 10, where transactions between an investment entity and its subsidiaries measured at fair value through profit or loss will not be eliminated in the consolidated financial statements. ...

103R *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 2 and 80. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## Amendments to IFRS 12 *Disclosure of Interests in Other Entities*

Paragraph 2 is amended. New text is underlined and deleted text is struck through.

- 2 To meet the objective in paragraph 1, an entity shall disclose:
- (a) the significant judgements and assumptions it has made in determining:
    - (i) the nature of its interest in another entity or arrangement; ~~and in determining~~
    - (ii) the type of joint arrangement in which it has an interest (paragraphs 7–9);
    - (iii) that it meets the definition of an investment entity, if applicable (paragraph 9A); and
  - (b) ...

After paragraph 9, a heading and paragraphs 9A–9B are added.

### Investment entity status

- 9A **When a parent determines that it is an investment entity in accordance with paragraph 27 of IFRS 10, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that it is an investment entity. If the investment entity does not have one or more of the typical characteristics of an investment entity (see paragraph 28 of IFRS 10), it shall disclose its reasons for concluding that it is nevertheless an investment entity.**
- 9B When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:
- (a) the total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated;
  - (b) the total gain or loss, if any, calculated in accordance with paragraph B101 of IFRS 10; and
  - (c) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

After paragraph 19, a heading and paragraphs 19A–19G are added.

### Interests in unconsolidated subsidiaries (investment entities)

- 19A An investment entity that, in accordance with IFRS 10, is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss shall disclose that fact.
- 19B For each unconsolidated subsidiary, an investment entity shall disclose:
- (a) the subsidiary's name;
  - (b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary; and

- (c) the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.
- 19C If an investment entity is the parent of another investment entity, the parent shall also provide the disclosures in 19B(a)–(c) for investments that are controlled by its investment entity subsidiary. The disclosure may be provided by including, in the financial statements of the parent, the financial statements of the subsidiary (or subsidiaries) that contain the above information.
- 19D An investment entity shall disclose:
- (a) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity; and
- (b) any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support.
- 19E If, during the reporting period, an investment entity or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated subsidiary (eg purchasing assets of, or instruments issued by, the subsidiary or assisting the subsidiary in obtaining financial support), the entity shall disclose:
- (a) the type and amount of support provided to each unconsolidated subsidiary; and
- (b) the reasons for providing the support.
- 19F An investment entity shall disclose the terms of any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).
- 19G If during the reporting period an investment entity or any of its unconsolidated subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated, structured entity that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity shall disclose an explanation of the relevant factors in reaching the decision to provide that support.

After paragraph 21, paragraph 21A is added.

- 21A An investment entity need not provide the disclosures required by paragraphs 21(b)–21(c).

After paragraph 25, paragraph 25A is added.

- 25A An investment entity need not provide the disclosures required by paragraph 24 for an unconsolidated structured entity that it controls and for which it presents the disclosures required by paragraphs 19A–19G.

In Appendix A, a term is added. New text is underlined.

The following terms are defined in IAS 27 (as amended in 2011), IAS 28 (as amended in 2011), IFRS 10 and IFRS 11 *Joint Arrangements* and are used in this IFRS with the meanings specified in those IFRSs:

- associate
- consolidated financial statements
- control of an entity

- equity method
- group
- investment entity
- joint arrangement
- ...

In Appendix C, paragraph C1B is added.

C1B *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraph 2 and Appendix A, and added paragraphs 9A–9B, 19A–19G, 21A and 25A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.

## Amendments to IAS 27 *Separate Financial Statements*

Paragraphs 5–6 are amended. New text is underlined.

- 5 The following terms are defined in Appendix A of IFRS 10 *Consolidated Financial Statements*, Appendix A of IFRS 11 *Joint Arrangements* and paragraph 3 of IAS 28 *Investments in Associates and Joint Ventures*:
- associate
  - control of an investee
  - group
  - investment entity
  - joint control
  - ...
- 6 Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances set out in paragraphs 8–8A. Separate financial statements need not be appended to, or accompany, those statements.

