

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: September 16–19, 2013

**Agenda
Item
3**

For:
 Approval
 Discussion
 Information

Update of IPSASs 6–8

Objective(s) of Agenda Item

1. The objectives of this agenda item are to:
 - (a) **Consider and resolve** the remaining issues associated with the proposed exposure drafts (EDs). This includes determining the accounting treatment of investment entities in the consolidated financial statements of a controlling entity that is not itself an investment entity (refer to agenda item 3.1);
 - (b) **Consider and approve for issue** the five EDs that comprise this project (refer agenda items 3.2 to 3.6); and
 - (c) **Provide an update** on related IASB projects and explain how the IASB’s proposals have been incorporated in the EDs.

Material(s) Presented

Agenda Item 3.1	Issues Paper
	Clean Versions of EDs (for page by page review)
Agenda Item 3.2	ED 48, <i>Consolidated Financial Statements</i>
Agenda Item 3.3	ED 49, <i>Joint Arrangements</i>
Agenda Item 3.4	ED 50, <i>Disclosure of Interests in Other Entities</i>
Agenda Item 3.5	ED 51, <i>Separate Financial Statements</i>
Agenda Item 3.6	ED 52, <i>Investments in Associates and Joint Ventures</i>
	Marked-up Versions of EDs (for information)
Agenda Item 3.7	ED 48, <i>Consolidated Financial Statements</i>
Agenda Item 3.8	ED 49, <i>Joint Arrangements</i>
Agenda Item 3.9	ED 50, <i>Disclosure of Interests in Other Entities</i>
Agenda Item 3.10	ED 51, <i>Separate Financial Statements</i>
Agenda Item 3.11	ED 52, <i>Investments in Associates and Joint Ventures</i>

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* (Amended 2011); and
 - (e) IAS 28, *Investments in Associates and Joint Ventures* (Amended 2011).
3. When approved, these standards will supersede IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures*.

June 2012

4. 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.

September 2012

5. 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.

December 2012

6. At its meeting in December 2012 the IPSASB considered three draft EDs based on IFRSs 10-12 and issues arising from the development of those EDs.
7. In relation to ED 48, *Consolidated Financial Statements* the IPSASB considered whether there should continue to be an exemption for temporarily controlled entities. The IPSASB did not support keeping the current exception for temporarily controlled entities in IPSAS 6. The IPSASB also did not support making the temporary control exception more restrictive. The IPSASB agreed to consider further the possibility of removing the temporary control exception altogether or possibly requiring that temporarily controlled entities be equity accounted. The IPSASB also agreed to consider the possible application of equity accounting to various categories of controlled entities, including entities that have been rescued from financial distress and Government Business Enterprises.
8. In relation to structured entities the IPSASB noted that the structured entity definition and structured entity disclosures in ED 50, *Disclosure of Interests in Other Entities* might need to be amended to be more appropriate in the public sector context.

March 2013

9. The agenda papers for March 2013 included all five EDs that comprise this project. The IPSASB provided detailed feedback on the following two EDs, and related issues:
 - (a) The ED based on IAS 27, *Separate Financial Statements* (Amended 2011); and
 - (b) The ED based on IAS 28, *Investments in Associates and Joint Ventures* (Amended 2011).
10. The IPSASB considered outstanding issues in respect of the three other EDs. The key outstanding issues were:
 - (a) Whether there should be any exceptions to the requirement to consolidate controlled entities. As part of this discussion the IPSASB considered a range of alternative measurement and presentation options, including the possibility of equity accounting for certain entities. The IPSASB did not conclude on this issue and considered it further in June 2013; and
 - (b) How to appropriately limit the definition of structured entities in the public sector. The IPSASB agreed to limit the definition of structured entities so that it excludes some common types of arrangements in the public sector.

June 2013

11. The IPSASB considered which reporting entities should be required to comply with the consolidation requirements in the ED based on IFRS 10, *Consolidated Financial Statements*.
12. In relation to the financial statements of investment entities, the IPSASB agreed to propose that investment entities be required to recognize their controlled investments at fair value, as required by IFRS 10. In addition, the IPSASB directed staff to consider arguments for permitting the retention, or “roll-up”, of fair value investment entity accounting by a non-investment controlling entity (for example, at a whole of government level). The IPSASB indicated that it would debate this latter issue at its meeting in September and directed staff to include various options in the relevant ED. The IPSASB agreed that the Basis for Conclusions (on the ED based on IFRS 10) should note the wide-ranging discussions of the IPSASB over a number of meetings regarding possible exceptions to consolidation. The IPSASB agreed to ask respondents to justify any proposals for exceptions to consolidation having regard to user needs.
13. The IPSASB also considered a proposal for optional whole of government consolidated financial statements, in conjunction with mandatory statistical sector reporting. The IPSASB agreed not to proceed with this proposal, although it noted that the interaction between IPSAS 18, *Segment Reporting* and IPSAS 22, *Disclosure of Financial Information about the General Government Sector* could be explored in the future and might form part of the 2014 work program consultation.

Task-Based Group

14. The Task-based Group (TBG) for this project comprises Adriana Tiron Tudor, Masud Muzaffar, Stefan Berger and Ken Warren. The TBG has had the opportunity to comment on draft papers, but the recommendations remain those of staff.

Action Requested

15. The IPSASB is asked to consider the “Matters for Consideration” in Agenda Paper 3.1 and undertake a page by page review of the five draft EDs (Agenda Papers 3.2 to 3.6), with a view to approving the EDs for issue.

Project Milestones and Next Meeting

16. If the IPSASB approves these EDs at this meeting, project milestones for the remainder of the project could be as follows.

Major Project Milestones	Timing
Approve EDs (4 month comment period proposed)	September 2013
Due date for comments (subject to IPSASB approval)	31 January 2014
Review of responses to EDs and consideration of issues	March 2014–September 2014
Approve IPSASs	December 2014

Issues Relating to Draft EDs

ED 48, *Consolidated Financial Statements*

ED 49, *Joint Arrangements*

ED 50, *Disclosure of Interests in Other Entities*

ED 51, *Separate Financial Statements*

ED 52, *Investments in Associates and Joint Ventures*

Objectives

1. The objectives of this session are to
 - (a) **Obtain directions** from the IPSASB on the remaining issues, particularly how an entity should account for a controlled investment entity in its consolidated financial statements; and
 - (b) **Approve** the draft EDs.
2. Clean versions of the draft EDs are set out in Agenda papers 3.2 to 3.6. Marked-up versions of the draft EDs are set out in Agenda papers 3.7 to 3.11. The marked-up versions show most changes to the text of the underlying IFRSs.

Structure of this Issues Paper

3. The sections in this issues paper are:
 - (a) Accounting for controlled investment entities;
 - (b) Review of draft ED 48, *Consolidated Financial Statements*;
 - (c) Review of draft ED 49, *Joint Arrangements*;
 - (d) Review of draft ED 50, *Disclosure of Interests in Other Entities*;
 - (e) Review of draft ED 51, *Separate Financial Statements*;
 - (f) Review of draft ED 52, *Investments in Associates and Joint Ventures*; and
 - (g) Appendix 1 explains how relevant IASB projects have been addressed in developing the draft EDs.

Accounting for Controlled Investment Entities**Background on Investment Entities**

4. In October 2012 the IASB amended IFRS 10 and established new requirements for investment entities. The general requirement in IFRS 10 is that a controlling entity must consolidate its controlled entities. The IASB Feedback Statement on *Investment Entities* explains that investment entities have a unique business model. This unique business model is the reason why the IASB decided that investment entities should not be required to consolidate their controlled entities (referred to in the

IASB literature as the “exception to consolidation” for investment entities). Instead IFRS 10 requires that investment entities account for most of their controlled entities at fair value through profit or loss (controlled entities that provide services to the investment entity are still consolidated).

5. The IASB considers that non-investment controlling entities do not share this unique business model. Accordingly, IFRS 10 requires that non-investment controlling entities consolidate all their controlled entities. This decision was controversial. The Basis for Conclusions which accompanies IFRS 10 acknowledges that the majority of respondents to the *Investment Entities* ED (the ED) disagreed with the proposal that the exception from consolidation should not be available to a non-investment controlling entity. These respondents argued that the fair value treatment of an investment entity should be retained at the next level in the group.
6. Respondents’ reasons for their disagreement, together with the IASB’s response to some of those concerns, are outlined in this issues paper.

IPSASB’s Tentative Views

7. The IPSASB has agreed (June 2013) that, consistent with IFRS 10, the ED based on IFRS 10 should require that an investment entity account for its investments, including those investments that are controlled entities, at fair value through surplus or deficit. However, the IPSASB has not yet made a decision about how a controlling entity should account for its controlled investment entities. Some members felt that the IPSASB should consider this issue in more detail, having regard to the public sector context. This is therefore the first issue considered in this issues paper.

IFRS 10 Requirements for Investment Entities

8. Extracts from IFRS 10 showing the definition of an investment entity, the key characteristics of an investment entity and the accounting requirements for investment entities are set out in Figure 1 below.
9. The IASB uses the term “investment entity exception from consolidation” because the requirements applicable to investment entities are set out as an exception to the general requirement that “An entity that is a parent shall present consolidated financial statements” (IFRS 10, paragraph 4).

Figure 1 Extracts from IFRS 10

Scope	
4	An entity that is a parent shall present consolidated financial statements. This IFRS applies to all entities, except as follows: <ol style="list-style-type: none">(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.
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: <ol style="list-style-type: none">(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*.

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 9.¹**

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.

¹ 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*."

Appendix A: Defined Terms

(This definition is the same as that in IFRS 10, paragraph 27)

investment entity	An entity that: <ul style="list-style-type: none">(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 appreciation, investment income, or both; and(c) measures and evaluates the performance of substantially all of its investments on a fair value basis.
--------------------------	--

Respondents' Comments on IASB ED *Investment Entities*

Business Model and Activity

10. Respondents to the IASB ED agreed that investment entities have a unique business model and agreed with the IASB's proposal to base the fair value measurement decision on management's intent for an investment. Respondents argued that this approach:

- (a) Is consistent with fundamental principles in IFRSs;
- (b) Avoids variations in accounting treatment for similar entities in different industry sectors; and

- (c) Provides users with visibility around management intent.
11. However, respondents also expressed the view that an exception to consolidation should be granted at the group level to a non-investment controlling entity. That is, respondents considered that a controlling entity should not be required to consolidate any controlled investment entities. Respondents argued that it is inconsistent and inappropriate to apply different accounting bases to those investments in the individual financial statements of the investment entity and in the consolidated group financial statements of the investment entity's controlling entity. They argued that consolidation of the investment entity into another entity would mask the purpose of the investment entity and add unhelpful complexity to the financial statements.
12. One respondent expressed the view that "Carrying forward the specialised accounting from the investment entity is appropriate and may present more fairly the activities of the group as a whole. This is consistent with the "through the eyes of management" view of reporting which presents the different activities of the group the way each of them is managed. This is particularly the case for governments which have set aside separate funds through legislation where the funds are managed on a fair value basis. Consolidation of the investees of investment entities in the government's financial statements is less relevant to users who are more interested in the value and composition of the fund and its capacity to provide the promised future benefits. We agree with the FASB's comment about improved visibility in the group financial statements of investments held for the purpose of capital appreciation, investment income or both." (Respondent CL16 – NZ Superannuation Fund)

Fair Value Measurement and Decision-Useful Information

13. In the *Investment Entities* ED, the IASB and the Financial Accounting Standards Board (FASB) proposed that an investment entity should not consolidate the entities that it controls – instead it should measure investments in controlled investment entities at fair value through profit or loss.
14. Respondents supported this proposal. The general principle in IFRS 10 is that fair value rather than consolidation is the more relevant attribute of investments held by entities that qualify as investment entities. If fair value information is the most decision-useful financial information for users of the financial statements of an investment entity, then this fair value information would also be relevant to users of the consolidated financial statements.
15. Respondents also argued that many groups have mixed business models, and financial reporting should highlight this fact. From a consolidated perspective, the group is also holding the investments for capital appreciation, investment income or both. Respondents considered that reporting the investments held by a controlled investment entity at fair value, rather than consolidating those investments at the group level, would therefore be equally appropriate, more reflective of the underlying business model, and hence more meaningful for users of those statements.
16. Respondents also expressed the view that users of an investment entity's financial statements typically have access to the financial statements of any group that includes an investment entity. The respondents disagreed with the IASB's proposal not to permit the "roll-up" of the investment entity exception because they argued that the consolidated financial statements of the ultimate group would not be reporting the most relevant information about the controlled investment entities (that is, the fair value of the investment entities). For example, if two separate investment entities operated under the same business model but one had an investment entity as its controlling entity while the

other did not, in the consolidated financial statements of the ultimate group, users would be provided with information about the investment entities that is not comparable.

17. Given the nature of investment entities, the acquisition and disposal of investments, including the acquisition and disposal of controlled investments, is likely to be fairly frequent. This would give rise to frequent consolidation and deconsolidation of controlled investees by the non-investment controlling entity which would impair the decision-usefulness of the consolidated financial statements of the ultimate group.

What Type of Entities Control Investment Entities?

18. In the Basis for Conclusions that accompanied the ED, the IASB expressed the view that, in most cases, it was expected that an investment entity would have an investment entity as its controlling entity.
19. Respondents disagreed with this view and provided many examples of where a controlling entity of an investment entity would not itself meet the definition of an investment entity. For example, they noted that financial institutions and insurance companies will often have investments that could qualify as investment entities, but the financial institution or insurance company itself would not qualify as an investment entity. Despite the controlling financial institution or insurance company not meeting the IASB's definition of an investment entity, the controlling entity would still be managing the investments of the investment entity on a fair value basis. One respondent commented that in some countries, such as Korea, the situation would be the opposite of what the IASB suggested – that is, the controlling entity of an investment entity in Korea would, in most cases, be a non-investment entity.
20. The IASB's assertion that it would expect an investment entity to have an investment entity as its controlling entity would not hold true in many cases in the public sector. Although some governments will control investment entities, a government would not meet the definition of an investment entity.

Divergence from US GAAP

21. Some respondents were concerned that the ED's proposal to require a non-investment controlling entity to consolidate all of its controlled entities, including those held by a controlled investment entity, would be a divergence from US GAAP. This was a particular concern given that the *Investment Entities'* project was undertaken with the aim of achieving alignment between IFRS and US GAAP.
22. Some respondents expressed a clear desire for convergence with US GAAP and identified Canada and Japan as countries which also permit, in certain circumstance, the roll-up of the investment entity accounting into the controlling entity's consolidated financial statements. Respondents concerned about this difference between IFRS and US GAAP explained that:
 - (a) US GAAP has not historically required the controlling entity to consolidate a controlled investment entity. Respondents considered that the US GAAP accounting treatment has served the capital markets well. The markets are interested in the fair value of an investment entity's net investments, not in seeing the consolidated results of any particular investment.
 - (b) In Canada there is widespread use of fair value accounting by investment entities, and fair value accounting is also applied by the non-investment controlling entity. The investment entity requirements were introduced into Canadian GAAP in 2004 and, based on the minimal

changes since then, respondents were not aware of any ‘misuse’ of the Canadian requirements. The Canadian regulators have also not put out any staff notices to deal with any misuse.

- (c) Under Japanese GAAP, there exists a so-called ‘venture capital clause’ which allows investee companies that are held for investment purposes to not be consolidated if they meet certain conditions.

Costs of Consolidation would Negate any Benefits of the Exception

- 23. Respondents expressed concern that requiring consolidation of investment entities in the ultimate group would result in high costs, with particular impact on banks, insurance companies and in some instances investment managers and advisors that control an investment entity.
- 24. These costs would be the result of:
 - (a) An investment entity would not be required to consolidate its controlled investments and would therefore not have obtained the information to do so. A controlled investment entity might not have captured sufficient information for its controlling entity to perform a full consolidation.
 - (b) Since an investment entity accounts for its investment in the controlled entity on a fair value basis, intercompany accounts might not exist and might have to be re-created.
 - (c) The controlled investment entity would have to prepare financial records under two accounting models, i.e., consolidation and fair value, without clear incremental benefits.

Potential Accounting Inconsistencies and Possibilities for Abuse

- 25. The IASB and the FASB had concerns about potential accounting inconsistencies and possibilities for abuse if the specialized accounting used by investment entities were to be rolled-up to the non-investment controlling entity in its consolidated financial statements. The Basis for Conclusions that accompanied the IASB ED outlined these concerns, by means of an example. The IASB and the FASB considered the appropriate accounting if a non-investment controlling entity were to issue its equity to an investee of its controlled investment entity. In the absence of special guidance, if the fair value treatment of investment entities were to be permitted in the consolidated financial statements, the group would appear to have a stronger capital base although the additional equity would be held within the group.
- 26. Not all respondents accepted that these concerns should influence the IASB’s decision about the accounting treatment of controlled investment entities. Some respondents considered that the example set out in the ED’s Basis for Conclusions would be rare in practice.
- 27. The IASB cited concerns about possible abuses as one reason for not permitting the roll-up of the investment entities accounting treatment. In contrast, respondents felt that concerns about possible abuses would be better addressed in the following ways:
 - (a) Establishing robust criteria for the application of fair value accounting at the controlled investment entity level; and
 - (b) Restricting or disclosing transactions between the investment entity and other members of its consolidated group.

Inconsistency with IAS 28

28. Some respondents noted that not retaining the fair value accounting of a controlled investment entity in its non-investment controlling entity's financial statements would appear to be inconsistent with IAS 28, *Investments in Associates and Joint Ventures*. IAS 28 permits a controlling entity that indirectly holds investments in an associate through a venture capital organization, mutual fund, unit trust or similar entity to measure that portion of the investment at fair value through profit or loss in accordance with IFRS 9, *Financial Instruments* or IAS 39, *Financial Instruments: Recognition and Measurement*.

Minority Support for Consolidation

29. Although the majority of respondents disagreed with the IASB's proposal that a non-investment controlling entity consolidate all its controlled entities, including investment entities, a minority of respondents supported this requirement. The reasons for their support included the following.

General Principle for Consolidation

- (a) Some respondents supported the general principle of consolidation of all controlled entities and were opposed to the proposed fair value treatment of investment entities. Respondents holding these views agreed with the proposal that the controlling non-investment entity should be required to consolidate all of its controlled entities, including those it holds through controlled entities that are investment entities.
- (b) Consolidation of controlled entities is consistent with the general principle established in IAS 27 and IFRS 10.
- (c) Consolidated financial information is more useful for the controlling entity's investors. Respondents holding this view considered that the investment decisions of the controlling entity's investors are influenced by the long-term financial and operational performance of the controlling entity's investments rather than being solely focused on the fair value of investment entities. These respondents consider that consolidated financial information contains key metrics such as revenue, operating margins, cash flows, debt acquisition, restructuring, impairments and commitments and contingencies.
- (d) Measuring an investment indirectly held through a controlled investment entity at fair value could result in accounting inconsistencies and less useful information for financial statement users. One respondent provided the following example of an accounting inconsistency that could result.

"We have provided a simplified structure used by Onex for a majority of its investments. In this situation, Onex as a non-investment entity parent has a direct economic and voting interest of 35% of the investment and Onex indirectly through an investment entity subsidiary has voting control over an additional 65% of the investment. Currently Onex consolidates the investment under IFRS.

In the above situation, if Onex as the non-investment entity parent was required to retain the accounting for the portion of the controlled investment held indirectly through the investment entity subsidiary and then account for the portion held directly on an alternate basis, this would result in two different bases being used for the same investment. The portion held through the investment entity subsidiary would be accounted for at fair value, while Onex' direct portion could be accounted for using either the equity method or consolidation. It is

unclear from the proposed standard whether Onex' direct portion would be consolidated in accordance with IAS 27 'Consolidated and Separate Financial Statements', as the investment is controlled by Onex or accounted for using the equity method in accordance with IAS 28 'Investments in Associates', as directly Onex would only have significant influence. We do not believe that an outcome where an investment is accounted for on two difference bases would provide useful or understandable information to the users of Onex' financial statements. Additionally, we believe this could provide a means for an entity to selectively structure investments in order to avoid consolidation." (Respondent CL83 – Onex Corporation)

Potential Accounting Inconsistencies and Possibilities for Abuse

- (a) Concerns were expressed regarding the potential for abuse if the exception to consolidation were rolled up to the non-investment controlling entity. For example, some respondents were concerned that this treatment would create structuring opportunities for groups to create or acquire investment entities with the sole aim of avoiding consolidation of certain assets and liabilities. These respondents were mindful of the role that non-consolidation played in the financial crisis.
- (b) Some respondents considered that restricting the use of fair value to the investment entity itself is essential to help avoid structuring designed to achieve particular accounting outcomes. These respondents were of the view that if the exception were to flow up into the consolidated financial statements of the controlling entity, it would be inconsistent with the whole focus of ED/2011/4 on entities that meet the investment entity criteria. The accounting for a particular type of transaction or item might flow up into higher levels of a group, but not when the accounting policy depends on the nature of the entity itself.
- (c) Some noted that requiring consolidation by the non-investment controlling entity would minimize possible inappropriate use of the provisions in the proposed standard. For a controlling entity that consists substantially of operating entities (and the investment entity), management's strategy for the whole group is unlikely to be one of earning all of its profit through capital appreciation and investment income.
- (d) Requiring consolidation of all controlled entities would reduce structuring opportunities that could undermine the credibility of IFRSs.

Countries where the Investment Entity Exception is Rolled up

Canadian GAAP

- 30. Under Canadian GAAP, since 2004, the controlling entity of a controlled investment company accounts for the investment company's investments at fair value only if specified criteria are met. Those criteria are consistent with the guidance in IFRS 10 for an entity to qualify as an investment entity. So, although Canada permitted a roll up of the investment entity accounting, it was permitted only in limited circumstances.
- 31. Although IFRSs became effective for many Canadian entities for annual periods beginning on or after 1 January 2013, investment entities were granted a deferral from the adoption of IFRSs until the *Investment Entities* project was completed.

US GAAP

32. Under US GAAP, a non-investment controlling entity retains the specialized accounting applied by a controlled investment entity when preparing consolidated financial statements (that is, the investments are measured at fair value).
33. Other relevant US requirements are set out in Topic 820, *Fair Value Measurement* which permits the fair value of an investment to be measured at net asset value per share as a practical expedient provided that (i) the investment does not have a readily determinable fair value, and (ii) the investment is in an investment company or is an investment in a real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial statements that are consistent with the measurement principles for investment entities.

Japanese GAAP

34. A general investment model utilized in Japan is the use of wholly-owned private equity investees held for business purposes by a non-investment entity. Under Japanese GAAP, there exists a so-called 'venture capital clause' which allows investee companies that are held for investment purposes to not be consolidated if they meet certain conditions.

IASB's Rationale for Requiring Consolidation by a Non-Investment Controlling Entity

35. The IASB's Basis for Conclusions which accompanies IFRS 10 provides the following rationale for requiring a non-investment controlling entity to consolidate all controlled entities, including controlled investment entities:
 - (a) *Relevance of fair value information.* The IASB acknowledged that the majority of respondents argued that if fair value information is more relevant than consolidation at a controlled investment entity level, it is also more relevant information at the non-investment controlling entity level. However, the IASB considered that the argument for a fair value measurement requirement is weakened at a non-investment entity level because these entities (i) have other substantial activities besides investing, and (ii) do not manage substantially all of their assets on a fair value basis. The IASB noted that permitting fair value measurement of investment entities in these situations would not be consistent with their decision to require that investment entities account for controlled entities at fair value – that decision was based on the unique business model of investment entities.
 - (b) *The number of entities that might qualify as investment entities.* The IASB noted that the number of entities that could qualify as investment entities under the revised IFRS 10 was probably more than would have been expected under its original proposals in the *Investment Entities* ED. IFRS 10 defines an investment entity and describes the typical characteristics of an investment entity whereas the ED proposed that an investment entity be required to satisfy a number of criteria. The final approach taken in IFRS 10 also increased the amount of judgment needed to determine whether an entity is an investment entity.
 - (c) *Different accounting outcomes/ structuring opportunities.* The IASB had concerns that if a non-investment controlling entity were required to retain the fair value treatment used by its controlled investment entities, it could achieve different accounting outcomes by holding controlled entities directly or indirectly through a controlled investment entity. A non-investment controlling entity could reduce the level of information about highly leveraged activities or loss-making activities by placing those activities in controlled investment entities. This concern was

magnified by the possibility that there could be a larger number of investment entities than the IASB had originally envisaged.

- (d) *Practical difficulties.* There are practical difficulties when a non-investment controlling entity and a controlled investment entity invest in the same investment or when a controlled investment entity controls an entity that invests in the equity of the non-investment controlling entity.
- (e) *Divergence from US GAAP.* Although the retention of the specialized accounting used by a controlled investment entity is a long-standing requirement in US GAAP, US GAAP has industry-specific guidance for a number of industries and application of that industry-specific guidance by a controlled entity is retained by the controlling entity even when the controlling entity is not part of that industry. However, IFRSs generally do not contain such industry-specific guidance. For example, IFRS 4, *Insurance Contracts* specifies the financial reporting for insurance contracts but not the financial reporting for entities whose primary business is that of insurance.
- (f) *Inconsistency with IAS 28.* The IASB acknowledged that not retaining the specialized investment entity accounting is inconsistent with IAS 28 (which permits an interest in an associate or joint venture held by, or held indirectly through, venture capital organizations, mutual funds, unit trusts and similar entities to be measured at fair value through profit or loss). However, the IASB pointed out that the difference between using the equity method and fair value measurement for investments in associates and joint ventures is smaller than the difference between consolidation and fair value measurement for investments in controlled entities.

IASB's Deliberations on Accounting by the Controlling Entity

- 36. Many respondents to IASB ED 10, *Consolidated Financial Statements*¹ were concerned about the timing of the consolidation project in relation to convergence with the FASB. Those respondents acknowledged that in their current respective projects, the IASB and the FASB came to similar conclusions with respect to the consolidation of structured entities.
- 37. However, they noted that the IASB's ED 10 and the FASB's proposed amendments to Interpretation FIN 46(R), *Consolidation of Variable Interest Entities* were not fully converged and that differences in applying the proposals remain. Respondents requested that the IASB and the FASB deliberate all parts of the consolidation project jointly to ensure that the final IASB and FASB standards contain identical requirements to the extent possible.
- 38. In finalizing the treatment of investment entities in IFRS 10 the IASB did focus on how a non-investment controlling entity should account for the controlled investees of a controlled investment entity and whether greater convergence with US GAAP was possible. This issue was discussed at its meetings held in April and May 2010.

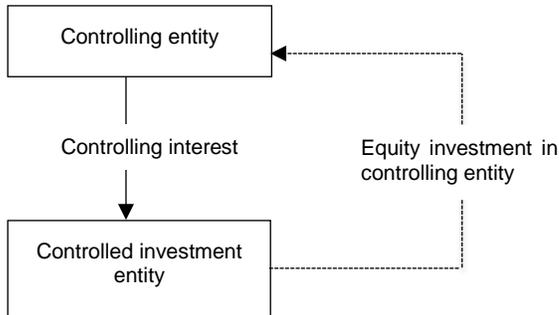
¹ IASB ED 10 was issued for comment in December 2008 with comments due in May 2009.

39. The three different accounting options proposed by IASB staff in April 2010 were:
- (a) The controlling entity must consolidate all controlled investees of controlled investment entities as if the controlling entity holds investments in those investees directly. This is the treatment that the IASB ultimately decided to require;
 - (b) The controlling entity should retain the accounting of a controlled investment entity if the controlling entity has *multiple separate activities* in its business. It could be argued that it is appropriate for a controlling entity to (i) report its investment activities (conducted through controlled investment entities) at fair value and (ii) consolidate its operating activities; and
 - (c) Include specific guidance on when it is appropriate for a controlling entity to retain the fair value measurements used by a controlled investment entity. Under this option it was proposed that this would be appropriate when, *from the controlling entity's perspective*, the controlled investment entity's investments are also held for investment purposes.
40. After considering these options in April 2010 the IASB tentatively decided that the exception to consolidation should be rolled up to the non-investment controlling entity. However, at that meeting some IASB members expressed concerns regarding the accounting by a non-investment controlling entity where entities in the economic entity hold investments in the controlling entity or in other entities in the economic entity.
41. At its May 2010 meeting, the IASB considered this matter further and reversed its tentative decision. The IASB used examples to consider in more detail the concerns raised by IASB members at the April 2010 meeting. The examples developed by IASB staff for that meeting are set out in Figure 2 below.

Figure 2 IASB Examples 1 and 2 (April 2010)

Investments in the Controlling Entity

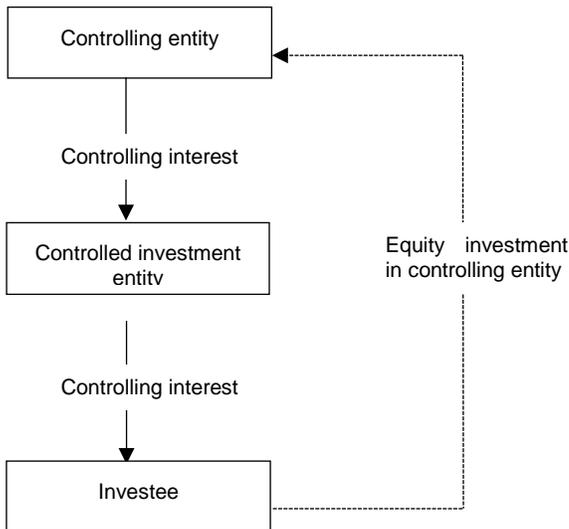
IASB Example 1



The concern is whether a controlling entity could inflate its assets and its equity, by directing an investment company that it manages, to purchase the controlling entity's equity.

The controlled investment entity would be required to be consolidated by the controlling entity. IASB staff believe that on consolidation, the equity investment in the controlling entity owned by the investment entity would be treated as treasury shares. Accordingly, the assets and equity recognised in the consolidated financial statements of the controlling entity would be reduced as if those equity investment did not exist.

IASB Example 2



An additional concern is the treatment of equity interests that a controlled investee of a consolidated investment entity holds in the ultimate controlling entity of the investment entity (or in any other member of the group).

Currently according to IFRS, the investee would be consolidated by controlling entity and the equity investment in controlling entity held by investee would be treated as treasury shares and eliminated on consolidation. It is unclear as to how an investee's interest in the controlling entity should be reflected in the consolidated financial statements of the controlling entity if the investee is measured at fair value.

42. According to some IASB staff, the potential for a controlling entity to direct a controlled investee of a controlled investment entity to purchase equity interests in the controlling entity would appear to be similar to the abuses that occurred using unconsolidated special purpose entities (or variable interest entities) before the introduction of FIN 46(R) *Consolidation of Variable Interest Entities*. It also raised the question of whether there were other issues not identified that are associated with a controlling entity not consolidating a controlled investee.
43. These IASB staff also expressed a view that the issue illustrated in the examples raised the question as to whether a non-investment controlling entity should be permitted to retain fair value accounting

in its consolidated financial statements. When a controlling entity is permitted to retain fair value accounting for some controlled entities in its consolidated financial statements while other controlled entities are consolidated, the above examples emphasize that different accounting can result solely because of where, within the economic entity, a transaction takes place:

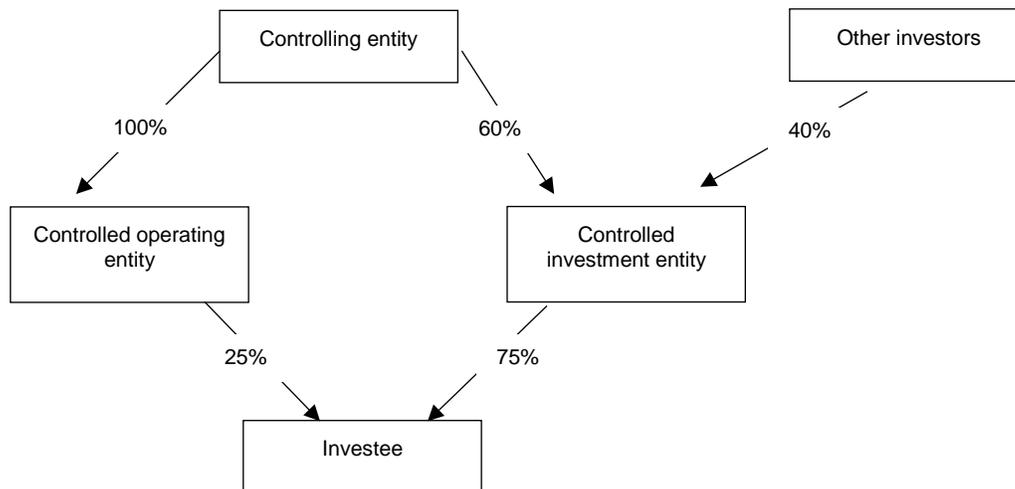
- *Example 1:* If the investment in the controlling entity is held by a controlled entity that is consolidated, the investment is treated as treasury shares and eliminated on consolidation.
- *Example 2:* If the investment in the controlling entity is held by a controlled entity that is not consolidated, the investment is not eliminated on consolidation.

Because the controlling entity ultimately controls both a controlled investment entity and its controlled entities, the controlling entity is likely to be able to decide (within certain parameters set out in the investment entity criteria) where, within the group, transactions actually take place.

44. Those staff also had concerns about whether a controlling entity of an investment entity could avoid consolidating, say, a structured entity by holding a controlling investment in that structured entity via a controlled investment entity. Rather than own 50% of the residual interest in structured entities, the controlling entity could simply insert an investment entity in the economic entity structure which would own the entire residual interest in the structured entity, with the controlling entity then holding a 50% interest in the investment entity.
45. IASB staff outlined a number of ways in which the above issue could be addressed. One of these ways was to prohibit the retention of the fair value accounting applied by a controlled investment entity when the controlling entity prepares its consolidated financial statements. That is, the controlling entity would consolidate all controlled investees, including those held by controlled investment entities. This is the approach that the IASB ultimately adopted in IFRS 10.
46. The IASB also considered the following example which was used to illustrate another concern raised at the IASB's April 2010 meeting:

Figure 3 IASB Example 3 (April 2010)

A Controlling Entity (or One of its Controlled Non-Investment Entities) Holds an Investment in an Investee of a Controlled Investment Entity



47. Controlling Entity has a 60% controlling interest in Controlled Investment Entity, and owns 100% of Controlled Operating Entity. Through controlled entity holdings, Controlling Entity controls Investee (indirectly owns 70% [(60% x 75%) + 25%]). Controlled Investment Entity controls Investee on a stand-alone basis. Looked at in isolation, Controlled Operating Entity has significant influence over Investee, and accounts for the 25% investment using the equity method.
48. Assuming that Controlled Investment Entity meets the definition of an investment entity, Controlled Investment Entity would measure its 75% investment in Investee at fair value through profit or loss.² In addition, in its consolidated financial statements, Controlling Entity would account for the 75% investment held by Controlled Investment Entity at fair value through profit or loss.
49. The question arises as to how Controlling Entity should account for the 25% investment in Investee held by Controlled Operating Entity.
50. IASB staff outlined the following two alternative methods of accounting by a Controlling Entity.³

Table 1 IASB Controlling Entity Accounting

<i>Alternative A</i>	<i>Alternative B</i>
<p>Controlling Entity first assesses its relationship with Investee at the economic entity level – it controls Investee through its controlled entity holdings. Controlling Entity should consolidate Investee, recognising a 75% minority interest</p> <ul style="list-style-type: none"> ▪ Controlled Investment Entity is not treated as part of the economic entity ▪ 75% investment held by Controlled Investment Entity is measured at fair value through profit or loss ▪ 75% investment by Controlled Investment Entity is treated as minority interest 	<p>Controlled Investment Entity’s investment in Investee is treated separately from any investment held in Investee by a controlled non-investment entity of the controlling entity.</p> <ul style="list-style-type: none"> ▪ Controlling Entity retains the accounting of Controlled Operating Entity for its 25% investment in Investee – accounts for this using the equity method ▪ Controlling Entity also recognises the 75% investment in Investee held by Controlled Investment Entity at fair value through profit or loss
<p>Rationale</p> <ul style="list-style-type: none"> ▪ This reflects the overall relationship between Controlling Entity and Investee (i.e., Controlling Entity controls Investee) ▪ Consistent with tentative decision taken by IASB as part of Annual Improvements regarding IAS 28 ▪ Ensures that the IASB’s decisions in IFRS 9 regarding the presentation of changes in fair value of an investment in equity instruments in other comprehensive income are maintained 	<p>Rationale</p> <ul style="list-style-type: none"> ▪ Treating investments held by Controlled Investment Entities separate from investments held by controlled non-investment entities is the basis for allowing a controlling entity to retain the fair value measurement accounting used by a controlled investment entity ▪ A controlling entity is not required to consolidate any controlled investees of a controlled investment entity because the purpose of holding the investment is for investing purposes (and not operating purposes) and the investment entity criteria is such that the economic entity cannot access ‘control-type benefits’ from its investments in the consolidated investee that are unavailable to other unrelated investors – this is mirrored by considering investments held by

² To meet the definition of an investment entity, any member of the economic entity must not obtain or have the objective of obtaining benefits (other than benefits attributable to ownership interests) from its investments in Investee that are unavailable to other unrelated parties.

³ For ease of reading IFRS terminology has been replaced by IPSAS terminology (e.g., “controlling entity”).

Table 1 IASB Controlling Entity Accounting

<i>Alternative A</i>	<i>Alternative B</i>
	controlled investment entities separately from investments held by controlled non-investment entities
<p>BUT when ultimate controlling entity controls Investee, this accounting creates what some might argue is a double-counting issue</p> <ul style="list-style-type: none"> ▪ Controlling Entity consolidates 100% of the assets and liabilities of Investee (and associated 75% minority interest) and also recognises 75% investment in Investee at fair value ▪ The 75% investment in Investee held by Controlled Investment Entity is treated as part of minority interest when the investment is actually held by a controlled entity within the economic entity <p>This would lead to consolidation in situations where a controlled investment entity of the economic entity holds any investment in the investee.</p> <p>If Controlled Operating Entity sold its investment in Investee, Controlling Entity would no longer be required to consolidate the Investee even though it still controls the Investee (via the 75% investment held by Controlled Investment Entity).</p>	

51. Based on the above considerations, the IASB decided that:

- (a) The controlling entity of an investment entity should be required to consolidate all entities that it controls; and
- (b) The controlling entity of an investment entity would retain the fair value accounting applied by a controlled investment entity to investments that it does not control, including investments in associates and joint ventures.

Considering the Public Sector Context

52. Consideration needs to be given as to whether there are any public-sector specific reasons for the IPSAS based on IFRS 10 to differ from IFRS 10 in respect of the requirement for a controlling entity to consolidate all of the entities that it controls. The subheadings used in this section are similar to those used to discuss respondents' comments on the IASB's investment entity proposals.

Relevance of Fair Value Information

53. In the public sector, a non-investment controlling entity (such as a government or public sector entity) is likely to have a wide range of activities other than investing activities and may not manage substantially of its assets on a fair value basis. In this regard, there is no difference between the public sector and the for-profit sector.

Population of Entities that Qualify as Investment Entities

54. The types of entities that would qualify as investment entities are likely to be similar in the public sector and the for-profit sector. The relative number of investment entities is uncertain.
55. The IPSASB expressed the view in its June 2013 meeting that an exception to consolidation might apply to a relatively small number of entities. This might be the case when considering national governments, but the number could increase if one also considered the possibility that local, regional and state governments could also have investment entities. Public sector entities such as universities could have funds such as endowment funds which might also meet the criteria to be an investment entity.
56. Regardless of how many public sector entities would be classified as investment entities, in the majority of cases, the investment entity is likely to be immaterial in the context of the economic entity as a whole.

Divergence from US GAAP

57. The IFRS 10 requirement for a controlling entity that is not an investment entity to consolidate all its controlled investments, including controlled investment entities, differs from US GAAP. However, the IASB noted that there are a number of instances where US GAAP and IFRSs differ because of US GAAP industry-specific requirements and the application of those industry-specific requirements in consolidated financial statements. IFRSs do not generally have industry-specific requirements. Nor do IPSASs, as the majority of IPSASs are based on IFRSs.

Inconsistency between IAS 28/IPSAS 7

58. The current version of IPSAS 7, *Accounting for Investments in Associates* does not apply to investments in associates held by:
 - (a) Venture capital organizations; or
 - (b) Mutual funds, unit trusts and similar entities including investment-linked insurance funds;that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*. That is, the specialized accounting for such investments is carried through to the consolidated financial statements of the ultimate controlling entity.
59. The most recent version of IAS 28 is similar to IPSAS 7 but permits a choice of treatment. It permits an entity with an investment in an associate or a joint venture which is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IFRS 9. Alternatively, the entity can choose to account for those investments using the equity method.
60. The proposed ED which will replace IPSAS 7 is based on the most recent version of IAS 28. The inconsistency between the IFRS 10 investment entity requirements and IAS 28 referred to by IASB respondents will therefore also exist in IPSASs. However, there does not appear to be any reason for having a different treatment for such investments in the public sector.

Different Accounting Outcomes and Practical Difficulties

61. The IASB had concerns that if a non-investment controlling entity were required to retain the fair value treatment used by its controlled investment entities, it could achieve different accounting outcomes by holding controlled entities directly or indirectly through a controlled investment entity. Although these concerns were obviously an important factor that influenced the IASB's decision, staff considers that fewer structuring opportunities would exist in the public sector context. Similarly, it is unlikely that the examples of intragroup investments considered by the IASB in April and May 2010 (and which influenced the IASB's decision not to permit the roll-up of fair value accounting for investment entities) would occur in the public sector.
62. The staff view that this concern would be less relevant in the public sector is based on the fact that there are likely to be fewer instances of investment entities in the public sector than the private sector, and ownership interests through shares or other equity instruments are less common in the public sector. As a consequence, it is less likely that:
- (a) Entities within an economic entity would hold an investment in the ultimate controlling entity; and
 - (b) Entities within the economic entity would invest in other entities within the economic entity. In particular there are likely to be fewer instances of investment entities and other entities having common investments.
63. As noted earlier in this paper, the decision of the IASB to require a controlling entity to consolidate all of the entities that it controls, including those controlled indirectly through a controlled investment entity, was made after consideration of how the controlling entity should account in its consolidated financial statements for investments in the same entity by other entities within the group. Despite this being a significant factor in the IASB's decision making process, staff is unaware of similar concerns in jurisdictions that have permitted the fair value roll-up.
64. To summarize, the difficulties associated with intra-group investments appeared to be a significant factor in the IASB's decision not to permit the roll-up of the investment entity accounting treatment. Although the situations considered by the IASB could occur in the public sector, they are likely to be less prevalent than in the private sector. This difference between the sectors could support the IPSASB coming to a different conclusion than the IASB.

Question for IPSASB

Does the IPSASB agree that the intra-group investments are likely to be less of a concern in the public sector than in the private sector?

Is this difference sufficient for the IPSASB to support the roll-up of the investment entity accounting treatment?

Accounting in the Consolidated Financial Statements of the Controlling Entity

65. If the IPSASB agrees that there is a public sector-specific reason for an IPSAS based on IFRS 10 to differ from IFRS 10, the next issue to be considered is the accounting in the consolidated financial statements of the controlling entity.

66. At its June 2013 meeting, the IPSASB decided that it would like to consider further alternative accounting treatments for incorporating an investment entity in the consolidated financial statements of a controlling entity that is not itself an investment entity. In addition to the treatment required by IFRS 10 (that is, consolidation of all entities controlled by the non-investment controlling entity), the IPSASB expressed a wish to consider the consequences of a controlling entity accounting for its investment in a controlled investment entity using:
- (a) The fair value of the investment entity itself; or
 - (b) The fair value of the investment entity's individual investments.
67. Figure 4 contains an example of an economic entity that includes an investment entity and shows three accounting options for the non-investment controlling entity:
- (a) Option 1: The controlling entity prepares consolidated financial statements (IFRS 10 treatment);
 - (b) Option 2: The controlling entity measures its investment in the controlled investment entity at the fair value of the controlled investment entity; and
 - (c) Option 3: The controlling entity measures the investment entity's investments at fair value and consolidates the remainder of the investment entity.

Figure 4 Accounting by a Non-Investment Controlling Entity

The following information is relevant to all circumstances.

Council A establishes Investment Entity (IE) on 1 January 20X1 for the purpose of investing in other entities to provide a revenue stream to Council A. Council A provides an initial amount of CU5,000 to IE for the purchase of investments.

On 1 January 20X1 IE pays CU2,000 to acquire 100% of Company Z. IE plans to hold the investments in Company Z solely for capital appreciation and investment income. IE has no plans to become actively involved in the management of Company Z. During 20X1 IE purchases investments in other entities at a cost of CU2,600. IE measures all of its investments at fair value through surplus or deficit. Company Z is the only investment that IE controls.

For the year ended 31 December 20X1 Company Z makes a surplus of CU400 (revenue of CU1,000 less expenses of CU600).

The Statements of Financial Position of Company Z are as follows:

	31 Dec 20X1	1 Jan 20X1
	CU	CU
Current assets	1,100	1,000
Current liabilities	(900)	(700)
	<u>200</u>	<u>300</u>
Non-current assets	4,200	4,000
Non-current liabilities	(2,000)	(2,300)
	<u>2,200</u>	<u>1,700</u>
	<u>2,400</u>	<u>2,000</u>
Issued capital	500	500
Accumulated surpluses/(deficits)	<u>1,900</u>	<u>1,500</u>
	<u>2,400</u>	<u>2,000</u>

The fair value of Company Z at 31 December 20X1 is CU2,700.

The financial statements of IE at 31 December 20X1 are as follows:

Statement of Financial Performance for the Year Ended 31 December 20X1		Statement of Financial Position as at 31 December 20X1	
	CU		CU
Investment revenue	300	Current assets	500
Net increase in fair value of investments (700 +150)	850	Current liabilities	(150)
	1,150		350
Expenses	(350)	Investments at fair value (2000 + 700 + 2600 + 150)	5,450
Net surplus/(deficit) for the year	800	Net assets	5,800
		Capital contributed	5,000
		Accumulated surpluses/(deficits)	800
		Net assets/equity	5,800

The fair value of IE at 31 December 20X1 is CU6,500.

The financial statements of Council A at 31 December 20X1 are as follows:

Statement of Financial Performance for the Year Ended 31 December 20X1		Statement of Financial Position as at 31 December 20X1	
	CU		CU
Revenue	60,000	Current assets	100,000
Expenses	(57,000)	Current liabilities	(70,000)
Net surplus/(deficit) for the year	3,000		30,000
		Investment in IE	5,000
		Non-current assets	200,000
		Non-current liabilities	(30,000)
			175,000
		Net assets	205,000
		Ratepayers' equity	50,000
		Accumulated surpluses/(deficits)	155,000
		Net assets/equity	205,000

Options for Accounting by Council A (in its consolidated financial statements)			
Statement of Financial Performance for the Year Ended 31 December 20X1			
	Option 1 Consolidation	Option 2 Fair Value of IE itself	Option 3 Fair Value of IE's investments
Revenue	61,000	60,000	60,000
Investment revenue	450	1,500	1,150
	61,450	61,500	61,150
Expenses	(57,950)	(57,000)	(57,350)
Net surplus/(deficit) for the year	3,500	4,500	3,800
Statement of Financial Position as at 31 December 20X1			
Current assets	101,600	100,000	100,500
Current liabilities	(71,050)	(70,000)	(70,150)
	30,550	30,000	30,300
Investments	2,650	6,500	5,450
Non-current assets	204,200	200,000	200,000
Non-current liabilities	(32,000)	(30,000)	(30,000)
	174,950	176,550	175,450
Net assets	205,500	206,500	205,800
Ratepayers' equity	50,000	50,000	50,000
Accumulated surpluses/(deficits)	155,500	156,500	155,800
Net assets/equity	205,500	206,500	205,800

Workings to support the example in Figure 4

Consolidation by Council A

Consolidation by Investment Entity

Notional journal entries

Capital Z	Dr	500	
Accumulated surpluses/(deficits)	Dr	1,500	
Investments	Cr		2,000

To eliminate the investment at the date of acquisition.

Net increase in fair value of investments	Dr	700	
Investments	Cr		700

To remove the increase in fair value of investments to align the accounting policies of IE with Council A.

Consolidated Financial Statements of IE

Statement of Financial Performance for the Year Ended 31 December 20X1

	CU
Revenue (Z)	1,000
Investment revenue	300
Net increase in fair value of investments (5,450 – 4,600 = 850) (850 – 700 = 150)	150
	<hr/> 1,450
Expenses (350 + 600)	950
Net surplus/(deficit) for the year	<hr/> <hr/> 500

Statement of Financial Position as at 31 December 20X1

Current assets (500 + 1,100)	1,600
Current liabilities (150 + 900)	(1,050)
	<hr/> 550
Investments (5,450 – 2,000 – 700)	2,750
Non-current assets	4,200
Non-current liabilities	(2,000)
	<hr/> 4,950
Net assets	<hr/> <hr/> 5,500
Capital contributed	5,000
Accumulated surpluses/(deficits)	500
Net assets/equity	<hr/> <hr/> <hr/> 5,500

Consolidation by Council A

Notional journal entries

Capital IE	Dr	5,000	
Investment in IE	Cr		5,000

To eliminate the investment at the date of acquisition.

Consolidated Financial Statements of Council A

Statement of Financial Performance for the Year Ended 31 December 20X1

	Council A	Consolidated IE	Total
Revenue	60,000	1,000	61,000
Investment revenue		300	300
Net increase in fair value of investments		150	150
	<u>60,000</u>	<u>1,450</u>	<u>61,450</u>
Expenses	(57,000)	(950)	(57,950)
Net surplus for the year	<u>3,000</u>	<u>500</u>	<u>3,500</u>

Statement of Financial Position as at 31 December 20X1

Current assets	100,000	1,600	101,600
Current liabilities	(70,000)	(1,050)	(71,050)
	<u>30,000</u>	<u>550</u>	<u>30,550</u>
Investments (2,600 + 850 - 700)		2,750	2,750
Non-current assets	200,000	4,200	204,200
Non-current liabilities	(30,000)	(2,000)	(32,000)
	<u>170,000</u>	<u>4,950</u>	<u>174,950</u>
Net assets	<u>200,000</u>	<u>5,500</u>	<u>205,500</u>
Ratepayers' equity	50,000		50,000
Accumulated surpluses/(deficits)	<u>155,000</u>	<u>500</u>	<u>155,500</u>
Total net assets/equity	<u>205,000</u>	<u>500</u>	<u>205,500</u>

Financial Statements of Council A if IE is Measured at Fair Value

Journal entry

Investment in IE	Dr	1,500	
Increase in fair value of investment	Cr		1,500

Financial Statements of Council A if Investments in IE are Measured at Fair Value

Notional journal entry

Capital contributed (IE)	Dr	5,000	
Investment in IE	Cr		5,000

To eliminate the investment at the date of acquisition.