After paragraph 8, paragraph 8A is added.

- 8A An investment entity that is required, throughout the current period and all comparative periods presented, to apply the exception to consolidation for all of its subsidiaries in accordance with paragraph 31 of IFRS 10 presents separate financial statements as its only financial statements.

After paragraph 11, paragraphs 11A–11B are added.

- 11A If a parent is required, in accordance with paragraph 31 of IFRS 10, to measure its investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.
- 11B When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:
- (a) when an entity ceases to be an investment entity, the entity shall, in accordance with paragraph 10, either:
    - (i) account for an investment in a subsidiary at cost. The fair value of the subsidiary at the date of the change of status shall be used as the deemed cost at that date; or
    - (ii) continue to account for an investment in a subsidiary in accordance with IFRS 9.
  - (b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9. The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.

After paragraph 16, paragraph 16A is added.

- 16A** When an investment entity that is a parent (other than a parent covered by paragraph 16) prepares, in accordance with paragraph 8A, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by IFRS 12 *Disclosure of Interests in Other Entities*.

Paragraph 17 is amended. New text is underlined.

- 17** When a parent (other than a parent covered by paragraphs 16–16A) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with IFRS 10, IFRS 11 or IAS 28 (as amended in 2011) to which they relate. The parent or investor shall also disclose in its separate financial statements:

- (a) ...

Paragraph 18 is amended. Deleted text is struck through.

- 18 ... If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS 10, IFRS 11, IFRS 12 ~~*Disclosure of Interests in Other Entities*~~ and IAS 28 (as amended in 2011) at the same time.

After paragraph 18, paragraphs 18A–18I are added.

- 18A** *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, amended paragraphs 5, 6, 17 and 18, and added paragraphs 8A, 11A–11B, 16A and 18B–18I. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.
- 18B** If, at the date of initial application of the *Investment Entities* amendments (which, for the purposes of this IFRS, is the beginning of the annual reporting period for which those amendments are applied for the first time), a parent concludes that it is an investment entity, it shall apply paragraphs 18C–18I to its investment in a subsidiary.
- 18C** At the date of initial application, an investment entity that previously measured its investment in a subsidiary at cost shall instead measure that investment at fair value through profit or loss as if the requirements of this IFRS had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust retained earnings at the beginning of the immediately preceding period for any difference between:
- (a) the previous carrying amount of the investment; and
- (b) the fair value of the investor's investment in the subsidiary.
- 18D** At the date of initial application, an investment entity that previously measured its investment in a subsidiary at fair value through other comprehensive income shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognised in other comprehensive income shall be transferred to retained earnings at the beginning of the annual period immediately preceding the date of initial application.
- 18E** At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a subsidiary that it had previously elected to measure at fair value through profit or loss in accordance with IFRS 9, as permitted in paragraph 10.
- 18F** Before the date that IFRS 13 *Fair Value Measurement* is adopted, an investment entity shall use the fair value amounts previously reported to investors or to management, if those amounts represent the amount for

which the investment could have been exchanged between knowledgeable, willing parties in an arm's length transaction at the date of the valuation.

18G If measuring the investment in the subsidiary in accordance with paragraphs 18C–18F is impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this IFRS at the beginning of the earliest period for which application of paragraphs 18C–18F is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the subsidiary is earlier than the beginning of the immediately preceding period, the investor shall adjust equity at the beginning of the immediately preceding period for any difference between:

- (a) the previous carrying amount of the investment; and
- (b) the fair value of the investor's investment in the subsidiary.

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to equity shall be recognised at the beginning of the current period.

18H If an investment entity has disposed of, or lost control of, an investment in a subsidiary before the date of initial application of the *Investment Entities* amendments, the investment entity is not required to make adjustments to the previous accounting for that investment.

18I Notwithstanding the references to the annual period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs 18C–18G, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs 18C–18G shall be read as the 'earliest adjusted comparative period presented'. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.