Financial Statements of Council A if Investments of IE are measured Individually at Fair Value

Statement of Financial Performance for the Year Ended 31 December 20X1

	Council A	IE	Total
Revenue	60,000		60,000
Investment revenue (from entities other than Z)		300	300
Net increase in fair value of investments		850	850
	<u>60,000</u>	<u>1,150</u>	<u>61,150</u>
Expenses	(57,000)	(350)	(57,350)
Net surplus for the year	<u>3,000</u>	<u>800</u>	<u>3,800</u>

Statement of Financial Position as at 31 December 20X1

Current assets	100,000	500	100,500
Current liabilities	(70,000)	(150)	(70,150)
	<u>30,000</u>	<u>350</u>	<u>30,350</u>
Investments		5,450	5,450
Non-current assets	200,000		200,000
Non-current liabilities	(30,000)		(30,000)
	<u>170,000</u>	<u>5,450</u>	<u>175,450</u>
Net assets	<u>200,000</u>	<u>5,800</u>	<u>205,800</u>
Ratepayers' equity	50,000		50,000
Accumulated surpluses/(deficits)	<u>155,000</u>	<u>800</u>	<u>155,800</u>
Total net assets/equity	<u>205,000</u>	<u>800</u>	<u>205,800</u>

Option 2: Fair Value of Controlled Investment Entity

68. Under Option 2 the controlling entity would measure the controlled investment entity at its fair value and recognize increases/decreases in that fair value through surplus or deficit.
69. One difficulty with Option 2 is that public sector investment entities may not have equity that is traded and may not have directly observable fair values. However, the nature of their investments means that it should be possible to apply the fair value guidance in IPSAS 29, *Financial Instruments: Recognition and Measurement*.

Option 3: Fair Value of the Investment Entity's Individual Investments

70. Under Option 3 the controlling entity would measure the controlled investment entity's individual investments at their fair values and consolidate the remainder of the investment entity's assets and liabilities. One advantage of Option 3 is that fair values for the individual investments might be more readily observable. However, Option 3 would result the controlled investment entity being accounted for in two different ways and would be more difficult to justify on conceptual grounds.

Question for IPSASB

Does the IPSASB support Option 2? That is, does the IPSASB agree that a controlling entity that is not itself an investment entity should be required to measure its investment in a controlled investment entity at fair value through surplus or deficit in the consolidated financial statements?

If the IPSASB does not support Option 2 (possibly because of concerns that a non-investment controlling entity could achieve different accounting outcomes by holding controlled entities directly or indirectly through a controlled investment entity), does the IPSASB support Option 1 (which would be consistent with IFRS 10).

Recommendations on Non-investment Controlling Entities

71. It is recommended that the IPSASB:
- (a) NOTE that the majority of respondents to the IASB disagreed with the proposal to not roll up the exception to consolidation to the non-investment controlling entity for the following reasons:
 - (i) The unique business model of the investment entity does not change in the consolidated financial statements;
 - (ii) If fair value information is the most decision-useful financial information for users of the financial statements of an investment entity, then this fair value information would also be relevant to users of the consolidated financial statements;
 - (iii) Many investment entities are not controlled by a controlling entity that is also an investment entity;
 - (iv) Not rolling up the exception is a divergence from US GAAP;
 - (v) The costs of consolidation by the non-investment controlling entity would negate any benefits of the exception at the investment entity level; and

- (vi) Concerns about possible abuses are best addressed by robust criteria for the application of fair value accounting by an investment entity and appropriate disclosure of the underlying investments.
 - (b) NOTE that some respondents to the IASB agreed with not rolling up the exception to consolidation to the non-investment controlling entity because (i) this principle is consistent with IAS 27 and IFRS 10, and (ii) they shared the IASB's concerns regarding potential accounting inconsistencies and possibilities for abuse; and
 - (c) NOTE that the IASB decision to not roll-up the exception to consolidation to the controlling entity was made subsequent to considering issues that could arise when (i) a controlled entity has an equity investment in the controlling entity, and (ii) more than one entity in the economic entity invests in the same entity.
72. It is recommended that the IPSASB:
- (a) AGREE that the practical difficulties that influenced the IASB's decision on this matter are not expected to be as prevalent in the public sector; and
 - (b) AGREE that the IPSAS based on IFRS 10 should:
 - (i) Roll up the exception to consolidation to the controlling entity; and
 - (ii) Include a requirement that the controlling entity measure the investment entity at fair value through surplus or deficit in the consolidated financial statements (being Option 2 as set out in this paper).

Matter(s) for Consideration

- | |
|--|
| 1. Does the IPSASB agree with the above recommendations? |
|--|

General Drafting Issues

Referring to Standards by their Full Title

73. The full title of the proposed Standards has been used throughout the EDs. This is not the usual referencing style for an IPSAS. The full titles have been used in the EDs to assist readers. Once the project is complete, the final Standards would adopt the usual IPSAS Handbook style (whereby the full title of a Standard is used the first time that it is referred to in an IPSAS and the abbreviated title is used thereafter).

Transitional Provisions

74. The transitional provisions in the proposed Standards address the transition from existing IPSASs to the proposed new Standards for entities that are already applying IPSASs. In the case of entities that are adopting IPSASs for the first time, the proposals in the project on first-time adoption of IPSASs are relevant.

Recommendations on General Drafting Issues

75. It is recommended that the IPSASB:
- (a) AGREE to use the full title of the proposed Standards throughout the EDs; and
 - (b) NOTE that the transitional provisions in the proposed Standards are relevant for entities that are already applying IPSASs.

Matter(s) for Consideration

- | |
|---|
| 2. Does the IPSASB agree with the recommendations on general drafting issues? |
|---|

Review of Draft ED 48, Consolidated Financial Statements

76. The IPSASB has considered drafts of ED 48 in September 2012, December 2012 and March 2013. Key public sector issues that have been addressed in developing ED 48 are:
- (a) Regulatory control: the ED clarifies that regulatory control, on its own, does not give rise to control for financial reporting.
 - (b) Economic dependence: The ED acknowledges that economic dependence can be associated with situations where control exists, but clarifies that economic dependence, on its own, does not give rise to control for financial reporting.
 - (c) Returns: the ED clarifies that both financial and non-financial returns should be considered when assessing control. The ED includes examples of non-financial returns.
 - (d) Relevant activities: The ED provides examples of relevant activities, which may be broader in the public sector context than in the private sector. It also clarifies that voting rights may not be the dominant factor in deciding who controls the other entity.
 - (e) Power: The ED notes that a public sector may have power through a broader range of rights than discussed in IFRS 10. The ED specifically refers to rights conferred by legislation, founding documents or binding arrangements.
 - (f) Statutory independence: The ED clarifies that control can occur where there is statutory independence.
 - (g) Golden shares: The ED explains that certain shares with special voting rights (golden shares) are an example of a way in which an entity may have control.
 - (h) Control of the Board: The ED clarifies that control of the Board may give rise to control for financial reporting purposes.
 - (i) Agent or principal: The ED contains more discussion of delegated powers (and examples) and considers how delegated powers can affect assessments of control.
77. Most of these public sector issues were also addressed in IPSAS 6. In considering the proposed modifications to incorporate these public sector issues, the IPSASB also had regard to the guidance in the Government Finance Statistics Manual (GFSM 2012, draft as at February 2012). The IPSASB's intention was to avoid unnecessary differences between the guidance in the proposed IPSAS and the guidance in the GFSM.

78. In March 2013 the IPSASB considered two further issues associated with the drafting of ED 48. These were:
- (a) Variable benefits: The IPSASB reviewed the discussion of “variable benefits” in the ED to ensure that it dealt appropriately with situations where benefits appear to be fixed (for example, where an entity exists to provide benefits to third parties with no direct benefit back to the controlling entity). The IPSASB noted relevant guidance in the ED (regarding congruent objectives and benefits that appear to be fixed) and supported the inclusion of an example (in the application guidance) that linked the relevant guidance in the ED.
 - (b) Binding arrangements: The IPSASB considered the proposed definition of binding arrangements (and other rights arising from legislative or executive authority) in the ED and agreed to modify the definition to incorporate arrangements that establish *enforceable* rights and obligations on the parties to the arrangement. This change has been made to the definition of a binding arrangement.
79. In June 2013 the IPSASB agreed to incorporate the IASB’s amendments to IFRS 10 in respect of investment entities. The ED now proposes that an investment entity be required to account for its investments at fair value through surplus or deficit (apart from “service” entities which would still be consolidated). The IPSASB also agreed to consider further the accounting by a controlling entity that is not itself an investment entity. This issue has been outlined earlier in this paper. Pending a decision by the IPSASB, the agenda papers have been prepared based on the staff recommendation that a non-investment controlling entity account for the investment entity at fair value through surplus or deficit (this is Option 2 in Figure 4). If the IPSASB prefers Option 1 or 3 the ED will be changed accordingly.
80. The proposed Specific Matters for Comment for ED 48, *Consolidated Financial Statements* are shown below.

Specific Matter for Comment 1:

Do you agree with the proposed definition of control? If not, how would you change the definition?

Specific Matter for Comment 2:

Do you agree that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this ED)? If you consider that certain categories of entities should not be consolidated, please justify your proposal having regard to user needs and indicate your preferred accounting treatment for any such controlled entities. If you have any comments about temporarily controlled entities, please respond to Specific Matter for Comment 3.

Specific Matter for Comment 3:

Do you agree with the proposal to withdraw the current exemption in IPSAS 6, *Consolidated and Separate Financial Statements* for temporarily controlled entities? If you agree with the withdrawal of the exemption please give reasons. If you disagree with the withdrawal of the exemption please indicate any modifications that you would propose to the current exemption in IPSAS 6.

Specific Matter for Comment 4:

Do you agree that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus or deficit?

Specific Matter for Comment 5:

Do you agree that a non-investment entity that controls an investment entity should be required to account for that investment entity at fair value through surplus or deficit?

Recommendations on Draft ED 48, Consolidated Financial Statements

81. It is recommended that the IPSASB:
- (a) NOTE the changes made to the ED since it was last considered by the IPSASB;
 - (b) AGREE to issue ED 48, *Consolidated Financial Statements*;
 - (c) AGREE the Specific Matters for Comment; and
 - (d) AGREE that comments should be requested by 31 January 2014.

Matter(s) for Consideration

- 3. The IPSASB is asked to conduct a page by page review of the draft ED 48, *Consolidated Financial Statements* in Agenda paper 3.2.
- 4. The IPSASB is asked to approve ED 48, *Consolidated Financial Statements* for issue.

Review of Draft ED 49, Joint Arrangements

82. The IPSASB considered a draft of ED 49, *Joint Arrangements* in December 2012 and was generally supportive of the requirements in the draft ED.
83. In March 2013 the IPSASB:
- (a) Noted the proposals in IASB ED/2012/7 *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11). The IPSASB agreed not to include these proposals in its ED (refer to the Appendix to this paper for more details); and
 - (b) Agreed to modify the definition of binding arrangements to incorporate arrangements that establish enforceable rights and obligations on the parties. This change has been made in the description of a binding arrangement in the ED.
84. The proposed Specific Matters for Comment for ED 49, *Joint Arrangements* are shown below.

Specific Matter for Comment 1:

Do you agree that joint arrangements should be classified 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?

Specific Matter for Comment 2:

Do you agree that joint ventures should be accounted for in consolidated financial statements using the equity method?

Recommendations on Draft ED 49, Joint Arrangements

85. It is recommended that the IPSASB:
- (a) NOTE the changes made to the ED since it was last considered by the IPSASB;
 - (b) AGREE to issue ED 49, *Joint Arrangements*;
 - (c) AGREE the Specific Matters for Comment; and
 - (d) AGREE that comments should be requested by 31 January 2014.

Matter(s) for Consideration

5. The IPSASB is asked to conduct a page by page review of the draft ED 49, *Joint Arrangements* in Agenda paper 3.3.
6. The IPSASB is asked to approve ED 49, *Joint Arrangements* for issue.

Review of Draft ED 50, Disclosure of Interests in Other Entities

86. The IPSASB considered this ED in detail at its December 2012 meeting. In March 2013 the IPSASB considered ways of limiting the structured entity disclosures to ensure appropriate disclosures in the public sector context. The IPSASB had previously expressed concern about the consequences of applying the IASB's definition of a structured entity to public sector entities, many of which are dependent on a government for ongoing funding. The IPSASB considered two options for limiting application of the structured entity disclosures in the public sector. The first option (set out in the agenda papers) was to limit the disclosures to profit-oriented structured entities. The second option (raised at that meeting) was to limit the definition of structured entities to entities that have been designed so that voting or similar rights, including administrative arrangements or statutory provisions, are not the dominant factor in determining control of the entity. The IPSASB agreed to proceed on the basis of the second approach in developing the ED.
87. In developing the ED for this meeting, the following changes have been made to the ED:
- (a) The definition of a structured entity has been modified to acknowledge the ways in which control is commonly established in the public sector and to highlight that a structured entity is one where control is exercised through less conventional means. In making this modification staff had regard to a recent Exposure Draft published by the Australian Accounting Standards Board which also addressed this issue.⁴
 - (b) The application guidance on structured entities has been modified, along the same lines as the changes to the definition. The IPSASB has expressed the view that an entity's reliance on ongoing government funding should not, of itself, make that entity a structured entity. To address this point the proposed application guidance specifically states that "The mere fact that a government provides funding to another entity does not make that entity a structured entity."

⁴ ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities*, March 2013
Agenda Item 3.1
Page 30 of 36

- (c) The Basis for Conclusions explains why the IPSASB decided to change the definition of a structured entity.
- 88. ED 50 proposes that the disclosures required of an investment entity in respect of unconsolidated subsidiaries be repeated in the consolidated financial statements of any non-investment controlling entity.
- 89. The proposed Specific Matter for Comment for ED 50, *Disclosure of Interests in Other Entities* is shown below.

Specific Matter for Comment 1:

Do you agree with the proposal that entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity are not structured entities? If not, please explain why and explain how you would identify entities in respect of which the structured entity disclosures would be appropriate.

Recommendations on Draft ED 50, Disclosure of Interests in Other Entities

- 90. It is recommended that the IPSASB:
 - (a) NOTE the changes made to the ED since it was last considered by the IPSASB;
 - (b) AGREE that the proposed modifications to the definition of a structured entity, and the associated application guidance on structured entities in ED 50 are appropriate.
 - (c) AGREE to issue ED 50, *Disclosure of Interests in Other Entities*;
 - (d) AGREE the Specific Matters for Comment; and
 - (e) AGREE that comments should be requested by 31 January 2014.

Matter(s) for Consideration

- 7. Does the IPSASB agree that the proposed modifications to the definition of a structured entity, and the associated application guidance on structured entities in ED 50 are appropriate?
- 8. The IPSASB is asked to conduct a page by page review of the draft ED 50, *Disclosure of Interests in Other Entities* in Agenda paper 3.4.
- 9. The IPSASB is asked to approve ED 50, *Disclosure of Interests in Other Entities* for issue.

Review of Draft ED 51, Separate Financial Statements

- 91. The IPSASB last considered this ED at its March 2013 meeting. At that meeting the IPSASB agreed to permit the use of the equity method in addition to cost and fair value. The ED has been revised to reflect this decision and the Basis for the Conclusions sets out the IPSASB's reasons for permitting the use of the equity method. The Basis for Conclusions also notes that the IASB has indicated its intention to reinstate the use of the equity method in IAS 27 *Separate Financial Statements* (Amended in 2011).

92. The proposed Specific Matter for Comment for ED 51, *Separate Financial Statements* is shown below.

Specific Matter for Comment 1:

Do you agree with the proposal to continue to permit the use of the equity method in separate financial statements?

Recommendations on Draft ED 51, Separate Financial Statements

93. It is recommended that the IPSASB:
- (a) NOTE the changes made to the ED since it was last considered by the IPSASB;
 - (b) AGREE to issue ED 51, *Separate Financial Statements*;
 - (c) AGREE the Specific Matters for Comment; and
 - (d) AGREE that comments should be requested by 31 January 2014.

Matter(s) for Consideration

- 10. The IPSASB is asked to conduct a page by page review of the draft ED 51, *Separate Financial Statements* in Agenda paper 3.5.
- 11. The IPSASB is asked to approve ED 51, *Separate Financial Statements* for issue.

Review of Draft ED 52, Investments in Associates and Joint Ventures

94. The IPSASB last considered this ED at its March 2013 meeting. Most of the changes made to the ED since that meeting are not significant. Key changes made to the ED include:
- (a) The Specific Matter for Comment has been included;
 - (b) In the case of a retained interest in a former associate or joint venture that is a financial asset, the ED now permits the use of the carrying amount as initial cost when there are no published price quotations. (paragraph 22(b))
 - (c) The ED has been revised to acknowledge that an entity may not have recognized goodwill in relation to an associate or joint venture. (paragraph 32)
 - (d) The uniform reporting date requirements have been aligned with the proposals in ED 48, *Consolidated Financial Statements*. (paragraph 34)
 - (e) The Basis for Conclusions has been completed.
95. The proposed Specific Matter for Comment for ED 52, *Investments in Associates and Joint Ventures* is shown below.

Specific Matter for Comment 1:

Do you agree with the proposal to require the use of the equity method to account for investments in joint ventures? If not, please provide reasons and indicate your preferred treatment?

Recommendations on Draft ED 52, Investments in Associates and Joint Ventures

96. It is recommended that the IPSASB:
- (a) NOTE the changes made to the ED since it was last considered by the IPSASB;
 - (b) AGREE to issue ED 52, *Investments in Associates and Joint Ventures*;
 - (c) AGREE the Specific Matters for Comment; and
 - (d) AGREE that comments should be requested by 31 January 2014.

Matter(s) for Consideration

- 12. The IPSASB is asked to conduct a page by page review of the draft ED 52, *Investments in Associates and Joint Ventures* in Agenda paper 3.6.
- 13. The IPSASB is asked to approve ED 52, *Investments in Associates and Joint Ventures* for issue.

APPENDIX 1 Related IASB Projects

The IPSASB has previously agreed to monitor IASB projects that could result in amendments to the IFRSs on which the proposed IPSASs are based. The following table notes the most recent developments in these projects and explains how (if at all) the IASB's proposals have been incorporated in the IPSASB's draft EDs.

IASB Project	Update
<p>ED/2012/3 <i>Equity Method: Share of Other Net Asset Changes</i></p>	<p>The IASB issued ED/2012/3 in November 2012 (with comments due 22 March 2013). ED/2012/3 proposed to clarify how an investor should account for other net asset changes of the investee. The ED proposed that an investor should recognize its share of the investee's other net asset changes in the investor's equity.</p> <p>The IFRS Interpretations Committee considered feedback from constituents in July 2013. A considerable number of respondents disagreed with the IASB's proposals, for various reasons, but there was no dominant view of how to account for the other net asset changes. Despite widespread disagreement with aspects of the proposal, the staff paper proposed that they proceed, as a stop gap measure to reduce diversity in practice. The Interpretations Committee did not agree.</p> <p>The Interpretations Committee observed that, under the equity method, the investor accounts for the share of the other net asset changes in carrying amount of its investment if such changes arise. A change in the carrying amount of the investment caused by the other net asset changes is an increase or decrease in the investor's assets and is not related to contributions from, or distributions to, equity participants. Consequently, the Interpretations Committee noted that, from an investor's perspective, other net asset changes of an investee meet the definition of income and expenses as set out in the Conceptual Framework. In addition, the Interpretations Committee noted that the other net asset changes represent performance of the investor's investments.</p> <p>Furthermore, the Interpretations Committee observed that the other net asset changes of the investee are economically similar to direct acquisitions or disposals of investments and thus they should be accounted for similarly. The Interpretations Committee noted that its original proposal to the IASB in June 2012 was based on such notions. At that time the Interpretations Committee proposed to the IASB that:</p> <ol style="list-style-type: none"> a. where an investor's ownership interest in the investment is reduced, whether directly or indirectly, the impact of the change should be accounted for as a partial disposal and recognized in profit or loss of the investor; b. where an investor's ownership interest in the investment increases, whether directly or indirectly, the impact of the change should be accounted for as an incremental purchase of the investment and recognized at cost; and c. call option transactions entered into by an investee over its own equity (such as share-based payments) would be excluded from the scope of the proposal. <p>The Interpretations Committee tentatively decided to resubmit its original proposal to the IASB. If the IASB was not persuaded by the original proposal again, the Interpretations Committee's preference is to recognize all types of other net asset changes in the investor's profit or loss, because in its view they are income and expenses.</p>

IASB Project	Update
	<p>The Interpretations Committee's recommendation will be presented to a future IASB meeting.</p> <p>Although the IASB workplan still shows that final amendments are intended to be issued in Quarter 4, 2013, this now appears unlikely (source: IASB workplan 29 July 2013 and IFRIC Update July 2013).</p> <p><u>Impact on IPSASB's EDs</u></p> <p>No impact.</p> <p>The IPSASB had previously agreed to incorporate the IASB's proposals in the ED and seek constituents' views on the proposals. However, given the current uncertainty about the final outcome, staff has not included these proposals in the IPSASB's draft ED. Staff now considers that it would be more appropriate to wait until the IASB has finalized any amendments, before seeking feedback from IPSASB constituents. The reasons for taking this approach are noted in the Basis for Conclusions on the draft ED.</p>
<p>ED/2012/6 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i></p>	<p>The IASB issued ED/2012/6 in December 2012 (with comments due 23 April 2013). The ED was intended to address a conflict between the guidance in IFRS 10 and IAS 28 (Amended in 2011). IFRS 10 requires recognition of a full gain or loss on the loss of control of a subsidiary, whereas IAS 28 (Amended in 2011) requires recognition of a partial gain or loss in transactions between an investor and its associate or joint venture.</p> <p>ED/2012/6 proposed to amend IFRS 10 so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business, as defined in IFRS 3, <i>Business Combinations</i>, between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. Therefore the full gain or loss would be recognized on the loss of control of a subsidiary that constitutes a business, as defined in IFRS 3, including cases in which the investor retains joint control of, or significant influence over, the investee.</p> <p>ED/2012/6 also proposed to amend IAS 28 (Amended in 2011) so that:</p> <ul style="list-style-type: none"> (a) The current requirements for the recognition of a partial gain or loss for transactions between an investor and its associate or joint venture apply only to the gain or loss resulting from the sale or contribution of assets <i>that do not constitute a business</i>, as defined in IFRS 3; and (b) The gain or loss resulting from the sale or contribution of assets <i>that constitute a business</i>, as defined in IFRS 3, between an investor and its associate or joint venture is recognised in full (ie the investor's interest in the gains or losses resulting from these transactions is not eliminated). <p>The Interpretations Committee has considered feedback from respondents and decided that it should recommend that the IASB should proceed with the amendments to IFRS 10 and IAS 28 (2011). The IASB expects to issue the amendment to IFRS 10 and IAS 28 by the end of 2013 (source: IASB workplan 29 July 2013 and IFRIC Update July 2013).</p>

IASB Project	Update
	<p><u>Impact on IPSASB's EDs</u></p> <p>No impact. The IPSASB has agreed not to incorporate the amendments in ED/2012/6 in [draft] IPSAS XX, <i>Investments in Associates and Joint Ventures</i> on the grounds that it would be more appropriate to consider the recognition of full or partial gains and losses in the context of drafting standards level requirements for public sector combinations.</p>
<p>ED/2012/7 <i>Acquisition of an Interest in a Joint Operation</i> (Proposed amendment to IFRS 11)</p>	<p>The IASB issued ED/2012/7 in December 2012 (with comments due 23 April 2013).</p> <p>The objective of the proposed amendment was to introduce guidance on the accounting, by a joint operator, for the acquisition of an interest in a joint operation, as defined in IFRS 11, <i>Joint Arrangements</i>, in which the activity of the joint operation constitutes a business, as defined in IFRS 3, <i>Business Combinations</i>. IFRS 11 (Amended in 2011) did not provide guidance on this issue.</p> <p>The Interpretations Committee has considered feedback from respondents and decided that it should recommend that the IASB should proceed with the amendments to IFRS 11. Respondents also requested additional guidance and this will be brought to the IASB's attention. The IASB expects to issue the amendment to IFRS 11 by the end of 2013 (source: IASB workplan 29 July 2013 and IFRIC Update July 2013).</p> <p><u>Impact on IPSASB's EDs</u></p> <p>No impact. The IPSASB has agreed not to incorporate the proposals in IASB ED/2012/7 in [draft] IPSAS XX, <i>Joint Arrangements</i> on the grounds that it would be more appropriate to consider the proposals in that ED in the context of drafting standards level requirements for public sector combinations.</p>
<p>Separate Financial Statements: equity method</p>	<p>IAS 27, <i>Separate Financial Statements</i> does not currently permit the use of the equity method in separate financial statements. In May 2013 the IASB tentatively decided to amend paragraph 10 of IAS 27, <i>Separate Financial Statements</i> to allow an entity to account for investments in subsidiaries, associates and joint ventures using the equity method in their separate financial statements.</p> <p>The IASB expects to issue an ED by the end of 2013 (source: IASB workplan as at 29 July 2013).</p> <p><u>Impact on IPSASB's EDs</u></p> <p>No expected impact as the IPSASB has decided to permit the use of the equity method (the rationale for this decision is outlined in the Basis for Conclusions). Continue to monitor IASB project.</p>
<p>Equity method research project</p>	<p>The IPSASB has previously agreed to monitor the IASB's research project on the usefulness of the equity method of accounting and, in the context of the liaison meetings with the IASB, to indicate the IPSASB's interest in this project.</p> <p>At present there is no indication of expected timing for this project (source: IASB workplan as at 29 July 2013).</p>

Exposure Draft 48

[September 2013]

Comments due: [January 31, 2014]

*Proposed International Public Sector Accounting
Standard*

**Consolidated Financial
Statements**

IPSASB

International Public
Sector Accounting
Standards Board™

This Exposure Draft 48, *Consolidated Financial Statements* was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © [September 2013] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx bookmark "page xx" to copyright page].

REQUEST FOR COMMENTS

This Exposure Draft 48, *Consolidated Financial Statements*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [January 31, 2014].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose principles for the presentation and preparation of consolidated financial statements when a public sector entity controls one or more other entities.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1:

Do you agree with the proposed definition of control? If not, how would you change the definition?

Specific Matter for Comment 2:

Do you agree that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this ED)? If you consider that certain categories of entities should not be consolidated, please justify your proposal having regard to user needs and indicate your preferred accounting treatment for any such controlled entities. If you have any comments about temporarily controlled entities, please respond to Specific Matter for Comment 3.

Specific Matter for Comment 3:

Do you agree with the proposal to withdraw the current exemption in IPSAS 6, *Consolidated and Separate Financial Statements* for temporarily controlled entities? If you agree with the withdrawal of the exemption please give reasons. If you disagree with the withdrawal of the exemption please indicate any modifications that you would propose to the current exemption in IPSAS 6.

Specific Matter for Comment 4:

Do you agree that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus or deficit?

Specific Matter for Comment 5:

Do you agree that a non-investment entity that controls an investment entity should be required to account for that investment entity at fair value through surplus or deficit?

COPYRIGHT, TRADEMARK, AND PERMISSIONS INFORMATION

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*

Published by:



IPSAS XX (ED 48)—CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

	Paragraph
Objective	1–2
Scope	3–9
Public Sector Combinations	4
Presentation of Consolidated Financial Statements	5–6
Government Business Enterprises	7–9
Definitions	10–11
Control	12–31
Power	17–23
Benefits	24–28
Link between Power and Benefits	29–31
Accounting Requirements	32–51
Consolidation Procedures	34
Uniform Accounting Policies.....	35
Measurement.....	36
Potential Voting Rights	37–39
Reporting Dates.....	40
Non-controlling Interests	41–45
Loss of Control	46–49
Determining Whether an Entity is an Investment Entity.....	50–59
Investment Entities: Fair Value Requirement	55–57
Accounting for a Change in Investment Entity Status	58–59
Transitional Provisions	60–75
References to the “Immediately Preceding Period”	74–75
Effective Date	76–77
Withdrawal of IPSAS 6 (December 2006).....	78
Appendix A: Application Guidance	AG1–AG112
Appendix B: Amendments to Other IPSASs	
Basis for Conclusions	
Implementation Guidance	
Illustrative Examples	
Comparison with IFRS 10	

Objective

1. The objective of this [draft] Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
2. To meet the objective in paragraph 1, this [draft] Standard:
 - (a) Requires an entity (the *controlling entity*) that controls one or more other entities (*controlled entities*) 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 controls another entity and therefore must consolidate that entity;
 - (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 controlled entities of an investment entity.

Scope

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

Public Sector Combinations

4. This [draft] 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).

Presentation of Consolidated Financial Statements

5. An entity that is a controlling entity shall present consolidated financial statements. This [draft] Standard applies to all entities, except as follows:
 - (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, and, in the case of a partially owned entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements;
 - (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
 - (iv) Its ultimate or any intermediate controlling entity produces consolidated financial statements that are available for public use and comply with IPSASs.

- (b) Post-employment benefit plans or other long-term employee benefit plans to which IPSAS 25, *Employee Benefits* applies.
 - (c) An investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 55 of this [draft] Standard, to measure all of its controlled entities at fair value through surplus or deficit.
6. 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.

Government Business Enterprises

7. This [draft] Standard applies to all public sector entities other than GBEs.
8. 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*.
9. Although GBEs are not required to comply with this [draft] Standard in their own financial statements, the provisions of this [draft] Standard will apply where a public sector entity that is not a GBE has one or more controlled entities that are GBEs. In these circumstances, this [draft] Standard shall be applied in consolidating GBEs into the financial statements of the economic entity.

Definitions

10. **The following terms are used in this [draft] 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 or similar distributions. 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 have positive or negative aspects.

Binding arrangement: For the purposes of this [draft] Standard, a binding arrangement describes an arrangement that confers enforceable 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 entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

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

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

A **controlling entity** 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 entity is a controlling entity and its controlled entities.

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 purpose is to invest funds solely for returns from capital appreciation, investment revenue, or both; and**
- (c) **Measures and evaluates the performance of substantially all of its investments on a fair value basis.**

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

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 [draft] Standard), are activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.

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

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

Economic Entity

11. The term economic entity is used in this [draft] 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.

Control (see paragraphs AG2–AG89)

12. An entity, regardless of the nature of its involvement with another entity, shall determine whether it is a controlling entity by assessing whether it controls the other entity.
13. **An entity controls another entity when it is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature and amount of those benefits through its power over the other entity.**
14. **Thus, an entity controls another entity if and only if the entity has all the following:**
 - (a) **Power over the other entity (see paragraphs 17–23);**
 - (b) **Exposure, or rights, to variable benefits from its involvement with the other entity (see paragraphs 24–28); and**
 - (c) **The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs 29–31).**

15. An entity shall consider all facts and circumstances when assessing whether it controls another entity. The entity shall reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 14 (see paragraphs AG84–AG89).
16. Two or more entities collectively control another entity when they must act together to direct the relevant activities. In such cases, because no single entity can direct the activities without the co-operation of the others, no single entity controls the other entity. Each entity would account for its interest in the other entity in accordance with the relevant IPSASs, such as [draft] IPSAS XX, *Joint Arrangements*, [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) or the IPSASs dealing with financial instruments (being IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*).

Power

17. An entity has power over another entity when the entity 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. 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.
18. Power arises from rights. In some cases assessing power is straightforward, such as when power over another entity 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. The assessment of whether such rights give rise to power over another entity may be complex and require more than one factor to be considered.
19. 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.
20. The existence of rights over another entity does not necessarily give rise to power for the purposes of this [draft] Standard. An entity does not have power over another entity solely due to the existence of:
 - (a) Regulatory control (see paragraph AG12); or
 - (b) Economic dependence (see paragraphs AG41–AG43).
21. An 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 has been directing the relevant activities of the other entity can help determine whether the entity has power, but such evidence is not, in itself, conclusive in determining whether the entity has power over another entity.

22. If two or more entities each have existing rights that give them the unilateral ability to direct different relevant activities, the entity that has the current ability to direct the activities that most significantly affect the nature or amount of benefits from that entity has power over that other entity.
23. An entity can have power over another entity 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 that holds only protective rights does not have power over another entity (see paragraphs AG29–AG31), and consequently does not control the other entity.

Benefits

24. An entity is exposed, or has rights, to variable benefits from its involvement with the other entity when the benefits from its involvement have the potential to vary as a result of the other entity's performance. The entity's benefits from its involvement with the other entity can be only positive, only negative or both positive and negative.
25. 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).
26. 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's 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 27); and
 - (h) Other exposures to variable benefits that are not available to other entities.
27. Examples of non-financial benefits 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.

28. Although only one entity can control another entity, more than one party can share in the benefits of that other entity. For example, holders of non-controlling interests can share in the financial benefits such as surpluses or distributions from an entity or the non-financial benefits such as congruence of activities with desired outcomes.

Link between Power and Benefits

29. An entity controls another entity if the entity not only has power over the other entity and exposure or rights to variable benefits from its involvement with the other entity, but also has the ability to use its power to affect the nature or amount of the benefits from its involvement with the other entity.
30. 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.
31. Thus, an entity with decision-making rights shall determine whether it is a principal or an agent. An entity that is an agent in accordance with paragraphs AG61–AG76 does not control another entity when it exercises decision-making rights delegated to it.

Accounting Requirements

32. **A controlling entity shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.**
33. Consolidation of a controlled entity shall begin from the date the entity obtains control of the other entity and cease when the entity loses control of the other entity.

Consolidation Procedures

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

Uniform Accounting Policies

35. If a member of the economic entity 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 member's financial statements in preparing the consolidated financial statements to ensure conformity with the economic entity's accounting policies.

Measurement

36. An entity includes the revenue and expenses of a controlled entity in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the controlled entity. Revenue and expenses of the 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 after the acquisition date is based on the values of the related depreciable assets recognized in the consolidated financial statements at the acquisition date.

Potential Voting Rights

37. When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of surplus or deficit and changes in net assets/equity allocated to the controlling entity 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 38 applies.
38. 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 associated with an ownership interest. In such circumstances, the proportion allocated to the controlling entity 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.
39. IPSAS 28, *Financial Instruments: Presentation* and IPSAS 29, *Financial Instruments: Recognition and Measurement* do not apply to interests in controlled entities that are consolidated. When instruments containing potential voting rights in substance currently give access to the benefits associated with an ownership interest in a controlled entity, the instruments are not subject to the requirements of IPSAS 28 and IPSAS 29. In all other cases, instruments containing potential voting rights in a controlled entity are accounted for in accordance with IPSAS 28 and IPSAS 29.

Reporting Dates

40. 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) Obtains, 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.

Non-controlling Interests

41. A controlling entity 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 entity.

42. Changes in a controlling entity's interest in a controlled entity that do not result in the controlling entity losing control of the controlled entity are transactions with owners in their capacity as owners.
43. An entity shall attribute the surplus or deficit and each gain or loss recognized directly in net assets/equity to the owners of the controlling 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 to the owners of the controlling entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
44. If a controlled 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 after adjusting for the dividends on such shares, whether or not such dividends have been declared.

Changes in the Proportion held by Non-controlling Interests

45. 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 controlled 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 controlling entity.

Loss of Control

46. If a controlling entity loses control of a controlled entity, the controlling entity:
 - (a) Derecognizes the assets and liabilities of the former controlled entity from the consolidated statement of financial position.
 - (b) Recognizes any investment retained in the former controlled entity at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former controlled entity in accordance with relevant IPSASs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IPSAS 29 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.
47. A controlling entity might lose control of a controlled 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 controlling entity shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the controlling 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

investment is priced below market and is compensated for by a subsequent disposal priced above market.

48. If a controlling entity loses control of a controlled entity, it shall:
- (a) Derecognize:
 - (i) The assets (including any goodwill) and liabilities of the controlled 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 controlled entity at the date when control is lost (including any gain or loss recognized directly in net assets/equity 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 controlled entity to owners in their capacity as owners, that distribution; and
 - (iii) Any investment retained in the former controlled entity at its fair value at the date when control is lost.
 - (c) Transfer directly to accumulated surplus/deficit if required by other IPSASs, the amounts recognized directly in net assets/equity in relation to the controlled entity on the basis described in paragraph 49.
 - (d) Recognize any resulting difference as a gain or loss in surplus or deficit attributable to the controlling entity.
49. If a controlling entity loses control of a controlled entity, the controlling entity shall account for all amounts previously recognized directly in net assets/equity in relation to that controlled entity on the same basis as would be required if the controlling entity had directly disposed of the related assets or liabilities. If a revaluation surplus previously recognized directly in net assets/equity would be transferred directly to accumulated surplus/deficit on the disposal of the asset, the controlling entity shall transfer the revaluation surplus directly to accumulated surplus/deficit when it loses control of the controlled entity.

Determining Whether an Entity is an Investment Entity

50. **A controlling entity shall determine whether it is an investment entity. An investment entity is an entity that:**
- (a) **Obtains funds from one or more other individuals or entities for the purpose of providing those individuals or entities with investment management services;**
 - (b) **Commits to those individuals or entities that its purpose is to invest funds solely for returns from capital appreciation, investment revenue, or both; and**
 - (c) **Measures and evaluates the performance of substantially all of its investments on a fair value basis.**
 - (d) **Paragraphs AG90–AG102 provide related application guidance.**

51. In assessing whether it meets the definition described in paragraph 50, an entity shall consider whether it has the following typical characteristics of an investment entity:
- (a) It has more than one investment (see paragraphs AG104–AG105);
 - (b) It has obtained funds from more than one individual or entity (see paragraphs AG106–AG108);
 - (c) The individuals or entities that have provided funds to the entity are not related parties of the entity (see paragraphs AG109–AG110); and
 - (d) It has ownership interests in the form of equity or similar interests (see paragraphs AG111–AG112).
52. 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 14 of [draft] IPSAS XX, *Disclosure of Interests in Other Entities*.
53. 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 50, or the typical characteristics of an investment entity, as described in paragraph 51, a controlling entity shall reassess whether it is an investment entity.
54. A controlling entity 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 58–59).

Investment Entities: Fair Value Requirement

55. **Except as described in paragraph 56, an investment entity shall not consolidate its controlled entities or apply the relevant international or national accounting standard dealing with public sector combinations when it obtains control of another entity. Instead, an investment entity shall measure an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*.**
56. Notwithstanding the requirement in paragraph 55, if an investment entity has a controlled entity that provides services that relate to the investment entity's investment activities (see paragraphs AG92–AG94), it shall consolidate that controlled entity in accordance with paragraphs 32–49 of this [draft] Standard and apply the requirements of any relevant international or national accounting standard dealing with public sector combinations to the acquisition of any such controlled entity.
57. **A controlling entity of an investment entity that is not itself an investment entity shall not consolidate entities that it controls indirectly through the controlled investment entity. Instead, a controlling entity shall measure an investment in a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29.**

Note to IPSASB

Paragraph 57 proposes that a non-investment controlling entity be required to account for a controlled investment entity at fair value. This is the treatment recommended in the issues paper (as Option 2). If the IPSASB decides instead to propose Option 1 (consolidation) or Option 3 (fair value of the investment entity's investments) then this paragraph would need to be changed.

Under Option 1 the requirement would revert to what is required by IFRS 10. That is, it would require that “A controlling entity of an investment entity that is not itself an investment entity shall consolidate all entities that it controls, including those controlled through a controlled investment entity.”

Under Option 3 the requirement would be as follows “A controlling entity of an investment entity that is not itself an investment entity shall not consolidate entities that it controls indirectly through the controlled investment entity. Instead, a controlling entity shall measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and shall consolidate the other assets and liabilities of the controlled investment entity”.

Accounting for a Change in Investment Entity Status

58. When an entity ceases to be an investment entity, it shall apply the relevant international or national accounting standard dealing with public sector combinations to any controlled entity that was previously measured at fair value through surplus or deficit in accordance with paragraph 55. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity 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 controlled entities shall be consolidated in accordance with paragraphs 32–45 of this [draft] Standard from the date of change of status.
59. When an entity becomes an investment entity, it shall cease to consolidate its controlled entities at the date of the change in status, except for any controlled entity that shall continue to be consolidated in accordance with paragraph 56. The investment entity shall apply the requirements of paragraphs 46 and 47 to those controlled entities that it ceases to consolidate as though the investment entity had lost control of those controlled entities at that date.

Transitional Provisions

60. An entity shall apply this [draft] Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 61–72.
61. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this [draft] Standard is first applied an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3 for the annual period immediately preceding the date of initial application of this [draft] Standard (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.
62. For the purposes of this [draft] Standard, the date of initial application is the beginning of the annual reporting period for which this [draft] Standard is applied for the first time.
63. 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, *Consolidated and Separate Financial Statements* (December 2006) and are still consolidated in accordance with this [draft] Standard; or
 - (b) Entities that would not be consolidated at that date in accordance with IPSAS 6 (December 2006) and are not consolidated in accordance with this [draft] Standard.

64. 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 65–68 instead of paragraphs 71–72.
65. Except for any controlled entity that is consolidated in accordance with paragraph 56 (to which paragraph 63 or paragraphs 69–70, whichever is relevant, apply), an investment entity shall measure its investment in each controlled entity at fair value through surplus or deficit as if the requirements of this [draft] Standard had always been effective. The investment entity shall retrospectively adjust both the annual period that immediately precedes the date of initial application and net assets/equity at the beginning of the immediately preceding period for any difference between:
- (a) The previous carrying amount of the controlled entity; and
 - (b) The fair value of the investment entity's investment in the controlled entity.
- The cumulative amount of any fair value adjustments previously recognized directly in net assets/equity shall be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.
66. An investment entity shall use the fair value amounts that were previously reported to investors or to management.
67. If measuring an investment in a controlled entity in accordance with paragraphs 65–66 is impracticable (as defined in IPSAS 3), an investment entity shall apply the requirements of this [draft] Standard at the beginning of the earliest period for which application of paragraphs 65–66 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 net assets/equity shall be recognized at the beginning of the current period.
68. If an investment entity has disposed of, or has lost control of, an investment in a controlled entity before the date of initial application of this [draft] Standard, the investment entity is not required to make adjustments to the previous accounting for that controlled entity.
69. If, at the date of initial application, an entity concludes that it shall consolidate another entity that was not consolidated in accordance with IPSAS 6 (December 2006), the entity shall measure the assets, liabilities and non-controlling interests in that previously unconsolidated entity as if that other entity had been consolidated from the date when the entity obtained control of that other entity on the basis of the requirements of this [draft] Standard. The entity 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 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 involvement with the other entity.
70. If measuring a controlled entity's assets, liabilities and non-controlling interests in accordance with paragraph 69(a) or (b) is impracticable (as defined in IPSAS 3), an entity shall 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. 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.

71. The entity 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 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 involvement with the other entity.

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.

72. If, at the date of initial application, an entity concludes that it will no longer consolidate an entity that was consolidated in accordance with IPSAS 6 (December 2006), the entity shall measure its interest in the other entity at the amount at which it would have been measured if the requirements of this Standard had been effective when the entity became involved with, or lost control of, the other entity. The entity shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that the entity became involved with (but did not obtain control in accordance with this Standard), or lost control of, the other entity is earlier than the beginning of the immediately preceding period, the entity 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 interest in the other entity.

73. If measuring the interest in the other entity in accordance with paragraph 71 is impracticable (as defined in IPSAS 3), an entity shall apply the requirements of this [draft] Standard at the beginning of the earliest period for which application of paragraph 71 is practicable, which may be the current period. The entity 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 became involved with (but did not obtain control in accordance with this [draft] Standard), or lost control of, the other entity is earlier than the beginning of the immediately preceding period, the entity 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 interest in the other entity.

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.

References to the "Immediately Preceding Period"

74. Notwithstanding the references to the annual period immediately preceding the date of initial application (the "immediately preceding period") in paragraphs 69–73, 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 69–73 shall be read as the “earliest adjusted comparative period presented.”

75. 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.

Effective Date

76. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this [draft] Standard for a period beginning before [Date], it shall disclose that fact and apply [draft] IPSAS XX, *Joint Arrangements*, [draft] IPSAS XX, *Disclosure of Interests in Other Entities*, [draft] IPSAS 6, *Separate Financial Statements (Amended in [Date])* and [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])* at the same time.**
77. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity’s annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 6 (2006)

78. **This [draft] Standard supersedes the requirements relating to consolidated financial statements in IPSAS 6 (December 2006).**

Application Guidance

This Appendix is an integral part of [draft] IPSAS XX, Consolidated Financial Statements.

AG1. 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 [draft] IPSAS XX, *Consolidated Financial Statements*.

Assessing Control

AG2. To determine whether it controls another entity an entity shall assess whether it has all the following:

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

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

- (a) The purpose and design of the other entity (see paragraphs AG5–AG8);
- (b) What the relevant activities are and how decisions about those activities are made (see paragraphs AG13–AG15);
- (c) Whether the rights of the entity give it the current ability to direct the relevant activities of the other entity (see paragraphs AG16–AG57);
- (d) Whether the entity is exposed, or has rights, to variable benefits from its involvement with the other entity (see paragraphs AG58–AG60); and
- (e) Whether the entity has the ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs AG61–AG76).

AG4. When assessing control of another entity, an investor shall consider the nature of its relationship with other parties (see paragraphs AG77–AG79).

Purpose and Design of another Entity

AG5. When assessing whether it has control of another entity, an entity shall consider the purpose and design of the other entity 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 benefits from those activities.

AG6. When another entity's purpose and design are considered, it may be clear that the other entity is controlled by means of equity instruments that give the holder proportionate voting rights, such as ordinary shares in the other entity. 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 operating and financing policies (see

paragraphs AG32–AG53). In the most straightforward case, the entity that holds a majority of those voting rights, in the absence of any other factors, controls the other entity.

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

AG8. Voting rights may not be the dominant factor in deciding who controls the other entity. If there are voting rights they may be limited in scope. The relevant activities of another entity may be directed by means of statutory arrangements, 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 consideration of the purpose and design of the other entity shall also include consideration of the risks to which the other entity was designed to be exposed, the risks it was designed to pass on to the parties involved and whether the entity 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. To have power over another entity, an entity 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 AG25–AG31).

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

AG11. 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.

Regulatory Control

AG12. Regulatory control does not give rise to power over an investee for the purposes of this [draft] 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.

Relevant Activities and Direction of Relevant Activities

AG13. For many entities, a range of operating and financing activities significantly affect the benefits they generate. 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;
- (d) Selling and purchasing of goods or services;
- (e) Managing physical assets;
- (f) Managing financial assets during their life (including upon default);
- (g) Selecting, acquiring or disposing of assets;
- (h) Managing a portfolio of liabilities;
- (i) Researching and developing new products or processes; and
- (j) Determining a funding structure or obtaining funding.

AG14. Examples of decisions about relevant activities include but are not limited to:

- (a) Establishing operating and capital decisions of an entity, including budgets; and
- (b) Appointing and remunerating an entity's key management personnel or service providers and terminating their services or employment.

AG15. 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 entities have the current ability to direct relevant activities and those activities occur at different times, those entities shall determine which entity is able to direct the activities that most significantly affect those benefits consistently with the treatment of concurrent decision-making rights (see paragraph 22). The entities concerned shall reconsider this assessment over time if relevant facts or circumstances change.

Rights that Give an Entity Power over another Entity

AG16. Power arises from rights. To have power over another entity, an entity must have existing rights that give the entity the current ability to direct the relevant activities of the other entity. The rights that may give an entity power can differ.

AG17. Examples of rights that, either individually or in combination, can give an entity 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) Rights in the form of voting rights (or potential voting rights) of another entity (see paragraphs AG32–AG53);
- (c) Rights to appoint, reassign or remove members of another entity's key management personnel who have the ability to direct the relevant activities;
- (d) Rights to appoint or remove another entity that directs the relevant activities;
- (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 to enter into, or veto any changes to, transactions for the benefit of the entity;
- (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
- (h) Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

AG18. 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.

AG19. To determine whether an entity has rights sufficient to give it power, the entity shall also consider the purpose and design of the other entity (see paragraphs AG5–AG8) and the requirements in paragraphs AG54–AG57 together with paragraphs AG20–AG22.

AG20. In some circumstances it may be difficult to determine whether an entity's rights are sufficient to give it power over another entity. In such cases, to enable the assessment of power to be made, the entity 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 AG21 and AG22, may provide evidence that the entity's rights are sufficient to give it power over the other entity:

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

AG21. Sometimes there will be indications that the entity has a special relationship with the other entity, which suggests that the entity has more than a passive interest in the other entity. 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 has more than a passive interest in another entity

this may indicate that the entity has other related rights sufficient to give it power or provide evidence of existing power over another entity. For example, the following suggests that the entity has more than a passive interest in the other entity 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.
- (b) The relationship between the entity and the other entity's operations is one of dependence, such as in the following situations:
 - (i) The entity funds a significant portion of the other entity's operations and the other entity depends on this.
 - (ii) The entity guarantees a significant portion of the other entity's obligations, and the other entity depends on this.
 - (iii) The entity provides critical services, technology, supplies or raw materials to the other entity, and the other entity depends on this.
 - (iv) The entity controls assets such as licenses or trademarks that are critical to the other entity'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.
- (c) A significant portion of the other entity's activities either involve or are conducted on behalf of the entity.
- (d) The entity's exposure, or rights, to benefits from its involvement with the other entity is disproportionately greater than its voting or other similar rights. For example, there may be a situation in which an entity is entitled, or exposed, to more than half of the benefits of the other entity but holds less than half of the voting rights of the other entity.

AG22. Public sector entities often have special relationships with other parties as a result of the indicators listed in paragraph AG21. Public sector entities often fund the activities of other entities. Economic dependence is discussed in paragraphs AG 41 to AG43.

AG23. The greater an entity's exposure, or rights, to variability of benefits from its involvement with another entity, the greater is the incentive for the entity to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of benefits is an indicator that the entity may have power. However, the extent of the entity's exposure does not, in itself, determine whether an entity has power over the other entity.

AG24. When the factors set out in paragraph AG20 and the indicators set out in paragraphs AG21–AG23 are considered together with an entity's rights, greater weight shall be given to the evidence of power described in paragraph AG20.

Substantive Rights

AG25. An entity, in assessing whether it has power, considers only substantive rights relating to another entity (held by the entity and others). For a right to be substantive, the holder must have the practical ability to exercise that right.

- AG26. 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 another entity 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 is prohibited from 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) 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).
 - (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 another entity (see paragraphs AG50–AG53) 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 would benefit for other reasons (e.g., by realizing synergies between the entity and the other entity) from the exercise or conversion of the instrument.

- AG27. 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.
- AG28. 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 AG29–AG31), 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

- AG29. In evaluating whether rights give an entity power over another entity, the entity 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 or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective (see paragraphs AG15 and AG56).
- AG30. Because protective rights are designed to protect the interests of their holder without giving that party power over the entity to which those rights relate, an entity that holds only protective rights cannot have power or prevent another party from having power over the entity to which those rights relate (see paragraph 23).
- AG31. 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 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.
 - (d) 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.
 - (e) 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.
 - (f) 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.
 - (g) 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).

Voting Rights

AG32. Where an entity 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 considers the requirements in this section (paragraphs AG33–AG53) in making that assessment.

Power with a Majority of the Voting Rights

AG33. An entity that holds more than half of the voting rights of another entity has power in the following situations, unless paragraph AG34 or paragraph AG35 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

AG34. For an entity that holds more than half of the voting rights of another entity, to have power over that other entity, the entity's voting rights must be substantive, in accordance with paragraphs AG25–AG28, and must provide the entity 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 making the assessment of control, the entity making the assessment of control does not have power over the other entity.

AG35. An entity does not have power over another entity, even though the entity holds the majority of the voting rights in the other entity, when those voting rights are not substantive. For example, an entity that has more than half of the voting rights in another entity 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

AG36. An entity can have power even if it holds less than a majority of the voting rights of another entity. An entity can have power with less than a majority of the voting rights of another entity, 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 AG37);
- (b) A binding arrangement (including rights from contracts or other legal rights) between the entity and other vote holders (see paragraph AG39);
- (c) Rights arising from other binding arrangements (including rights from contracts or other legal rights) or rights arising from legislative or executive authority (see paragraph AG40);
- (d) The entity's voting rights (see paragraphs AG37 and AG44–AG48);

- (e) Potential voting rights (see paragraphs AG50–AG53); or
- (f) A combination of (a)–(e).

Special Voting Rights Attaching to Ownership Interests (Golden Shares)

AG37. 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.

Control of the Board or Other Governing Body

AG38. 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.

Binding Arrangement with Other Vote Holders

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

Rights from Other Binding Arrangements and Legislative or Executive Authority

AG40. Other decision-making rights, in combination with voting rights, can give an entity the current ability to direct the relevant activities. For example, the rights specified in a binding arrangement (including rights from contracts or other legal rights) and rights arising from legislative or executive authority in combination with voting rights may give an entity the current ability to direct the operating or financing policies or other key activities of another entity that significantly affect the benefits received by the entity. 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).

Economic Dependence

AG41. Economic dependence, on its own, does not give rise to power over an entity for the purposes of this [draft] 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.

AG42. 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.

- AG43. 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 have 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 have ultimate discretion about how assets are used.

Voting Rights

- AG44. An entity with less than a majority of the voting rights has rights that are sufficient to give it power when the entity has the practical ability to direct the relevant activities unilaterally.
- AG45. When assessing whether an entity's voting rights are sufficient to give it power, an entity considers all facts and circumstances, including:
- (a) The size of the entity'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 entity holds, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;
 - (ii) The more voting rights an entity holds relative to other vote holders, the more likely the entity 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 entity, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;
 - (b) Potential voting rights held by the entity, other vote holders or other parties (see paragraphs AG50–AG53);
 - (c) Rights arising from other binding arrangements (including rights from contracts or other legal rights) (see paragraph AG40); and
 - (d) Any additional facts and circumstances that indicate the entity 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.
- AG46. When the direction of relevant activities is determined by majority vote and an entity 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 AG45(a)–(c) alone, that the entity has power over the other entity.

- AG47. In other situations, it may be clear after considering the factors listed in paragraph AG45(a)–(c) alone that an entity does not have power.
- AG48. However, the factors listed in paragraph AG45(a)–(c) alone may not be conclusive. If an entity, 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 AG20 and the indicators in paragraphs AG21–23. The fewer voting rights the entity holds, and the fewer parties that would need to act together to outvote the entity, the more reliance would be placed on the additional facts and circumstances to assess whether the entity's rights are sufficient to give it power. When the facts and circumstances in paragraphs AG20–AG23 are considered together with the entity's rights, greater weight shall be given to the evidence of power in paragraph AG20 than to the indicators of power in paragraphs AG21–23.
- AG49. If it is not clear, having considered the factors listed in paragraph AG45(a)–(d), that the entity has power, the entity does not control the other entity.

Potential Voting Rights

- AG50. When assessing control, an entity 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 another entity, 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 AG25–AG28).
- AG51. When considering potential voting rights, an entity shall consider the purpose and design of the instrument, as well as the purpose and design of any other involvement the entity has with the other entity. This includes an assessment of the various terms and conditions of the instrument as well as the entity's apparent expectations, motives and reasons for agreeing to those terms and conditions.
- AG52. If the entity also has voting or other decision-making rights relating to the other entity's activities, the entity assesses whether those rights, in combination with potential voting rights, give the entity power.
- AG53. Substantive potential voting rights alone, or in combination with other rights, can give an entity the current ability to direct the relevant activities. For example, this is likely to be the case when an entity holds 40 per cent of the voting rights of another entity and, in accordance with paragraph AG26, holds substantive rights arising from options to acquire a further 20 per cent of the voting rights.

Power when Voting or Similar Rights do not have a Significant Effect on Benefits

- AG54. In assessing the purpose and design of another entity (see paragraphs AG5–AG8), an entity shall consider the involvement and decisions made at the inception of the other entity as part of its design and evaluate whether the transaction terms and features of the involvement provide the entity with rights that are sufficient to give it power. Being involved in the design of another entity alone is not sufficient to give an entity control of that other entity. However, involvement in the

design of the other entity may indicate that the entity had the opportunity to obtain rights that are sufficient to give it power over the other entity.

- AG55. In addition, an entity shall consider binding arrangements (including rights from contracts or other legal rights) such as call rights, put rights, liquidation rights and rights arising from legislative or executive authority established at the inception of the other entity. When binding arrangements involve activities that are closely related to the other entity, then these activities are, in substance, an integral part of the other entity's overall activities, even though they may occur outside the legal boundaries of the other entity. Therefore, explicit or implicit decision-making rights embedded in binding arrangements that are closely related to the other entity need to be considered as relevant activities when determining power over the other entity.
- AG56. For some other entities, relevant activities occur only when particular circumstances arise or events occur. The other entity may be designed so that the direction of its activities and the benefits from those activities are predetermined unless and until those particular circumstances arise or events occur. In this case, only the decisions about the other entity's activities when those circumstances or events occur can significantly affect its benefits and thus be relevant activities. The circumstances or events need not have occurred for an entity 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.
- AG57. An entity may have an explicit or implicit commitment to ensure that another entity continues to operate as designed. Such a commitment may increase the entity's exposure to variability of benefits and thus increase the incentive for the entity to obtain rights sufficient to give it power. Therefore a commitment to ensure that another entity operates as designed may be an indicator that the entity has power, but does not, by itself, give an entity power, nor does it prevent another party from having power.

Exposure, or Rights, to Variable Benefits from another Entity

- AG58. When assessing whether an entity has control of another entity, the entity determines whether it is exposed, or has rights, to variable benefits from its involvement with the other entity.
- AG59. Variable benefits are benefits that are not fixed and have the potential to vary as a result of the performance of another entity. Variable benefits can be only positive, only negative or both positive and negative (see paragraph 24). An entity assesses whether benefits from another entity are variable and how variable those benefits are on the basis of the substance of the arrangement and regardless of the legal form of the benefits. For example:
- (a) In the context of non-financial benefits an entity may receive benefits as a result of the activities of another entity furthering its objectives. Although the benefits from these activities may be constant in amount, the benefits may be variable benefits for the purpose of this [draft] Standard because they expose the entity to the performance risk of the other entity. If the other entity were unable to perform those activities then the entity would incur additional costs, either from undertaking the activities itself or by providing additional funds or other forms of assistance to enable the other entity to continue providing those activities.
 - (b) In the context of financial benefits an entity can hold a bond with fixed interest payments. The fixed interest payments are variable benefits for the purpose of this [draft] Standard because they are subject to default risk and they expose the entity to the credit risk of the issuer of the bond. The amount of variability (i.e., how variable those benefits are) depends on the credit

risk of the bond. Similarly, fixed performance fees for managing another entity's assets are variable benefits because they expose the entity to the performance risk of the other entity. The amount of variability depends on the other entity's ability to generate sufficient revenue to pay the fee.

AG60. Examples of benefits include:

- (a) Remuneration for servicing another entity's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the other entity's assets and liabilities on liquidation of that other entity, tax benefits, and access to future liquidity that an entity has from its involvement with another entity.
- (b) Benefits that are not available to other entities that are involved with the entity subject to the assessment of control. For example, an entity might use its assets in combination with the assets of the other entity, 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 entity'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.

Link between Power and Benefits

Delegated Power

AG61. When an entity with decision-making rights (a decision maker) assesses whether it controls another entity, it shall determine whether it is a principal or an agent. An entity shall also determine whether another entity with decision-making rights is acting as an agent for the entity. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the other entity when it exercises its decision-making authority (see paragraphs 29–31). Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal. A decision maker is not an agent simply because other parties can benefit from the decisions that it makes.

AG62. It is common for public sector entities to be responsible for carrying out government policy. In some cases they may have the authority to act in their own right, in other cases they may act as agent for a Minister or another entity. For example:

- (a) A government department, which is authorized by a Minister to act on the Minister's behalf, might act solely as an agent of the responsible Minister in relation to another entity. In such cases the department would not control the other entity and would not consolidate it.
- (b) A government department may operate under a delegation of power from a Minister. The department uses its own discretion in making decisions and taking actions and is not subject to direction from the Minister. In such cases the department is acting in its own right and would need to apply the other requirements of this [draft] Standard to determine whether it controlled another entity. The scope of the department's decision-making authority over another entity would be a significant factor in distinguishing whether it is acting as an agent or as a principal.
- (c) An entity may establish a trust to carry out specified activities and appoints the trustee. The trustee is responsible for making decisions about the financing and operating activities of the

trust in accordance with the trust deed. If the entity can replace the trustee at its discretion, the entity would need to assess whether it controls the trust given that, for example, it would be exposed, or have rights, to variable benefits in terms of the extent to which its objectives are achieved or furthered through the activities of the trust.

AG63. An entity may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls another entity, the entity shall treat the decision-making rights delegated to its agent as held by the entity directly. In situations where there is more than one principal, each of the principals shall assess whether it has power over the other entity by considering the requirements in paragraphs AG5–AG57. Paragraphs AG64–AG76 provide guidance on determining whether a decision maker is an agent or a principal.

AG64. A decision maker shall consider the overall relationship between itself, the other entity being managed (and assessed for control) and other parties involved with that entity. In particular, a decision maker shall consider all the factors below, in determining whether it is an agent:

- (a) The scope of its decision-making authority over the other entity (paragraphs AG66 and AG67).
- (b) The rights held by other parties (paragraphs AG68–AG71).
- (c) The remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs AG72–AG74).
- (d) The decision maker's exposure to variability of benefits from other interests that it holds in the other entity (paragraphs AG75 and AG76).

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

AG65. Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph AG64 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph AG69).

The Scope of the Decision-Making Authority

AG66. 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.

AG67. A decision maker shall consider the purpose and design of the other entity, the risks to which the other entity 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 another entity. For example, if a decision maker is significantly involved in the design of the other entity (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

- AG68. Substantive rights held by other parties may affect the decision maker's ability to direct the relevant activities of another entity. Substantive removal or other rights may indicate that the decision maker is an agent.
- AG69. 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.
- AG70. 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 AG25–AG28 for additional guidance on rights and whether they are substantive.)
- AG71. Consideration of the rights held by other parties shall include an assessment of any rights exercisable by another entity's board of directors (or other governing body) and their effect on the decision-making authority (see paragraph AG26(b)).

Remuneration

- AG72. The greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the benefits expected from the activities of the other entity, the more likely the decision maker is a principal.
- AG73. 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.
- AG74. A decision maker cannot be an agent unless the conditions set out in paragraph AG73(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 from Other Interests

- AG75. A decision maker that holds other interests in another entity (e.g., investments in the other entity or provides guarantees with respect to the performance of the other entity), shall consider its exposure to variability of benefits from those interests in assessing whether it is an agent. Holding other interests in another entity indicates that the decision maker may be a principal.

AG76. In evaluating its exposure to variability of benefits from other interests in the other entity 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 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, another entity.

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

Relationship with Other Parties

AG77. When assessing control, an entity shall consider the nature of its relationship with other parties and whether those other parties are acting on the entity'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.

AG78. Such a relationship need not involve a binding arrangement (including rights from contracts or other legal rights). Such relationships could also arise from legislative or executive authority. A party is a de facto agent when the entity has, or those that direct the activities of the entity have, the ability to direct that party to act on the entity's behalf. In these circumstances, the entity shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable benefits through the de facto agent together with its own when assessing control of another entity.

AG79. The following are examples of such other parties that, by the nature of their relationship, might act as de facto agents for the entity:

- (a) The entity's related parties.
- (b) A party that received its interest in the other entity as a contribution or loan from the entity making the assessment of control.
- (c) A party that has agreed not to sell, transfer or encumber its interests in the other entity without the entity's prior approval (except for situations in which the entity 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.
- (e) Another entity 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.
- (f) A party that has a close business relationship with the entity, such as the relationship between a professional service provider and one of its significant clients.

Control of Specified Assets

- AG80. An entity shall consider whether it treats a portion of another entity as a deemed separate entity and, if so, whether it controls the deemed separate entity.
- AG81. An entity shall treat a portion of another entity as a deemed separate entity if and only if the following condition is satisfied:
- Specified assets of the other entity (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the other entity. 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 benefits from the specified assets can be used by the remaining portion of the other entity and none of the liabilities of the deemed separate entity are payable from the assets of the remainder of the other entity. Thus, in substance, all the assets, liabilities and equity instruments of that deemed separate entity are ring-fenced from the overall other entity. Such a deemed separate entity is often called a "silo".
- AG82. When the condition in paragraph AG81 is satisfied, an entity shall identify the activities that significantly affect the benefits 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. When assessing control of the deemed separate entity, the entity shall also consider whether it has exposure or rights to variable benefits from its involvement with that deemed separate entity and the ability to use its power over that portion of the other entity to affect the amount of the benefits from that entity.
- AG83. If the entity controls the deemed separate entity, the entity shall consolidate that portion of the other entity. In that case, other parties exclude that portion of the other entity when assessing control of, and in consolidating, the other entity.

Continuous Assessment

- AG84. An entity shall reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 14.
- AG85. If there is a change in how power over another entity can be exercised, that change must be reflected in how an entity assesses its power over another entity. 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.
- AG86. An event can cause an entity to gain or lose power over another entity without the entity being involved in that event. For example, an entity can gain power over another entity because decision-making rights held by another party or parties that previously prevented the entity from controlling another entity have lapsed.
- AG87. An entity also considers changes affecting its exposure, or rights, to variable benefits from its involvement with another entity. For example, an entity that has power over another entity can lose control of that other entity if the entity ceases to be entitled to receive benefits or to be exposed to obligations, because the entity would fail to satisfy paragraph 14(b) (e.g., if a contract to receive performance-related fees is terminated).
- AG88. An entity shall consider whether its assessment that it acts as an agent or a principal has changed. Changes in the overall relationship between the entity and other parties can mean that an entity 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, or of other parties, occur, the entity shall reconsider its status as a principal or an agent.

- AG89. An entity'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 benefits driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in paragraph 14 or changes the overall relationship between a principal and an agent.

Determining Whether an Entity is an Investment Entity

- AG90. 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 50 is an investment entity. Paragraphs AG91–AG102 describe the elements of the definition in more detail.

Purpose

- AG91. The definition of an investment entity requires that the purpose of the entity is to invest solely for capital appreciation, investment revenue (such as dividends or similar distributions, interest or rental revenue), or both. Documents that indicate what the entity's investment objectives are, such as the entity's mandate, constitution, offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity's purpose. Further evidence may include the manner in which the entity presents itself to other parties; for example, an entity may present its objective as 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 purpose that is inconsistent with the 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 AG85I). An entity's purpose may change over time. In assessing whether it continues to meet the definition of an investment entity, an entity would need to have regard to any changes in the environment in which it operates and the impact of such changes on its investment strategy.
- AG92. An investment entity may provide investment-related services (e.g., investment advisory services, investment management, investment support and administrative services), either directly or through a controlled entity, to third parties as well as to its controlling entity or other investors, even if those activities are substantial to the entity.
- AG93. An investment entity may also participate in the following investment-related activities, either directly or through a controlled entity, if these activities are undertaken to maximize the investment return (capital appreciation or investment revenue) from its investees and do not represent a separate substantial activity or a separate substantial source of revenue 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.
- AG94. If an investment entity has a controlled entity that provides investment-related services or activities, such as those described in paragraphs AG92–93, to the entity or other parties, it shall consolidate that controlled entity in accordance with paragraph 33.

Exit Strategies

- AG95. 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.
- AG96. 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.
- AG97. 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

- AG98. An entity is not investing solely for capital appreciation, investment revenue, or both, if the entity or another member of the economic entity containing the entity (i.e., the economic entity that is controlled by the investment entity's ultimate controlling entity) 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 member of the economic entity 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 [draft] IPSAS XX, *Joint Arrangements*) or other agreements between the entity or another member of the economic entity 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 member of the economic entity (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 member of the economic entity, an ownership interest in an investee of the entity;
- (e) Except as described in paragraph AG99, transactions between the entity or another member of the economic entity and an investee that:
 - (i) Are on terms that are unavailable to entities that are not related parties of either the entity, another member of the economic entity or the investee;
 - (ii) Are not at fair value; or
 - (iii) Represent a substantial portion of the investee's or the entity's activity, including activities of other entities forming part of the economic entity.

AG99. 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 revenue from those investees. Notwithstanding paragraph AG98(e), an entity is not disqualified from being classified as an investment entity merely because such investees trade with each other.

Fair Value Measurement

AG100. 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 controlled entities 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 IPSASs; and
- (b) Reports fair value information internally to the entity's key management personnel (as defined in IPSAS 20), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

AG101. In order to meet the requirement in AG100(a), an investment entity would:

- (a) Elect to account for any investment property using the fair value model in IPSAS 16, *Investment Property*;
- (b) Elect the exemption from applying the equity method in [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) for its investments in associates and joint ventures; and refer to cost and equity method; and
- (c) Measure its financial assets at fair value using the requirements in IPSAS 29.

AG102. 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 50(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

AG103. 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 51). 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

AG104. 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.

AG105. 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;
- (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 (e.g., when the required minimum investment is too high for an individual investor); or
- (d) Is in the process of liquidation.

More than One Investor

AG106. 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 economic entity containing the entity, would obtain benefits other than capital appreciation or investment revenue (see paragraph AG98).

AG107. Alternatively, an investment entity may be formed by, or for, a single controlling entity that represents or supports the interests of a wider group of investors (e.g., a pension fund, government investment fund or trust).

AG108. 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

AG109. Typically, an investment entity has several investors that are not related parties (as defined in IPSAS 20) of the entity or other members of the economic entity containing the entity. Having unrelated investors would make it less likely that the entity, or other members of the economic

entity containing the entity, would obtain benefits other than capital appreciation or investment revenue (see AG9B).

- AG110. 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

- AG111. An investment entity is typically, but is not required to be, a separate legal entity. Ownership interests in an investment entity may be, but are not always, in the form of equity or similar interests (e.g., 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.
- AG112. In addition, an entity that has significant ownership interests in the form of debt that, in accordance with other applicable IPSASs, does not meet the definition of net assets/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.

Amendments to Other IPSASs

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 [draft] IPSAS XX, *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 [draft] IPSAS 6, *Consolidated and Separate Financial Statements (Amended in [Date])*.
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. [Draft] IPSAS XX, *Consolidated Financial Statements* ~~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. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Disclosure of Interests in Other Entities, issued in [Date], amended paragraphs 4, 12, 88(n), 95(d), 97, 103, 118, 134, 135 and 139. An entity shall apply those amendments when it applies [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Disclosure of Interests in Other Entities.

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 50A, 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

50A An investment entity, as defined in [draft] IPSAS XX, Consolidated Financial Statements, need not apply paragraphs 50(c) or 50(d) to an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.

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, unless the controlled entity is held by an investment entity, as defined in [draft] IPSAS XX, Consolidated Financial Statements, and is required to be measured at fair value through surplus or deficit.

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 [draft] IPSAS XX, Consolidated Financial Statements), unless the controlled entity is held by an investment entity and is required to be measured at fair value through surplus or deficit. Accordingly, the resulting cash flows are classified in the same way as other transactions described in paragraph 26.

63C. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraph 30(b) and added paragraphs 52A and 52B. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 6, *Consolidated and Separate Financial Statements (Amended in [Date])*, 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~~ [draft] IPSAS XX, *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, [draft] IPSAS XX, *Consolidated Financial Statements* ~~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 [draft] IPSAS XX, *Consolidated Financial Statements* ~~IPSAS 6~~

71A. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*, issued in [Date], amended paragraphs 22, 47, 51, 53 and 55. An entity shall apply those amendments when it applies [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*.

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 [draft] 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 6, Consolidated and Separate Financial Statements, and IPSAS 7 require disclosure of a list of significant controlled entities and associates.~~ [Draft] IPSAS XX, Disclosure of Interests in Other Entities requires an entity to disclose information that enables users of its consolidated financial statements to understand the composition of the economic entity and information about each joint arrangement and associate that is material to the reporting entity.
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, except for those between an investment entity and its controlled entities measured at fair value through surplus or deficit, are eliminated on consolidation in accordance with [draft] IPSAS XX, Consolidated Financial Statements ~~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. [Draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS XX, Joint Arrangements and IPSAS XX, Disclosure of Interests in Other Entities issued in [Date], amended paragraphs 24 and 33. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS XX, Joint Arrangements and [draft] IPSAS XX, Disclosure of Interests in Other Entities.

Implementation Guidance

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

...

(Note: [Draft] IPSAS XX, 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 [draft] IPSAS X6, 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 [draft] IPSAS X6, 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 [draft] IPSAS X6, *Consolidated Financial Statements* are not applied in respect of the relationship of the GGS sector with entities in the PFC and PNFC sectors.
27. [Draft] IPSAS X6, *Consolidated Financial Statements* requires controlling entities to prepare financial statements that consolidate controlled entities on a line-by-line basis. [Draft] IPSAS X6, *Consolidated Financial Statements* 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 [draft] IPSAS X6, *Consolidated Financial Statements*, 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 [draft] IPSAS X6, *Consolidated Financial Statements* 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 [draft] IPSAS X6, *Consolidated Financial Statements*. 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. [Draft] IPSAS X6, *Consolidated Financial Statements* 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 [draft] IPSAS X6, *Consolidated Financial Statements* 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. [Draft] IPSAS XX, *Consolidated Financial Statements* issued in [Date], amended paragraphs 24, 26, 27, 29, 30, and 41. An entity shall apply those amendments when it applies [draft] IPSAS XX, *Consolidated Financial Statements*.**

Basis for Conclusions

- BC9. When GGS disclosures are made in financial statements, the requirements of [draft] IPSAS X6, *Consolidated Financial Statements* should not be applied in respect of PFCs and PNFCs. This is because the application of [draft] IPSAS X6, *Consolidated Financial Statements* 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

In the Illustrative Examples that accompany IPSAS 24 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 [draft] IPSAS X6, 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 [draft] IPSAS X6, Consolidated and Separate Financial Statements;

47A. [Draft] IPSAS XX, Consolidated Financial Statements issued in [Date], amended paragraph 12. An entity shall apply that amendment when it applies [draft] IPSAS XX, Consolidated Financial Statements.

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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended [Date]) or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), or IPSAS 8, Interests in Joint Ventures. However, in some cases, [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Separate Financial Statements (Amended [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), or IPSAS 8 require or 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. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements issued in [Date], amended paragraph 3. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements].

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 [draft] IPSAS ~~X6~~, Consolidated Financial Statements. When ...

IPSAS 29, Financial Instruments: Recognition and Measurement

Paragraphs 2(a), 17 and 89 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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), or IPSAS 8, Interests in Joint Ventures.~~ However, in some cases, [draft] IPSAS XX, Consolidated Financial Statements, IPSAS 6, Separate Financial Statements (Amended [Date]), or IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]) require or permit an entity to account for entities shall apply this Standard to an interest in a controlled entity, associate, or joint venture that according to IPSAS 6, IPSAS 7, or IPSAS 8 is accounted for under in accordance with some or all of the requirements of 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 ~~[draft] IPSAS 6X, Consolidated Financial Statements 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.
89. For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the entity can be designated as hedged items. It follows that hedge accounting can be applied to transactions between entities in the same economic entity only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the economic entity except for the consolidated financial statements of an investment entity, as defined in [draft] IPSAS XX, Consolidated Financial Statements, where transactions between an investment entity and its controlled entities measured at fair value through surplus or deficit will not be eliminated in the consolidated financial statements. As an exception, ...

125B. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraphs 2(a), 17, 89, AG2, AG14 and C2. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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

Consolidate all controlled entities, (including any Special Purpose Entities) [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 an economic entity 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 6.49~~ [draft] IPSAS XX, Consolidated Financial Statements paragraph 21.1 requires that "Balances, transactions, revenue and expenses within the economic entity shall be eliminated in full." a controlling entity "Eliminate in full intra-economic entity assets and liabilities, net assets/equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity".

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

...

It depends. ~~[Draft] IPSAS X6, 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.

In the Basis for Conclusions, paragraph BC4 is footnoted as follows

In [Date] the IPSASB introduced the concept of investment entities in [draft] IPSAS XX, Consolidated Financial Statements and required investment entities, as defined in that Standard, to measure their investments in controlled entities, other than those providing investment-related services or activities, at fair value through surplus or deficit.

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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), or IPSAS 8, Interests in Joint Ventures. However, in some cases, [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Separate Financial Statements (Amended [Date]), or [draft]**

IPSAS 7, *Investments in Associates and Joint Ventures* (Amended [Date]), or IPSAS 8 require or permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; in those cases

52A. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*, issued in [Date], amended paragraph 3(a). An entity shall apply that amendment when it applies [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*.

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 [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS 6, *Consolidated and Separate Financial Statements* (Amended [Date]), and [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended [Date]), and ~~IPSAS 8, *Interests in Joint Ventures*; and....~~

132A. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements* issued in [Date], amended paragraph 6(d). An entity shall apply that amendment when it applies [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*.

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 48, Consolidated Financial Statements.

Objective

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

Scope (paragraphs 5–8)

Wholly and Partly Owned Controlling Entities

BC2. The IPSASB agreed that, consistent with the requirements in IPSAS 6 (December 2006) and IFRS 10, wholly or partly owned controlling entities that meet certain conditions, and post-employment or other long-term employee benefit plans should not be required to present consolidated financial statements. The IPSASB decided that a controlling entity which itself is a controlled entity should not be required to present consolidated financial statements only if “users of such financial statements are unlikely to exist or their information needs are met by the controlling entity’s consolidated financial statements”. This limitation is intended to protect users where such controlling entities represent key sectors or activities of a government and there are users that need consolidated financial statements for accountability or decision making purposes.

Application of the Consolidation Requirements to all Controlled Entities

BC3. The IPSASB noted the general principle in both IFRS 10 and IPSAS 6 that a controlling entity should consolidate, on a line by line basis, all of its controlled entities. The IPSASB noted that over recent years the potential scale and complexity of a public sector entity’s involvement with other entities (particularly the relationships between a government and other entities) had increased. Government interventions during times of financial crisis had been a contributing factor to governments (and other public sector entities) having a broad range of interests in other entities, some of which could give rise to control as defined in the proposed Standard. The implications of consolidation when a government has a large number of controlled entities, controlled entities carrying out activities there were formerly regarded as solely private sector activities, and controlled entities where control is intended to be temporary, had led some to query whether consolidation of all controlled entities was justified, having regard to the costs and benefits of doing so.

BC4. The IPSASB deliberated extensively on the issue of whether all controlled entities should be consolidated, having regard to users’ needs. The IPSASB focused on the information provided by consolidated financial statements, whilst noting that users’ information needs may also be met through other statements and reports such as (i) separate financial statements of both controlling and controlled entities; (ii) performance reports; and (iii) statistical reports. Although some of the IPSASB’s discussions were relevant to any type of public sector entity that is a controlling entity, many of the matters considered were more pertinent at the whole of government level. The IPSASB considered views on the usefulness of consolidation in relation to the following types of controlled entities (whilst noting that these broad categories would not be universally applicable):

- (a) Departments and ministries;
- (b) Government agencies;
- (c) Government Business Enterprises (GBE);
- (d) Financial institutions (excluding government sponsored enterprises); and
- (e) Other investments (including intentional investments, incidental investments and investment entities). The term "incidental investments" was used to refer to interests acquired in the course of meeting another objective, such as preventing the collapse of a private sector entity.

BC5. The IPSASB noted that although there was general agreement that consolidation of controlled departments and ministries and government agencies is appropriate, some members were less certain that the cost of preparing consolidated financial information was justified for other categories of controlled entities.

BC6. The IPSASB noted arguments in support of requiring consolidation of all controlled entities of a government, including the following:

- (a) Consolidated financial statements provide a panoramic view of a government's activities and current financial position. This panoramic view ensures that users do not lose sight of the risks associated with certain sectors. It shows the performance of the government as a whole.
- (b) Identifying categories of entities which should not be consolidated could be difficult. Such attempts could lead to rules-based standards. For example, there could be difficulties in separately identifying entities rescued from financial distress on a consistent basis across jurisdictions and over time. Similar issues could arise in respect of any separate proposals for GBEs. Although the term GBE is a defined term within IPSASs, the IPSASB noted that there are differences in the way this definition is being applied in practice in different jurisdictions. In addition to the issue of clearly identifying any group of entities for which different accounting requirements would be appropriate, the IPSASB noted that similar activities can be conducted by a variety of entity types both within and across jurisdictions. So, although proposals for different accounting treatments might lead to consistent treatment for a group of entities within a jurisdiction, it might not result in comparable accounting for similar activities.
- (c) Consolidation of all controlled entities is an example of like items being accounted for in like ways. Exceptions to consolidation reduce the coherence of the financial statements. Given that there could be a number of entities that could potentially be regarded as warranting separate treatment or disclosure, this could adversely affect the coherence of consolidated financial statements.
- (d) Whole of government financial statements have a different perspective from separate financial statements. Separate financial statements provide information on the activities of the core government.

BC7. The IPSASB also noted arguments that have been raised in opposition to consolidation of certain controlled entities of a government, including the following:

- (a) The consolidation of entities that have activities that differ from the activities of the core government could obscure the presentation of the results and the condition of the

government itself. This argument was raised in relation to a variety of controlled entities including manufacturing activities, large financial institutions, temporarily controlled entities and entities with financial objectives as opposed to social objectives.

- (b) Some consider that equity accounting for certain categories of controlled entities provides appropriate information on financial performance subsequent to acquisition without incurring high costs or obscuring information about the core government.
- (c) Some consider that it is inappropriate to consolidate entities that have been rescued from financial distress because they do not represent core government activities and are not intended to be long-term investments.
- (d) Where governments have high numbers of controlled entities the costs of consolidation process are high and may be perceived to outweigh the benefits of consolidating those entities on a line by line basis.

BC8. Reflecting on these arguments for and against requiring consolidation of all controlled entities the IPSASB had regard to:

- (a) The objectives of financial reporting, as outlined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*;
- (b) The limited availability of evidence on user needs and usefulness of consolidated financial information (particularly on the usefulness of consolidated financial information in respect of specific types of controlled entities);
- (c) The context within which whole of government consolidated financial statements are prepared;
- (d) The interaction between the definition of control and the consolidation requirements in the proposed Standard; and
- (e) The IPSASB's role as an international accounting standard setter.

BC9. With regard to the objectives of financial reporting, the IPSASB noted that Chapter 2 of the *Conceptual Framework* identifies the objectives of financial reporting as being to provide information that is useful for accountability purposes and for decision-making purposes. Because of the importance of the budget in the public sector (and the importance of demonstrating compliance with the budget) the IPSASB considered an argument that consolidated financial statements should consolidate only those entities that comprise a government's budget entity. However, the IPSASB agreed that a budget entity approach would not be appropriate for general purpose financial reporting because:

- (a) Decisions about which entities are included in a government's budget may be based on factors other than the degree of autonomy of the entity and the extent to which it provides market goods or makes a commercial return.
- (b) Decisions about which entities are included in a government's budget are often related to whether the entity's activity is intended to be self-funding. The exclusion of self-funding entities from a government's budget, essentially allows the offsetting of revenue and expenses for those activities and means that budget sector information does not reflect the substance of all transactions controlled by a government.

- (c) The budget boundary for a jurisdiction is determined within a jurisdiction. If financial reporting were based on budget sectors there would be no comparable standardized and comparable financial reporting by governments in an international context.

BC10. IPSAS 6 (December 2006) required the consolidation of all controlled entities apart from controlled entities where there was evidence that (a) control was intended to be temporary because the controlled entity was held exclusively with a view to its disposal within twelve months from acquisition and (b) management was actively seeking a buyer. Such temporarily controlled entities were required to be accounted for as financial instruments. The IPSASB considered whether this treatment of temporarily controlled entities should also be required in the proposed Standard. The IPSASB noted a number of concerns regarding the requirements in IPSAS 6 (December 2006). These included:

- (a) The difficulty of identifying temporarily controlled entities;
- (b) The difficulty of justifying a different accounting treatment for controlled entities that are held for more than a couple of years (which can occur with some entities that are initially considered to be temporarily controlled);
- (c) The difficulty of disposing of an investment in its current form. A public sector entity may need to retain responsibility for certain risks in order to dispose of its investment in a temporarily controlled entity. Accounting for such entities as financial instruments provides only a partial representation of the risks associated with the investment;
- (d) If a public sector entity is exposed to risks from an investment in a “temporarily” controlled entity these risks should be reported consistently with the risk exposures from other controlled entities; and
- (e) The provision of additional explanations by the reporting entity can address some of the issues that arise when large temporarily controlled entities are consolidated.

BC11. The IPSASB therefore decided not to require a different accounting treatment for temporarily controlled entities.

BC12. In considering the existence of research regarding the usefulness of consolidated financial statements in meeting user needs, the IPSASB noted that although an increasing number of governments are applying the accrual basis of accounting, this has been a relatively recent trend and consolidation is often implemented in stages, with core government activities being consolidated first, followed by the consolidation of other categories of entities as time and resources permit. As a result, there are few jurisdictions that currently present consolidated whole of government financial statements, and empirical research on the usefulness of consolidated whole of government financial statements has been limited. Research to date has tended to focus on who uses consolidated financial statements and the overall benefits of consolidated financial statements, as opposed to the usefulness of consolidating certain types of controlled entities or accounting for them in an alternative way.

BC13. The IPSASB noted that in developing its requirements for investment entities the IASB focused on user needs. Matters considered by the IPSASB in relation to investment entities are discussed later in this Basis for Conclusions.

BC14. The IPSASB noted that many governments prepare statistical reports which present consolidated financial information on three sectors of government activity, being the General Government Sector, the Public Non-financial Corporations Sector and the Public Financial Corporations Sector.

This information is compiled in accordance with relevant national or international statistical reporting guidelines, including the *Government Finance Statistics Manual 2012* and the *European System of Accounts 2008*. The IPSASB considered whether such statistical reports could constitute an alternative to whole of government consolidated financial statements. The IPSASB noted that IPSAS 22, *Disclosure of Financial Information about the General Government Sector* provides guidance on the presentation of such statistical information in consolidated financial statements. However, IPSAS 22 neither requires the provision of such information in consolidated financial statements, nor permits the presentation of such information as an alternative to consolidation of all controlled entities. Although the IPSASB noted that statistical reporting serves an important role and provides information that is comparable across countries, the IPSASB agreed that such information had a different objective and did not fulfil the role of consolidated financial statements in giving an overview of all government activity. The IPSASB also noted that mandating the provision of statistical sector information by governments other than national governments could be difficult. The IPSASB therefore agreed that any changes to IPSAS 22 should not form part of its project to update IPSASs 6 to 8.

- BC15. Having taken all these factors into consideration in the development of the proposed Standard, the IPSASB agreed to propose the consolidation of all controlled entities, other than the exception(s) from consolidation relating to investment entities (discussed separately in this Basis for Conclusions). The IPSASB also agreed to seek the views of constituents as to whether there are any categories of entities that should not be consolidated, with any proposals for non-consolidation being justified having regard to user needs.

Investment Entities

- BC16. In October 2012 the IASB issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27). As a result of these amendments IFRS 10 required that a controlling entity that is an investment entity account for most of its investments at fair value through profit or loss, as opposed to consolidating them. The IPSASB considered the appropriateness of the requirements in IFRS 10 for similar entities in the public sector. The IPSASB first considered which entities might be affected by such requirements. Entities that might meet the definition of an investment entity include some sovereign wealth funds, some pension funds and some funds holding controlling interests in public-private partnership projects (PPP) or private finance initiatives (PFI). The IPSASB noted that any requirements applicable only to investment entities might apply to a relatively small number of public sector entities (having regard to the types of entities that might be investment entities and the fact that these entities might be required to report in accordance with a range of accounting standards, including domestic standards).
- BC17. The IPSASB noted the comments made by respondents to the IASB in relation to the IASB's investment entity proposals and considered that similar arguments would apply in the public sector. Indeed, the IPSASB noted that some types of entities specifically identified by the IASB as potential investment entities (for example, sovereign wealth funds) could be public sector entities applying IPSASs. The IPSASB noted the IASB's focus on user needs in the IASB's deliberations on investment entities. The IPSASB noted that, depending on the reporting framework of the jurisdiction in which they operate, a public sector investment entity might be required to report in accordance with IPSASs, IFRSs, or domestic standards. The IPSASB agreed that the IFRS 10 requirement for an investment entity to account for its investments at fair value appeared to be appropriate in the public sector. The IPSASB also noted that consistent requirements in IPSASs

and IFRSs would reduce any opportunity for accounting arbitrage when determining which accounting standards an investment entity should be required to apply.

- BC18. The IPSASB considered whether the definition of an investment entity and the typical characteristics of an investment entity, as outlined in IFRS 10, were appropriate in the public sector and agreed that they were.
- BC19. The IPSASB also agreed that the typical characteristics of an investment entity were generally appropriate for application in the public sector. The IPSASB noted that IFRS 10 allows for the possibility that an entity may be an investment entity, despite not meeting all the typical characteristics. In such cases the entity is required to explain why it is an investment entity, despite not having all of the typical characteristics of an investment entity. The IPSASB expressed the view that this situation could be more prevalent in the public sector context. For example, a sovereign wealth fund might:
- (a) Have a single investor (being a Minister or a public sector entity). However, the fund could argue that it is investing funds on behalf of, or for the benefit of, citizens. Indeed, IFRS 10, paragraph BC259 explicitly refers to government-owned investment funds and funds wholly owned by pension plans and endowments when explaining why the IASB decided to make this a typical characteristic rather than an essential part of the definition of an investment entity.
 - (b) Have investors that are related parties. A fund with a related party investor could argue that it meets this characteristic in substance because it is acting on behalf of many unrelated beneficiary investors.
 - (c) Have ownership interests in a form other than equity or similar interests. The IPSASB noted both that the form of ownership interests in sovereign wealth funds could vary, and that IFRS 10, paragraph BC264, specifically refers to pension funds and sovereign wealth funds when explaining why the IASB decided to make this a typical characteristic rather than an essential part of the definition. IFRS 10, paragraph BC264 states "For example, a pension fund or sovereign wealth fund with a single direct investor may have beneficiaries that are entitled to the net assets of the investment fund, but do not have ownership units."
- BC20. The IPSASB noted that in comparison with private sector entities which tend to have clear financial objectives, public sector entities can have a broader range of objectives, and these objectives can change over time. A public sector entity's objectives may also change as a result of changes in government policy and changes could lead to an entity that had formerly met the definition of an investment entity ceasing to do so. Having regard to the possibility of changing objectives the IPSASB therefore agreed to highlight the need for an entity to reassess its status on a regular basis.
- BC21. The IPSASB noted that the IFRS 10 investment entity requirements apply to the financial statements of an investment entity itself – they cannot be applied by the controlling entity of any investment entity. IFRS 10 requires that a controlling entity that is not itself an investment entity shall present consolidated financial statements in which all controlled entities are consolidated on a line by line basis. The IPSASB considered whether the public sector context would lead it to place more or less weight on arguments considered by the IASB in relation to this matter, and whether there were any public sector characteristics that would support a differing accounting treatment by the controlling entity of an investment entity.

BC22. The IPSASB noted that the IASB had concerns that if a non-investment controlling entity were required to retain the fair value treatment used by its controlled investment entities, it could achieve different accounting outcomes by holding controlled entities directly or indirectly through a controlled investment entity. The IPSASB did not share these concerns in the public sector context. In particular the IPSASB noted that ownership interests through shares or other equity instruments are less common in the public sector. As a consequence, it is less likely that entities within an economic entity in the public sector would hold an investment in the ultimate controlling entity and less likely that they would be investing in other entities within the economic entity. The IPSASB therefore agreed to propose that the fair value treatment of an investment entity be retained in the controlling entity's financial statements.

Control (paragraphs 5–31)

BC23. The IPSASB agreed that the three requirements for control outlined in IFRS 10 are generally 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 (December 2006), although IPSAS 6 (December 2006) required that both power and benefits be present. Consistent with the terminology used in IPSAS 6 (December 2006) the IPSASB decided that the term “benefits” was more appropriate than “returns” in the public sector context (as discussed under the subheading “Terminology” below).

Power (paragraphs 17–23)

BC24. 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 [draft] 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

BC25. The IPSASB agreed that the previous guidance on regulatory control in IPSAS 6 (December 2006) should be incorporated in the [draft] 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.

BC26. In considering how to incorporate guidance on regulatory control in the [draft] 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.

BC27. The IPSASB noted that the discussion of regulation and control in [draft] *Government Finance Statistics Manual 2012* (GFSM 2012) (draft, as at November 2012) (Chapter 2) is similar to that previously in IPSAS 6. For example, in discussing eight indicators of control that need to be

considered to determine if a corporation is controlled by the government, the [draft] GFSM 2012 states

Regulation and control. The borderline between regulation that applies to all entities within a class or industry group and the control of an individual corporation can be difficult to judge. There are many examples of government involvement through regulation, particularly in areas such as monopolies and privatized utilities. It is possible for regulatory involvement to exist in important areas, such as in price setting, without the entity ceding control of its general corporate policy. Choosing to enter into or continue to operate in a highly regulated environment suggests that the entity is not subject to control. When regulation is so tight as to effectively dictate how the entity performs its business, then it could be a form of control. If an entity retains unilateral discretion as to whether it will take funding from, interact commercially with, or otherwise deal with a public sector entity, the entity has the ultimate ability to determine its own corporate policy and is not controlled by the public sector entity.

Economic Dependence

- BC28. IFRS 10 paragraph AG40 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.” Although the IPSASB agreed that economic dependence, on its own, does not give rise to control, the IPSASB noted that, in the public sector, economic dependence may occur in conjunction with other rights. These other rights need to be assessed to determine if they give rise to control.
- BC29. 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

- BC30. 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 AG26). 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 19).

Terminology

- BC31. 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

- BC32. 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 most parts of this Standard 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.
- BC33. 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 [draft] Standard. The IPSASB noted that IPSASs generally refer to the entity applying the [draft] Standard as “the entity”. In the case of this [draft] Standard, the entity applying the [draft] 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 [draft] 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.

- BC34. The IPSASB noted that in most cases this approach would result in clear identification of the relevant entities. 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 [draft] Standard. The IPSASB agreed to retain use of the term “investors” where the [draft] Standard is referring to a specific investment and the term is used in accordance with its usual meaning. This was particularly relevant in the parts of the Standard dealing with investment entities.
- BC35. The IPSASB agreed that the terms “investor” and “investee” are appropriate when referring to interests in joint ventures and associates.

Binding Arrangements

- BC36. The IPSASB agreed to replace references to “contractual arrangements” with 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. In addition, the IPSASB agreed that rights may arise from legislative or executive authority and to refer to this where appropriate throughout the [draft] Standard.

Benefits

- BC37. The IPSASB agreed 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. The IPSASB considered that the term “returns” could be regarded as giving an inappropriate emphasis to financial returns, whereas, in the public sector, benefits are more likely to be non-financial than financial.
- BC38. 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;
 - (b) Note that benefits can have positive or negative aspects; and
 - (c) Include examples of benefits in a public sector context.
- BC39. The definition of control in [draft] IPSAS XX, *Consolidated Financial Statements* refers to “variable benefits” and this concept is referred to throughout the Standard. The IPSASB considered how the Standard would apply to benefits that appeared to be fixed or constant. The IPSASB noted that the IASB had explicitly considered this issue and had given examples to show that apparently fixed benefits could in fact be variable because they exposed the entity to performance risk. The IPSASB

noted that the IASB examples related to financial benefits and agreed to incorporate an example of a non-financial benefit in paragraph AG59.

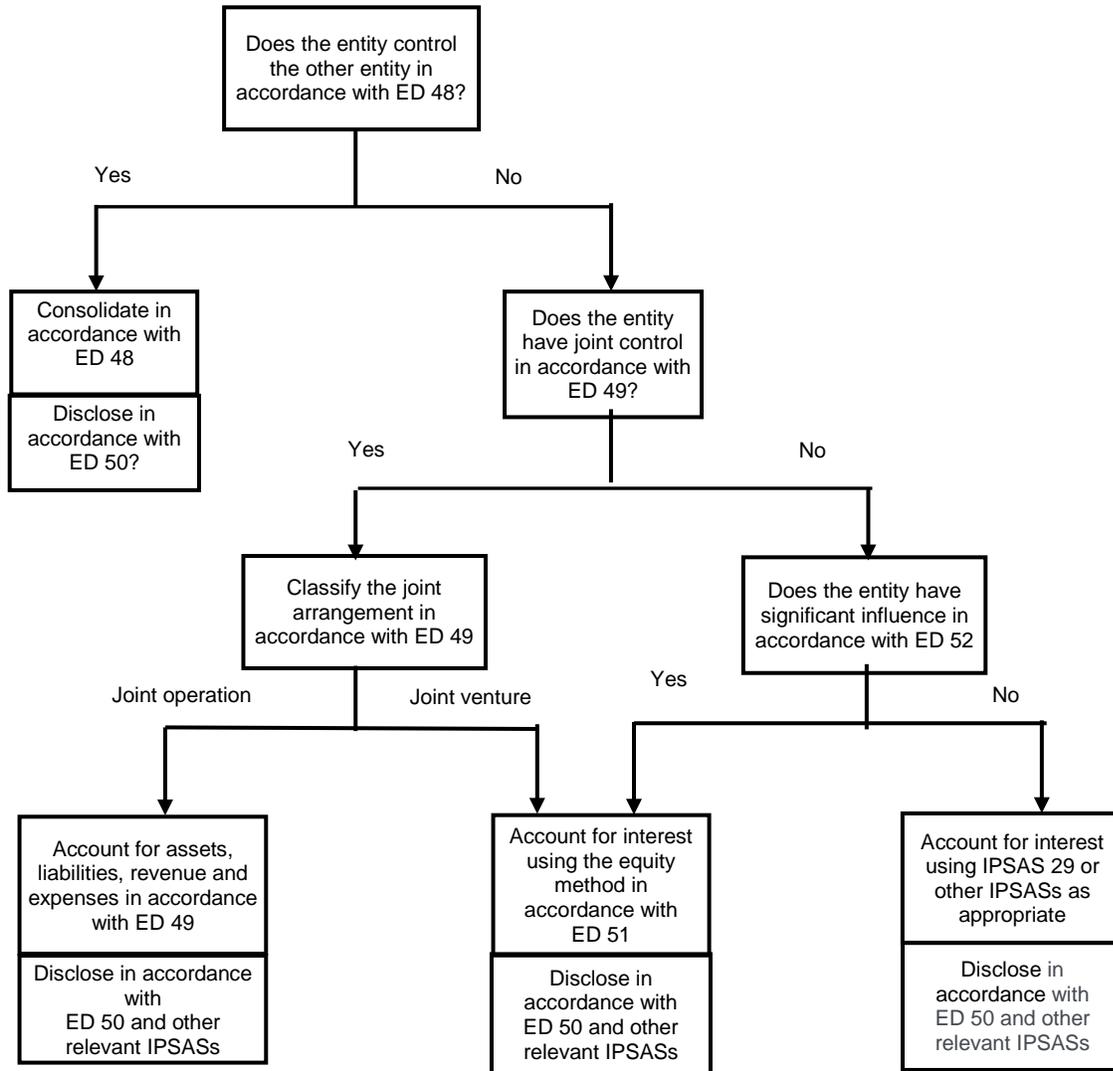
Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS XX, Consolidated Financial Statements.

Nature of Relationship with Another Entity

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

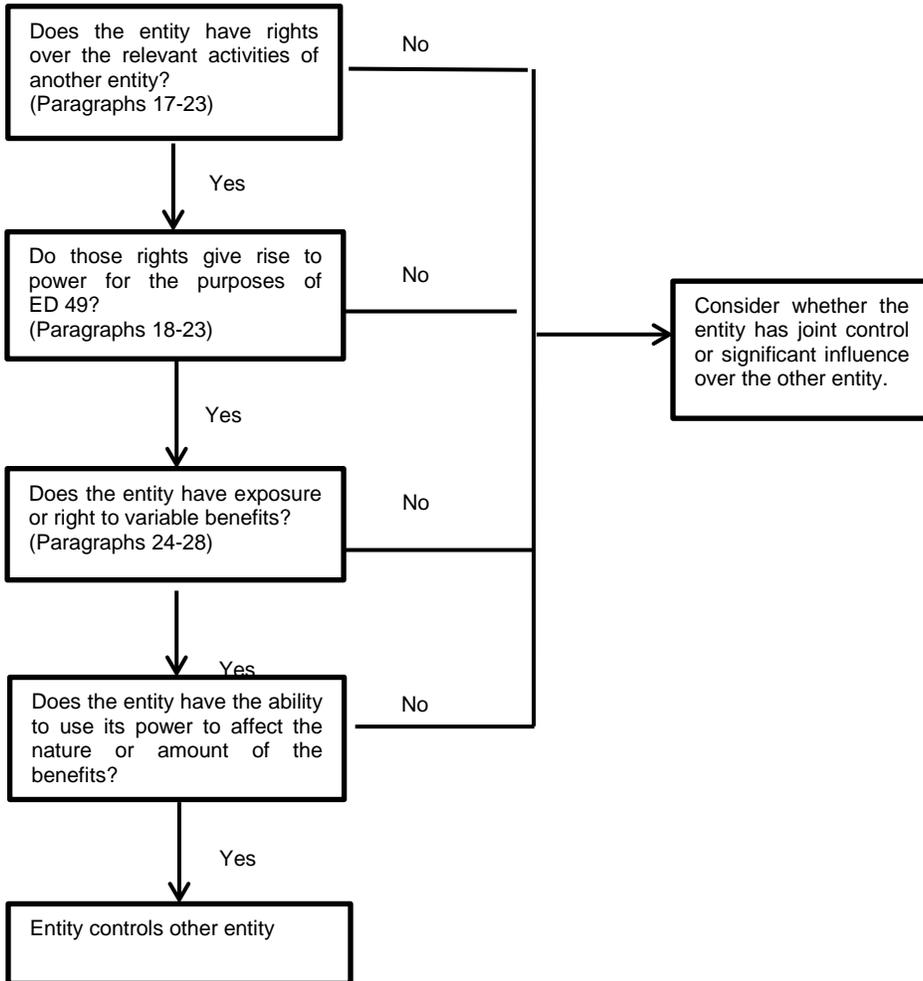
Flowchart 1: Forms of Involvement with Other Parties



Assessing Control of Another Entity for Financial Reporting Purposes

IG2. The diagram below summarizes the key issues an entity will need to consider in deciding whether it has control of another entity.

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



Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS XX, Consolidated Financial Statements.

IE1. 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 [draft] IPSAS XX, *Consolidated Financial Statements*.

Power (paragraphs AG9–AG57)

IE2. The following example illustrates an assessment of whether power exists.

Example 1

A state government partially funds the activities of a local government. Some of this funding is required to be spent on specified activities. The local government has a council that is elected every four years by the local community. The council decides how to use the local government's resources for the benefit of the local community. 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 the relevant activities of the local government. Many of these activities also coincide with the interests of the state government.

Despite its partial funding of the local government's activities, the state government does not have the power to direct the relevant activities of the local government. The rights of the local government over the relevant activities preclude the state government from having control.

Regulatory Control (paragraph AG12)

IE3. The following examples illustrate various forms of regulatory control. None of these forms of regulatory control give rise to power over the relevant activities for the purposes of this [draft] Standard.

Example 2

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 3

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 4

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 5

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 govern the conduct of gaming activities in the state. The rules and regulations stem from 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 or not. The purpose of the gaming legislation and regulations is to protect the public.

Relevant Activities and Direction of Relevant Activities (paragraphs AG13–AG15)

- IE4. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity.

Example 6

Entities A and B, form another entity, entity C, to develop and market a medical product. Entity A 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 will manufacture and market it—entity B has the unilateral ability to make all decisions about the manufacture and marketing of the product. 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 needs to determine whether they are able to direct the activities that *most* significantly affect the benefits from entity C. Accordingly, entity A and B each need 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 benefits from entity C and whether they are able to direct that activity. In determining which entity has power, entities A and B would consider:

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

In this particular example, the entities would also consider:

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

Example 7

An investment vehicle is created and financed with a debt instrument held by an entity (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 benefit from the investment vehicle. One of the equity investors who holds 30 per cent of the equity instruments is also the asset manager. The investment vehicle uses its proceeds to purchase a portfolio of financial assets, exposing the investment vehicle 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. The benefits from the investment vehicle are significantly affected by the management of the investment vehicle'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 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's asset portfolio is the relevant activity of the investment vehicle. 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 benefits from the investment vehicle, including considering the purpose and design of the investment vehicle as well as each party's exposure to variability of benefits.

Rights that Give an Entity Power over another Entity (paragraphs AG16–AG28)

- IE5. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity.

Example 8

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 8A and 8B described below. Each example is considered in isolation.

Example 8A

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.

Based on the facts and circumstances outlined above, the government housing agency controls the association.

Example 8B

In this example, the facts of Example 8A 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.

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 entity (refer paragraph 30).

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.

Example 9

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.

Example 10

A local government 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 government 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 government 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 government 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 government'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 government'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 government 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 government may receive indirect, non-financial benefits from the association in that the local government'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 30). In order to have power over the housing association the local government would need to have the ability to direct the housing association to work with the local government to further the local governments' objectives.

Example 11

An entity 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 11A–11D described below. Each example is considered in isolation.

Example 11A

An entity holds a majority of the voting rights in the other entity. The entity's voting rights are substantive because the 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 can exercise its voting rights does not stop the entity from having the current ability to direct the relevant activities from the moment the entity acquires the shareholding.

Example 11B

An entity is party to a forward contract to acquire the majority of shares in the other entity. 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 has rights that are essentially equivalent to the majority shareholder in example 11A above (i.e., the entity holding the forward contract can make decisions about the direction of the relevant activities when they need to be made). The entity's forward contract is a substantive right that gives the entity the current ability to direct the relevant activities even before the forward contract is settled.

Example 11C

An entity holds a substantive option to acquire the majority of shares in the other entity that is exercisable in 25 days and is deeply in the money. The same conclusion would be reached as in example 11B.

Example 11D

An entity is party to a forward contract to acquire the majority of shares in the other entity, with no other related rights over the other entity. The forward contract's settlement date is in six months. In contrast to the examples above, the entity 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.

Power without a Majority of the Voting Rights (paragraphs AG36–AG37)

- IE6. The following examples illustrate assessments of whether special voting rights attaching to ownership interests in another entity give rise to power.

Example 12

A central government has privatized a number of entities. In the case of certain strategic entities 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 13

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 14

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:

- (g) 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 (paragraphs AG38)

- IE7. The following examples illustrate assessments of whether an entity has control of the board or governing body of another entity. The existence of such control may provide evidence that an entity has sufficient rights to have power over another entity.

Example 15

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 department has the power to appoint the majority of the museum's trustees. The department has the potential to exercise power over the museum.

Economic Dependence (paragraphs AG41–AG43)

- IE8. The following examples illustrate assessments of whether dependence on funding from another entity gives rise to power in the context of this [draft] IPSAS.

Example 16

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 because the research institution can choose to decline funding from the government, seek alternative sources of funding or cease to operate.

Example 17

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

Current arrangements are for a period of five years. At the end of this period, if the catering entity wishes to continue supplying school meals it is required to go through a tendering process and compete with other entities for the business.

The school does not control the catering entity because the catering entity can choose to stop supplying school meals, seek other work, or cease to operate.

Example 18

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 because the agency can choose not to accept funding from the donor and seek alternative sources of funding, or cease to operate.

Voting Rights (paragraphs AG44–AG49)

- IE9. The following examples illustrate assessments of whether an entity with less than a majority of the voting rights in another entity has the practical ability to direct the relevant activities unilaterally, and whether its rights are sufficient to give it power over that other entity.

Example 19

An entity acquires 48 per cent of the voting rights of another entity. 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 entity 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 entity 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 20

Entity A holds 40 per cent of the voting rights of another entity and twelve other investors each hold 5 per cent of the voting rights of the other entity. A shareholder agreement grants Entity 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, Entity A concludes that the absolute size of its holding and the relative size of the other shareholdings alone are not conclusive in determining whether it has rights sufficient to give it power. However, Entity 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 entity. The fact that Entity A might not have exercised this right or the likelihood of Entity A exercising its right to select, appoint or remove management shall not be considered when assessing whether Entity A has power.

Example 21

Entity A holds 45 per cent of the voting rights of another entity. Two other investors each hold 26 per cent of the voting rights of the other entity. 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 A's voting interest and its size relative to the other shareholdings are sufficient to conclude that Entity A does not have power. Only two other investors would need to co-operate to be able to prevent Entity A from directing the relevant activities of the other entity.

Example 22

An entity holds 45 per cent of the voting rights of another entity. Eleven other shareholders each hold 5 per cent of the voting rights of the other entity. 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 holding and the relative size of the other shareholdings alone are not conclusive in determining whether the entity has rights sufficient to give it power over the other entity. Additional facts and circumstances that may provide evidence that the entity has, or does not have, power shall be considered.

Example 23

An entity holds 35 per cent of the voting rights of another entity. Three other shareholders each hold 5 per cent of the voting rights of the other entity. 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 require the approval of a majority of votes cast at relevant shareholders' meetings—75 per cent of the voting rights of the other entity 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 would not have the practical ability to direct the relevant activities unilaterally, regardless of whether the entity has directed the relevant activities because a sufficient number of other shareholders voted in the same way as the entity.

Potential Voting Rights (paragraphs AG50–AG53)

IE10. The following examples illustrate assessments of whether potential voting rights are substantive.

Example 24

Entity A holds 70 per cent of the voting rights of another entity. Entity B has 30 per cent of the voting rights of the other entity as well as an option to acquire half of 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 A has been exercising its votes and is actively directing the relevant activities of the other entity. In such a case, Entity A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities. Although Entity 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), the terms and conditions associated with those options are such that the options are not considered substantive.

Example 25

Entity A and two other investors each hold a third of the voting rights of another entity. The other entity's business activity is closely related to Entity A. In addition to its equity instruments, Entity A also holds debt instruments that are convertible into ordinary shares of the other entity 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 A would hold 60 per cent of the voting rights of the other entity. Entity A would benefit from realizing synergies if the debt instruments were converted into ordinary shares. Entity A has power over the other entity because it holds voting rights of the other entity 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 Benefits
(paragraphs AG54–AG57)*

IE11. The following examples illustrate assessments of whether an entity has power in the absence of voting rights or similar rights.

Example 26

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 27

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 government 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 government.

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 28

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

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 government. The other 5 directors must be independent. That is, they must not be elected representatives, officers or employees of the local government 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 government is not responsible for the debts of the leisure trust (its liability is limited to one currency unit).

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

Example 29

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

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

Example 30

A local government has transferred its sports and leisure facilities into a charitable trust. The local government 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 government 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 government does not control the trust.

Example 31

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 government 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.

Example 32

Entity A'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. 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 automatically puts the receivable to Entity B as agreed separately in a put agreement between Entity A and Entity B. The only relevant activity is

managing the receivables upon default because it is the only activity that can significantly affect Entity A's financial performance. 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 financial performance—the activities before default are predetermined and amount only to collecting cash flows as they fall due and passing them on to Entity B. Therefore, only Entity B's right to manage the assets upon default should be considered when assessing the overall activities of Entity A that significantly affect Entity A's financial performance. In this example, the design of Entity A ensures that Entity B has decision-making authority over the activities that significantly affect the financial performance 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. Therefore, the terms of the put agreement together with the founding documents of Entity A lead to the conclusion that Entity B has power over Entity A even though Entity B takes ownership of the receivables only upon default and manages the defaulted receivables outside the legal boundaries of Entity A.

Example 33

The only assets of Entity A are receivables. When the purpose and design of Entity A 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, irrespective of whether any of the borrowers have defaulted.

Exposure, or Rights, to Variable Benefits from another Entity
(paragraphs AG58–AG59)

- IE12. The following examples illustrate assessments of whether an entity receives variable benefits from another entity.

Example 34

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 above background information is relevant to examples 34A and 34B described below. Each example is considered in isolation.

Example 34A

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.

University A receives non-financial benefits from having childcare services available on campus. Although University A 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 34B

University B has made a building available free of charge for the provision of childcare services on the grounds of the University. 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 of the incorporated society and are in charge of the childcare centre's operating and financial policies. The childcare 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.

Link between Power and Benefits

Delegated Power (paragraphs AG61–AG65)

- IE13. The following examples illustrate assessments of whether an entity is acting as a principal or an agent.

Example 35

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 36

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;
- (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 37

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.

Example 38

The facts are the same as in Example 37 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.

Example 39

The head of the government department related to finance and taxation (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 40

A local government 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 government 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 government 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 government thinks proper and having regard to the interests of the inhabitants of the former district. The local government 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 government.

Example 41

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.

Example 42

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 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 benefits 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 43

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 if a specified 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 benefits 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 44–46 described below. Each example is considered in isolation.

Example 44

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 benefits 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 benefits 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 45

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 benefits 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 46

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 benefits 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 benefits 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 47

Entity A 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 benefits from Entity A. 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'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 surplus) if Entity A's surpluses exceed a specified level. The fees are commensurate with the services provided. The asset manager holds 35 per cent of the equity instruments of Entity A. 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's prospectus, the asset manager has the current ability to make investment decisions that significantly affect Entity A'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 A, which are of such significance that it indicates that the asset manager is a principal. Thus, the asset manager concludes that it controls Entity A.

Example 48

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 benefit from 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 benefits from the activities of the conduit because of its rights to any residual benefits from 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 benefits from the conduit (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 benefits from the conduit and the provision of credit enhancement and liquidity facilities expose the sponsor to variability of benefits 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.

Investment Entities (paragraphs IE14)

IE14. The following examples illustrate assessments of whether an entity is an investment entity.

Example 49

An entity, Limited Partnership, is formed in 20X1 as a limited partnership with a 10-year life. The offering memorandum states that Limited Partnership's purpose is to invest in entities with rapid growth potential, with the objective of realising capital appreciation over their life. Entity GP (the general partner of Limited Partnership) provides 1 per cent of the capital to Limited Partnership and has the responsibility of identifying suitable investments for the partnership. Approximately 75 limited partners, who are unrelated to Entity GP, provide 99 per cent of the capital to the partnership.

Limited Partnership begins its investment activities in 20X1. However, no suitable investments are identified by the end of 20X1. In 20X2 Limited Partnership acquires a controlling interest in one entity, ABC Corporation. Limited Partnership is unable to close another investment transaction until 20X3, at which time it acquires equity interests in five additional operating companies. Other than acquiring these equity interests, Limited Partnership conducts no other activities. Limited Partnership measures and evaluates its investments on a fair value basis and this information is provided to Entity GP and the external investors.

Limited Partnership has plans to dispose of its interests in each of its investees during the 10-year stated life of the partnership. Such disposals include the outright sale for cash, the distribution of

marketable equity securities to investors following the successful public offering of the investees' securities and the disposal of investments to the public or other unrelated entities.

Conclusion

From the information provided, Limited Partnership meets the definition of an investment entity from formation in 20X1 to 31 December 20X3 because the following conditions exist:

- (a) Limited Partnership has obtained funds from the limited partners and is providing those limited partners with investment management services;
- (b) Limited Partnership's only activity is acquiring equity interests in operating companies with the purpose of realising capital appreciation over the life of the investments. Limited Partnership has identified and documented exit strategies for its investments, all of which are equity investments; and
- (c) Limited Partnership measures and evaluates its investments on a fair value basis and reports this financial information to its investors.

In addition, Limited Partnership displays the following typical characteristics of an investment entity:

- (a) Limited Partnership is funded by many investors;
- (b) Its limited partners are unrelated to Limited Partnership; and
- (c) Ownership in Limited Partnership is represented by units of partnership interests acquired through a capital contribution.

Limited Partnership does not hold more than one investment throughout the period. However, this is because it was still in its start-up period and had not identified suitable investment opportunities.

Example 50

High Technology Fund was formed by Technology Corporation to invest in technology start-up companies for capital appreciation. Technology Corporation holds a 70 per cent interest in High Technology Fund and controls High Technology Fund; the other 30 per cent ownership interest in High Technology Fund is owned by 10 unrelated investors. Technology Corporation holds options to acquire investments held by High Technology Fund, at their fair value, which would be exercised if the technology developed by the investees would benefit the operations of Technology Corporation. No plans for exiting the investments have been identified by High Technology Fund. High Technology Fund is managed by an investment adviser that acts as agent for the investors in High Technology Fund.

Conclusion

Even though High Technology Fund's business purpose is investing for capital appreciation and it provides investment management services to its investors, High Technology Fund is not an investment entity because of the following arrangements and circumstances:

- (a) Technology Corporation, the controlling entity of High Technology Fund, holds options to acquire investments in investments held by High Technology Fund if the assets developed by those entities would benefit the operations of Technology Corporation. This provides a benefit in addition to capital appreciation or investment revenue; and

- (b) The investment plans of High Technology Fund do not include exit strategies for its investments, which are equity investments. The options held by Technology Corporation are not controlled by High Technology Fund and do not constitute an exit strategy.

Example 51

Real Estate Entity was formed to develop, own and operate retail, office and other commercial properties. Real Estate Entity typically holds its property in separate wholly-owned controlled entities, which have no other substantial assets or liabilities other than borrowings used to finance the related investment property. Real Estate Entity and each of its controlled entities report their investment properties at fair value in accordance with IPSAS 16, *Investment Property*. Real Estate Entity does not have a set time frame for disposing of its property investments, but uses fair value to help identify the optimal time for disposal. Although fair value is one performance indicator, Real Estate Entity and its investors use other measures, including information about expected cash flows, rental revenues and expenses, to assess performance and to make investment decisions. The key management personnel of Real Estate Entity do not consider fair value information to be the primary measurement attribute to evaluate the performance of its investments but rather a part of a group of equally relevant key performance indicators.

Real Estate Entity undertakes extensive property and asset management activities, including property maintenance, capital expenditure, redevelopment, marketing and tenant selection, some of which it outsources to third parties. This includes the selection of properties for refurbishment, development and the negotiation with suppliers for the design and construction work to be done to develop such properties. This development activity forms a separate substantial part of Real Estate Entity's business activities.

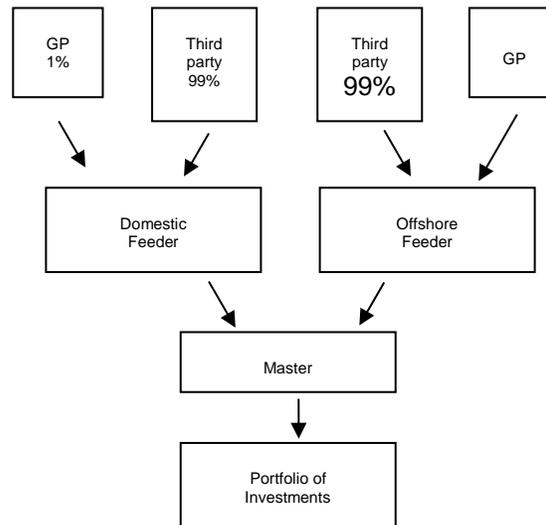
Conclusion

Real Estate Entity does not meet the definition of an investment entity because:

- (a) Real Estate Entity has a separate substantial business activity that involves the active management of its property portfolio, including lease negotiations, refurbishments and development activities, and marketing of properties to provide benefits other than capital appreciation, investment revenue, or both;
- (b) The investment plans of Real Estate Entity do not include specified exit strategies for its investments. As a result, Real Estate Entity plans to hold those property investments indefinitely; and
- (c) Although Real Estate Entity reports its investment properties at fair value in accordance with IPSAS 16, fair value is not the primary measurement attribute used by management to evaluate the performance of its investments. Other performance indicators are used to evaluate performance and make investment decisions.

Example 52

An entity, Master Fund, is formed in 20X1 with a 10-year life. The equity of Master Fund is held by two related feeder funds. The feeder funds are established in connection with each other to meet legal, regulatory, tax or similar requirements. The feeder funds are capitalised with a 1 per cent investment from the general partner and 99 per cent from equity investors that are unrelated to the general partner (with no party holding a controlling financial interest).



The purpose of Master Fund is to hold a portfolio of investments in order to generate capital appreciation and investment revenue (such as dividends, interest or rental revenue). The investment objective communicated to investors is that the sole purpose of the Master-Feeder structure is to provide investment opportunities for investors in separate market niches to invest in a large pool of assets. Master Fund has identified and documented exit strategies for the equity and non-financial investments that it holds. Master Fund holds a portfolio of short- and medium-term debt investments, some of which will be held until maturity and some of which will be traded but Master Fund has not specifically identified which investments will be held and which will be traded. Master Fund measures and evaluates substantially all of its investments, including its debt investments, on a fair value basis. In addition, investors receive periodic financial information, on a fair value basis, from the feeder funds. Ownership in both Master Fund and the feeder funds is represented through units of equity.

Conclusion

Master Fund and the feeder funds each meet the definition of an investment entity. The following conditions exist:

- (a) Both Master Fund and the feeder funds have obtained funds for the purpose of providing investors with investment management services;
- (b) The Master-Feeder structure's business purpose, which was communicated directly to investors of the feeder funds, is investing solely for capital appreciation and investment revenue and Master Fund has identified and documented potential exit strategies for its equity and non-financial investments.
- (c) Although the feeder funds do not have an exit strategy for their interests in Master Fund, the feeder funds can nevertheless be considered to have an exit strategy for their investments because Master Fund was formed in connection with the feeder funds and holds investments on behalf of the feeder funds; and
- (d) The investments held by Master Fund are measured and evaluated on a fair value basis

and information about the investments made by Master Fund is provided to investors on a fair value basis through the feeder funds.

Master Fund and the feeder funds were formed in connection with each other for legal, regulatory, tax or similar requirements. When considered together, they display the following typical characteristics of an investment entity:

- (a) The feeder funds indirectly hold more than one investment because Master Fund holds a portfolio of investments;
- (b) Although Master Fund is wholly capitalised by the feeder funds, the feeder funds are funded by many investors who are unrelated to the feeder funds (and to the general partner); and
- (c) Ownership in the feeder funds is represented by units of equity interests acquired through a capital contribution.

Comparison with IFRS 10

IPSAS XX (ED 48), *Consolidated Financial Statements* is drawn primarily from IFRS 10, *Consolidated Financial Statements* (originally issued in 2011, including amendments published in July and October 2012). At the time of issuing this [draft] 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 XX (ED 48) and IFRS 10 are as follows:

- Commentary additional to that in IFRS 10 has been included in IPSAS XX (ED 48) to clarify the applicability of the [draft] Standard to accounting by public sector entities.
- IPSAS XX (ED 48) 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 XX (ED 48). The equivalent terms in IFRS 10 are “income statement,” “equity,” “group,” “parent,” and “subsidiary.”
- IPSAS XX (ED 48) contains more guidance on non-financial benefits.
- IPSAS XX (ED 48) does not require that a controlling entity, that is not itself an investment entity, consolidate all controlled entities. Instead it requires that such a controlling entity shall measure an investment in a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29.
- IPSAS XX (ED 48) contains additional illustrative examples that reflect the public sector context.

Exposure Draft 49

[September 2013]

Comments due: [January 31, 2014]

*Proposed International Public Sector Accounting
Standard*

Joint Arrangements



This Exposure Draft 49, *Joint Arrangements* was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © [September 2013] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx bookmark "page xx" to copyright page].

REQUEST FOR COMMENTS

This Exposure Draft 49, *Joint Arrangements*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [January 31, 2014].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1:

Do you agree that joint arrangements should be classified 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?

Specific Matter for Comment 2:

Do you agree that joint ventures should be accounted for in consolidated financial statements using the equity method?

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*

IPSAS XX (ED 49)—JOINT ARRANGEMENTS

CONTENTS

	Paragraph
Objective	1–2
Scope	3–5
Definitions	6–7
Joint Arrangements	8–23
Joint Control	11–17
Types of Joint Arrangement	18–23
Financial Statements of Parties to a Joint Arrangement.....	24–29
Joint Operations	24–27
Joint Ventures	28–29
Separate Financial Statements.....	30–31
Transitional Provisions	32–44
Joint Ventures—Transition from Proportionate Consolidation to the Equity Method	33–37
Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities.....	38–41
Transitional Provisions in an Entity’s Separate Financial Statements	42
References to the “Immediately Preceding Period”	43–44
Effective Date	45
Withdrawal of IPSAS 8 (2006)	46
Appendix A: Application Guidance	AG1–AG37
Appendix B: Amendments to Other IPSASs	
Basis for Conclusions	
Illustrative Examples	
Comparison with IFRS 11	

Objective

1. The objective of this [draft] Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e., *joint arrangements*).
2. To meet the objective in paragraph 1, this [draft] Standard 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 [draft] Standard shall be applied by all entities that are a party to a joint arrangement.**
4. **This [draft] Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
5. 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. **The following terms are used in this [draft] Standard with the meanings specified:**

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

Joint control is the 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.

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

7. For the purposes of this [draft] Standard a binding arrangement, as referred to in the definition of joint control, describes an arrangement that confers enforceable 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.

Joint Arrangements (see paragraphs AG2–AG33)

8. **A joint arrangement is an arrangement of which two or more parties have joint control.**
9. **A joint arrangement has the following characteristics:**
 - (a) **The parties are bound by a binding arrangement (see paragraphs AG2–AG4).**
 - (b) **The binding arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 11–17).**
10. **A joint arrangement is either a joint operation or a joint venture.**

Joint Control

11. **Joint control is the sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The sharing of control may have been agreed by way of a binding arrangement or result from legislative or executive authority.**
12. An entity that is a party to an arrangement shall assess whether the binding arrangement or legislative or executive authority 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 benefits from the arrangement (i.e., the relevant activities).
13. 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.
14. 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.
15. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This [draft] Standard 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.
16. 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).
17. If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

Types of Joint Arrangement

18. **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.**
19. **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.**

20. **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.**
21. 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 binding arrangement or established by legislative or executive authority and, when relevant, other facts and circumstances (see paragraphs AG12–AG33).
22. Sometimes the parties are bound by a framework agreement that sets up the general 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.
23. 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

24. **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.**
25. 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 applicable to the particular assets, liabilities, revenues and expenses.
26. 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.
27. 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 25–26 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 applicable to that interest.

Joint Ventures

28. **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 [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])* unless the entity is exempted from applying the equity method as specified in that [draft] standard.**
29. 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, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*.

Separate Financial Statements

30. **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 25–26;**
 - (b) **A joint venture in accordance with paragraph 13 of [draft] IPSAS 6, *Separate Financial Statements (Amended in [Date])*.**
31. **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 28;**
 - (b) **A joint venture in accordance with IPSAS 29, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 13 of [draft] IPSAS 6, *Separate Financial Statements (Amended in [Date])*.**

Transitional Provisions

32. Notwithstanding the requirements of paragraph 33 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, when this [draft] Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3, for the annual period immediately preceding the first annual period for which this [draft] Standard 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

33. 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 and the allocation of goodwill to joint ventures can be found in the relevant international or national standards on entity combinations and joint arrangements).

34. The opening balance of the investment determined in accordance with paragraph 33.2 is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 43–46 of [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) 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 at the beginning of the immediately preceding period.
35. 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 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 is first applied.
36. 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 33–37.
37. After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]).

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

38. 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 41 of [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) 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.
39. 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 binding 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.
40. 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 41 of [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]), 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 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.
41. 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, at the beginning of the immediately preceding period.

Transitional Provisions in an Entity's Separate Financial Statements

42. An entity that, in accordance with paragraph 13 of [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]), 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 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 33–37.
 - (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, at the beginning of the immediately preceding period.

References to the “Immediately Preceding Period”

43. Notwithstanding the references to the “immediately preceding period” in paragraphs 33–42, 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 33–42 shall be read as the “earliest adjusted comparative period presented”.
44. 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.

Effective Date

45. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this [draft] Standard for a period beginning before [Date], it shall disclose that fact and apply [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Disclosure of Interests in Other Entities*, [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]) and [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) at the same time.**

Withdrawal of IPSAS 8

46. This [draft] Standard supersedes IPSAS 8, *Interests in Joint Ventures* (December 2006).

Application Guidance

This Appendix is an integral part of [draft] IPSAS XX, Joint Arrangements.

AG1. 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 [draft] IPSAS XX, *Joint Arrangements*.

Joint Arrangements

Binding Arrangement and Legislative or Executive Authority (paragraph 9)

AG2. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to binding arrangements, either on their own or in conjunction with contracts between the parties. The discussion of binding arrangements in this [draft] Standard is also relevant to enforceable arrangements created by legislative or executive authority.

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

AG4. The binding arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The binding 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 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 relating to the joint arrangement.

Joint Control (paragraphs 11–17)

AG5. 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. [Draft] IPSAS XX, *Consolidated Financial Statements* 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 benefits from their involvement with the arrangement and have the ability to affect those benefits 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 benefits of the arrangement (i.e., the relevant activities), the parties control the arrangement collectively.

- AG6. 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. Sometimes the decision-making process that is agreed upon by the parties in their binding 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 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. In other circumstances, the binding 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 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 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 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

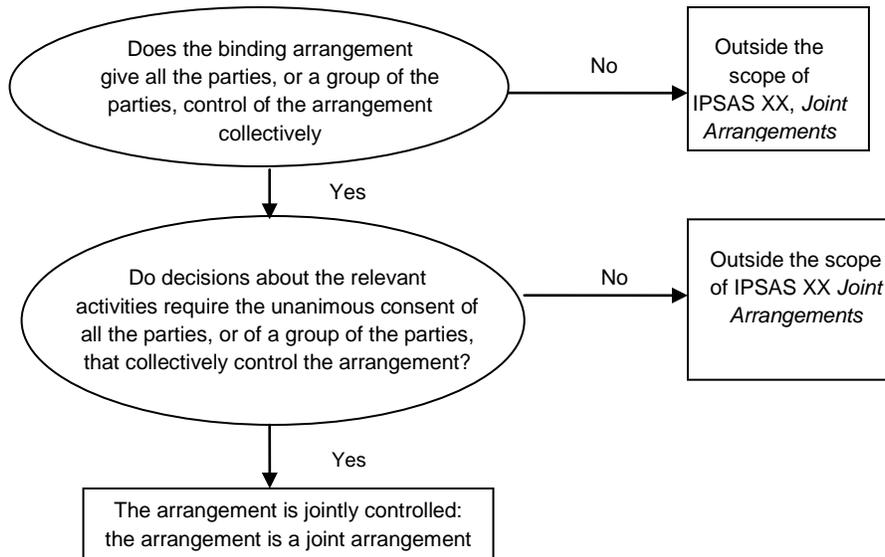
Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The binding arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the 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 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 arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

- AG9. 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. A binding 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. When an arrangement is outside the scope of [draft] IPSAS XX, *Joint Arrangements* an entity accounts for its interest in the arrangement in accordance with relevant IPSASs, such as [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) or IPSAS 29.

Types of Joint Arrangement (paragraphs 18–23)

- AG12. 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. 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. The classification of joint arrangements required by this [draft] Standard depends upon the parties' rights and obligations arising from the arrangement in the normal course of operations. This [draft] 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. 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 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. A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the binding 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. The binding 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 specific areas and each using its own assets and incurring its own liabilities. The binding 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 arrangement.

AG18. 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 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 arrangement.

Joint Arrangements Structured through a Separate Vehicle

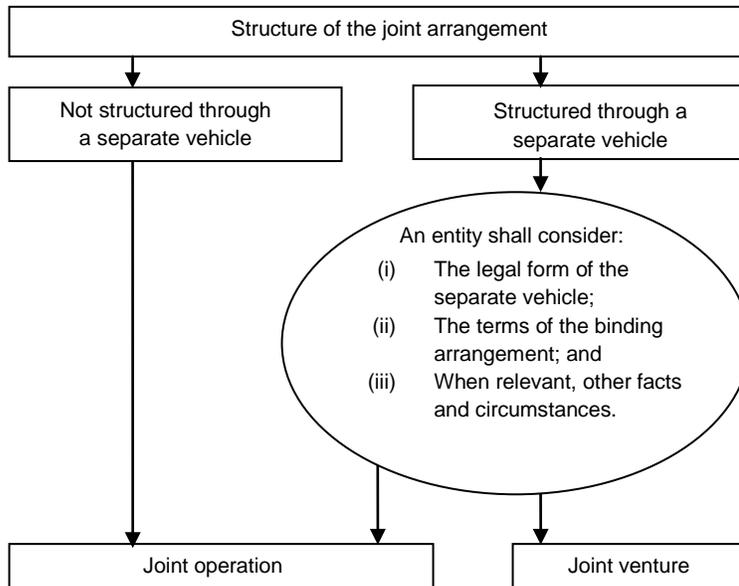
AG19. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

AG20. 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. 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 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. 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. 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 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. 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 Arrangement

- AG25. In many cases, the rights and obligations agreed to by the parties in their binding 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. In other cases, the parties use the binding 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
<p>Example 4</p> <p>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.</p> <p>However, the parties modify the features of the corporation through their binding 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 modifications to the features of a corporation can cause an arrangement to be a joint operation.</p>

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

Assessing the Terms of the Binding Arrangement		
	Joint Operation	Joint Venture
The terms of the binding arrangement	The binding arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The binding 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).
Rights to assets	The binding 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 binding 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.
Obligations for liabilities	The binding 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 binding arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.</p> <p>The binding 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>
	The binding arrangement establishes that the parties to the	The binding arrangement states that creditors of the joint

Assessing the Terms of the Binding Arrangement		
	Joint Operation	Joint Venture
	joint arrangement are liable for claims raised by third parties.	arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
Revenues, expenses, surplus or deficit	The binding 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 binding 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 surplus or deficit 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.	The binding arrangement establishes each party's share in the surplus or deficit relating to the activities of the arrangement.
Guarantees	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. When the binding 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 AG29–AG33) for the purposes of classifying the joint arrangement.

Assessing Other Facts and Circumstances

AG29. When the terms of the binding 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. A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The binding 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. 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. 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 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 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:

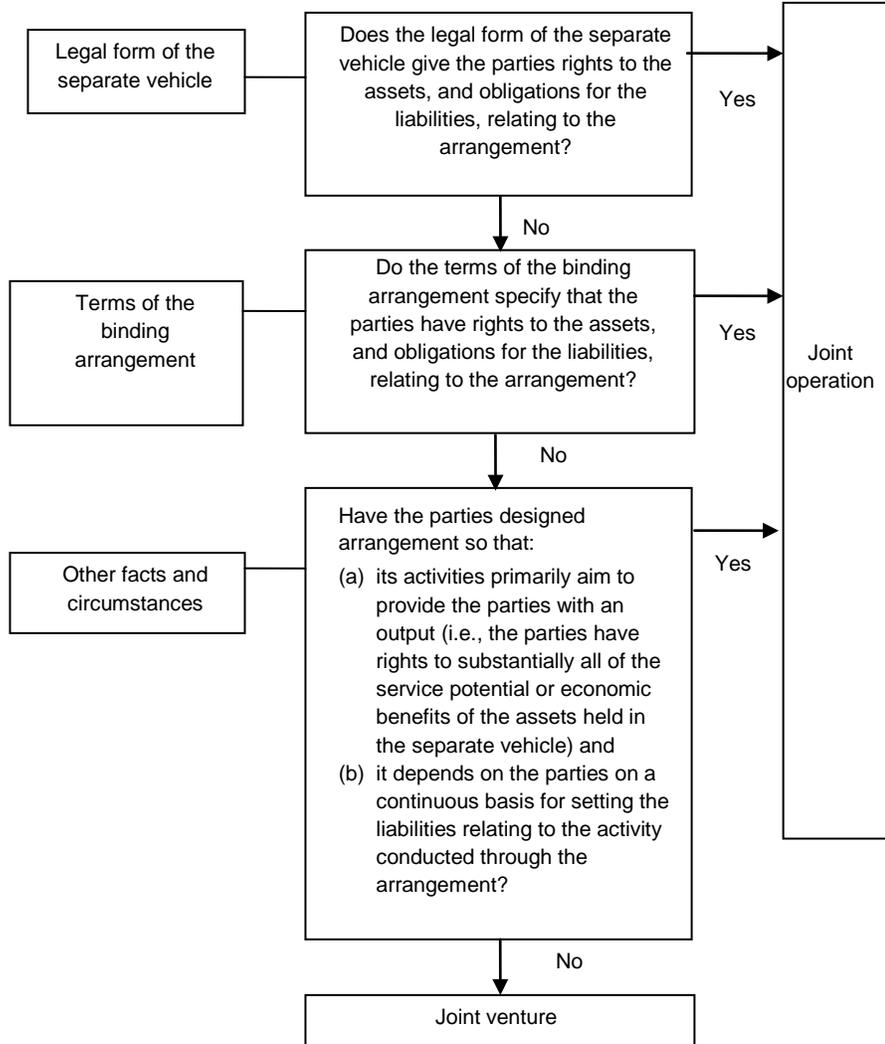
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the service potential or 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 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. 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 27)

Accounting for Sales or Contributions of Assets to a Joint Operation

- AG34. 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. 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. 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. 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

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~~
 - ~~(be) The amount and nature of restricted cash balances.~~

63C. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *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 [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*.

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 [draft] IPSAS XX, 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 [draft] IPSAS X6, Consolidated Financial Statements. 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 [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]), ~~and IPSAS 8~~.

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.

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.

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 entity holding the interest, 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.

71A. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraphs 3(b), 10, 13, 21, 22, 38, 47, 50 to 51, 53, 55, and 57 to 58. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]));

....

42A. [Draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraph 10(b). An entity shall apply that amendment when it applies [draft] IPSAS XX, Joint Arrangements.

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. [Draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraphs (the descriptions of segment assets, segment expenses, segment liabilities and segment revenue), 32 and 61 to 63. An entity shall apply those amendments when it applies IPSAS XX, Joint Arrangements.

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. [Draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraph 37. An entity shall apply that amendment when it applies [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*);

...

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*.

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. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraphs 4 and 15. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*; and
- (c) Joint arrangements ventures, as defined in ~~IPSAS 8, *Interests in Joint Ventures*~~ [draft] IPSAS XX, *Joint Arrangements*;

....

82C. [Draft] IPSAS XX, *Joint Arrangements* issued in [Date], amended paragraph 13. An entity shall apply that amendment when it applies [draft] IPSAS XX, *Joint Arrangements*.

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 [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*; and
- (c) Joint arrangements ventures, as defined in ~~IPSAS 8, *Interests in Joint Ventures*~~ [draft] IPSAS XX, *Joint Arrangements*;

47A. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements* issued in [Date], amended paragraph 12. An entity shall apply that amendment when it applies [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*.

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 [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS 6, ~~*Consolidated and Separate Financial Statements (Amended in [Date])*~~, or [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*, or ~~IPSAS 8, *Interests in Joint Ventures*~~. However, in some cases, [draft] IPSAS 6, *Separate Financial Statements (Amended in [Date])* or [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])* or ~~IPSAS 8~~ permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; ...

60A. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*, issued in [Date], amended paragraph 3. An entity shall apply that amendment when it applies [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*.

IPSAS 29 Financial Instruments: Recognition and Measurement

Paragraph 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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended in [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]), 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 [draft] IPSAS 6, Separate Financial Statements (Amended in [Date]) or IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]) or IPSAS 8 is accounted for under this Standard. ...

125B. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraphs 2(a), 17, AG2, AG14 and C2. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]) 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. [Draft] IPSAS 7 Investments in Associates and Joint Ventures (Amended in [Date]) 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 [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]) 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 [draft] IPSAS XX, *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 [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS 6, ~~*Consolidated and Separate Financial Statements (Amended in [Date])*~~, or [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*, ~~or IPSAS 8, *Interests in Joint Ventures*~~. However, in some cases, [draft] IPSAS 6, *Separate Financial Statements (Amended in [Date])*, or [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*, ~~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. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*, issued in [Date], amended paragraph 3(a). An entity shall apply that amendment when it applies [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*.

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 [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS 6, ~~*Consolidated and Separate Financial Statements (Amended in [Date])*~~, and [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*, ~~and IPSAS 8, *Interests in Joint Ventures*~~; and....

132A. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*, issued in [Date], amended paragraph 6(d). An entity shall apply that amendment when it applies [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, ED 49.

Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS XX, *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 [draft] IPSAS XX, *Joint Arrangements* departs from the main requirements of IFRS 11.

Classification of Joint Arrangements

- BC2. [Draft] IPSAS XX, *Joint Arrangements* 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. The IPSASB agreed that the classification of joint arrangements in [draft] IPSAS XX, *Joint Arrangements* should be consistent with IFRS 11.

Elimination of Accounting Option

- BC3. [Draft] IPSAS XX, *Joint Arrangements* 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. The IPSASB agreed that the accounting treatments permitted by [draft] IPSAS XX, *Joint Arrangements* should be consistent with IFRS 11.

Acquisition of an Interest in a Joint Operation

- BC4. The IPSASB noted that at the time [draft] IPSAS XX, *Joint Arrangements* was being developed, the IASB was deliberating on proposals to amend IFRS 11. The objective of the proposed amendments, set out in IASB ED/2012/7 *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11), was to introduce guidance on the accounting, by a joint operator, for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, *Business Combinations*. IFRS 11 did not provide guidance on this issue.
- BC5. The IPSASB agreed not to incorporate the amendments in ED/2012/7 in [draft] IPSAS XX, *Joint Arrangements* on the grounds that it would be more appropriate to consider such proposals in the context of drafting standards level requirements for public sector combinations.

ILLUSTRATIVE EXAMPLES

CONTENTS

	Paragraph
1 Construction Services	IE2–IE8
2 Service 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, [draft] IPSAS XX, Joint Arrangements.

IE1. These examples portray hypothetical situations illustrating the judgments that might be used when applying [draft] IPSAS XX, *Joint Arrangements* 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 [draft] IPSAS XX, *Joint Arrangements*.

Example 1 – Construction Services

IE2. A and B (the parties) are two entities whose activities 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 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 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 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 or deficit 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 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 Centre Operated Jointly

- IE9. Two entities (the parties) set up a separate vehicle (entity X) for the purpose of establishing and operating a joint service centre. The binding 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, managing the car park, maintaining the centre and its equipment, such as lifts, building the reputation of the centre and managing the client base for the centre.
- IE10. The terms of the binding arrangement are such that:
- (a) Entity X owns the service centre. The binding arrangement does not specify that the parties have rights to the service 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 operating the service 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 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 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 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 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 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 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 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 service potential or 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 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. Bank A, a government owned bank, and bank B, a privately owned bank, (the parties) agreed to combine certain 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 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 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 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 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 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.

Agreement

- IE37. The board of entity H consists of a director from each party. Each party has a 50 per cent 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 entity A and entity 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. Entity A owns an undeveloped gas field that contains substantial gas resources. Entity 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. Entity A enters into a joint arrangement with entity B in order to develop and operate the gas field and the LNG facility. Under that arrangement, entities 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 arrangement between the parties specifies that:
- (a) Entities 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 entity 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) Entities A and B have equal shares in the surplus from the activities carried out in the arrangement and, as such, are entitled to equal shares of any dividends or similar distributions made by entity C.
- IE47. The binding 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.¹
- IE49. The lending syndicate provides entity C with a CU700 million loan. The arrangement specifies that the syndicate has recourse to entities 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 entities 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 entities A and B, the syndicate maintains protection against default by entity C by taking a lien on the LNG facility.

¹ In this example monetary amounts are denominated in 'currency units (CU)'.

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 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., entities 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). Entities 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 service potential or 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.

Comparison with IFRS 11

IPSAS XX (ED 49), *Joint Arrangements* is drawn primarily from IFRS 11, *Joint Arrangements* (originally issued in 2011, including amendments published in July and October 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 XX (ED 49) and IFRS 11 are as follows:

- Commentary additional to that in IFRS 11 has been included in IPSAS XX (ED 49) to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS XX (ED 49) 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 XX (ED 49). The equivalent terms in IFRS 11 are “contractual arrangement”, “parent,” “profit or loss” and “retained earnings.”
- IPSAS XX (ED 49) does not provide guidance on the allocation of goodwill to joint ventures. Such guidance is included in IFRS 11.
- IPSAS XX (ED 49) contains additional illustrative examples that reflect the public sector context.

Exposure Draft 50

[September 2013]

Comments due: [January 31, 2014]

*Proposed International Public Sector Accounting
Standard*

**Disclosure of Interests in
Other Entities**

This Exposure Draft 50, *Disclosure of Interests in Other Entities* was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © [September 2013] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx bookmark "page xx" to copyright page].

REQUEST FOR COMMENTS

This Exposure Draft 50, *Disclosure of Interests in Other Entities*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [January 31, 2014].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose principles for the presentation and preparation of consolidated financial statements when a public sector entity controls one or more other entities.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matter for Comment requested for the Exposure Draft is provided below.

Specific Matter for Comment 1:

Do you agree with the proposal that entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity are not structured entities? If not, please explain why and explain how you would identify entities in respect of which the structured entity disclosures would be appropriate.

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: "*Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback.*"

IPSAS XX (ED 50) — DISCLOSURE OF INTERESTS IN OTHER ENTITIES

CONTENTS

	Paragraph
Objective	1–4
Scope	5–8
Definitions	9–10
Significant Judgments and Assumptions	11–13
Investment Entity Status	14–15
Interests in Controlled Entities	16–25
The Interest that Non-controlling Interests Have in the Economic Entity's Activities and Cash Flows	18
The Nature and Extent of Significant Restrictions	19
Nature of the Risks Associated with an Entity's Interests in Consolidated Structured Entities	20–23
Consequences of Changes in a Controlling Entity's Ownership Interest in a Controlled Entity that do not Result in a Loss of Control	24
Consequence of Losing Control of a Controlled Entity during the Reporting Period	25
Interests in Unconsolidated Controlled Entities (Investment Entities)	26–33
Interests in Joint Arrangements and Associates	34–38
Nature, Extent and Financial Effects of an Entity's Interests in Joint Arrangements and Associates	35–37
Risks Associated with an Entity's Interests in Joint Ventures and Associates	38
Interests in Unconsolidated Structured Entities	39–47
Nature of Interests	42–44
Nature of Risks	45–47
Transitional Provisions	48–50
Effective Date	51
Appendix A: Application Guidance	AG1–AG26
Appendix B: Amendments to Other IPSASs	
Basis for Conclusions	
Comparison with IFRS 12	

Objective

1. **The objective of this [draft] Standard 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.**
2. To meet the objective in paragraph 1, an entity shall disclose:
 - (a) The significant judgments and assumptions it has made in determining:
 - (i) The nature of its interest in another entity or arrangement;
 - (ii) The type of joint arrangement in which it has an interest (paragraphs 11–13); and
 - (iii) That it meets the definition of an investment entity, if applicable (paragraph 14);
 - (b) Information about its interests in:
 - (i) Controlled entities (paragraphs 16–25);
 - (ii) Joint arrangements and associates (paragraphs 34–38); and
 - (iii) *Structured entities* that are not controlled by the entity (unconsolidated structured entities) (paragraphs 39–4746).
3. If the disclosures required by this [draft] Standard, together with disclosures required by other IPSASs, 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 [draft] Standard. 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 [draft] Standard shall be applied by an entity that has an interest in any of the following:
 - (a) Controlled entities;
 - (b) Joint arrangements (i.e., joint operations or joint ventures);
 - (c) Associates; or
 - (d) Unconsolidated structured entities.
6. This [draft] Standard does not apply to:
 - (a) Post-employment benefit plans or other long-term employee benefit plans to which IPSAS 25, *Employee Benefits* applies.
 - (b) An entity's separate financial statements to which [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]) 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 39–47 when preparing those separate financial statements.

- (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, *Financial Instruments: Recognition and Measurement*. However, an entity shall apply this [draft] Standard:
 - (i) When that interest is an interest in an associate or a joint venture that, in accordance with [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]), is measured at fair value through surplus or deficit; or
 - (ii) When that interest is an interest in an unconsolidated structured entity.

- 7. **This [draft] Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
- 8. 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

- 9. **The following terms are used in this [draft] Standard with the meanings specified:**

An interest in another entity, for the purpose of this [draft] Standard, refers to involvement by way of binding arrangements (including rights from contracts or other legal rights) or otherwise that exposes an entity to variability of benefits 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 AG58–AG60 of [draft] IPSAS XX, *Consolidated Financial Statements* explain variability of benefits.

Revenue from a structured entity, for the purpose of this [draft] Standard, 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:

- (a) In the case of entities where administrative arrangements or legislation are normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factor in deciding who controls the entity, such as when binding arrangements are significant to determining

**control of the entity and relevant activities are directed by means of binding arrangements;
or**

- (b) In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity, 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.**

Paragraphs AG22–AG24 provide further information about structured entities.

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

10. For the purposes of this [draft] Standard, as referred to in the definition of an interest in another entity, a binding arrangement describes an arrangement that confers enforceable 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.

Significant Judgments and Assumptions

11. **An entity shall disclose the methodology used to determine:**
- (a) **That it has control of another entity as described in paragraphs 12 and 13 of [draft] IPSAS XX, *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.**
12. The disclosures required by paragraph 11 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.
13. To comply with paragraph 11, an entity shall disclose, for example, the factors considered in determining that:
- (a) It controls a specific entity (or similar category of entities) where the interest in the other entity is not evidenced by the holding of equity or debt instruments;
 - (b) It does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities).
 - (c) It controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities).
 - (d) It is an agent or a principal (see paragraphs AG61–AG76 of [draft] IPSAS XX, *Consolidated Financial Statements*).
 - (e) It does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity.
 - (f) It has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

Investment Entity Status

14. **When a controlling entity determines that it is an investment entity in accordance with paragraph 53 of [draft] IPSAS XX, *Consolidated Financial Statements*, the investment entity shall disclose information about significant judgments 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 54 of [draft] IPSAS XX, *Consolidated Financial Statements*), it shall disclose its reasons for concluding that it is nevertheless an investment entity.**
15. 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 controlled entities that cease to be consolidated;
 - (b) The total surplus or deficit, if any, calculated in accordance with paragraph 59 of [draft] IPSAS XX, *Consolidated Financial Statements*; and
 - (c) The line item(s) in surplus or deficit in which the gain or loss is recognized (if not presented separately).

Interests in Controlled Entities

16. **An entity shall disclose information that enables users of its consolidated financial statements:**
 - (a) **To understand:**
 - (i) **The composition of the economic entity; and**
 - (ii) **The interest that non-controlling interests have in the economic entity's activities and cash flows (paragraph 18); 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 (paragraph 19);**
 - (ii) **The nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 20–23);**
 - (iii) **The consequences of changes in its ownership interest in a controlled entity that do not result in a loss of control (paragraph 24); and**
 - (iv) **The consequences of losing control of a controlled entity during the reporting period (paragraph 25).**
17. When the financial statements of a controlled entity 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 paragraph 40 of [draft] IPSAS XX, *Consolidated Financial Statements*), an entity shall disclose:

- (a) The date of the end of the reporting period of the financial statements of that controlled entity; and
- (b) The reason for using a different date or period.

The Interest that Non-controlling Interests have in the Economic Entity's Activities and Cash Flows

18. An entity shall disclose for each of its controlled entities that have non-controlling interests that are material to the reporting entity:
- (a) The name of the controlled entity.
 - (b) The domicile and legal form of the controlled entity and the jurisdiction in which it operates.
 - (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 surplus or deficit allocated to non-controlling interests of the controlled entity during the reporting period.
 - (f) Accumulated non-controlling interests of the controlled entity at the end of the reporting period.
 - (g) Summarized financial information about the controlled entity (see paragraph AG10).

The Nature and Extent of Significant Restrictions

19. 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, such as:
 - (i) Those that restrict the ability of a controlling entity or its controlled entities to transfer cash or other assets to (or from) other entities within the economic entity.
 - (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.
 - (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 (such as when a controlling entity is obliged to settle liabilities of a controlled entity 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).
 - (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

20. An entity shall disclose the terms of any binding arrangements (including rights from contracts or other legal rights) that could require the controlling entity or its controlled entities 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).

21. If during the reporting period a controlling entity or any of its controlled entities has, without having an 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 or its controlled entities assisted the structured entity in obtaining financial support; and
 - (b) The reasons for providing the support.
22. If during the reporting period a controlling entity or any of its controlled entities has, without having an 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.
23. 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 Controlling Entity's Ownership Interest in a Controlled Entity that do not Result in a Loss of Control

24. An entity shall present a schedule that shows the effects on the net assets/equity attributable to owners of the controlling entity of any changes in its ownership interest in a controlled entity that do not result in a loss of control.

Consequences of Losing Control of a Controlled Entity During the Reporting Period

25. An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph 48 of [draft] IPSAS XX, *Consolidated Financial Statements*, and:
 - (a) The portion of that gain or loss attributable to measuring any investment retained in the former controlled entity at its fair value at the date when control is lost; and
 - (b) The line item(s) in surplus or deficit in which the gain or loss is recognized (if not presented separately).

Interests in Unconsolidated Controlled Entities (Investment Entities)

26. An investment entity that, in accordance with [draft] IPSAS XX, *Consolidated Financial Statements*, is required to apply the exception to consolidation and instead account for its investment in a controlled entity at fair value through surplus or deficit shall disclose that fact.
27. For each unconsolidated controlled entity, an investment entity shall disclose:
 - (a) The controlled entity's name;
 - (b) The domicile and legal form of the controlled entity and the jurisdiction in which it operates; and
 - (c) The proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.

28. If an investment entity is the controlling entity of another investment entity, the controlling entity shall also provide the disclosures in 19B(a)–(c) for investments that are controlled by its investment entity controlled entity. The disclosure may be provided by including, in the financial statements of the controlling entity, the financial statements of the controlled entity (or controlled entities) that contain the above information.
29. An investment entity shall disclose:
- (a) The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated controlled entity to transfer funds to the investment entity in the form of cash dividends, or similar distributions, or to repay loans or advances made to the unconsolidated controlled entity by the investment entity; and
 - (b) Any current commitments or intentions to provide financial or other support to an unconsolidated controlled entity, including commitments or intentions to assist the controlled entity in obtaining financial support.
30. If, during the reporting period, an investment entity or any of its controlled entities has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated controlled entity (e.g., purchasing assets of, or instruments issued by, the controlled entity or assisting the controlled entity in obtaining financial support), the entity shall disclose:
- (a) The type and amount of support provided to each unconsolidated controlled entity; and
 - (b) The reasons for providing the support.
31. An investment entity shall disclose the terms of any contractual arrangements that could require the entity or its unconsolidated controlled entities to provide financial support to an unconsolidated, controlled, 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 to provide financial support).
32. If during the reporting period an investment entity or any of its unconsolidated controlled entities 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.
33. A controlling entity that controls an investment entity and is not itself an investment entity, shall disclose in its consolidated financial statements, the information required by paragraphs 26 to 32 in respect of unconsolidated investment entities.

Interests in Joint Arrangements and Associates

34. **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 35 and 37); and**
 - (b) **The nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 38).**

Nature, Extent and Financial Effects of an Entity's Interests in Joint Arrangements and Associates

35. 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.
 - (iv) The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).
 - (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.
 - (ii) Summarized financial information about the joint venture or associate as specified in paragraphs AG12 and AG13.
 - (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.
 - (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
 - (ii) In aggregate for all individually immaterial associates. This aggregated information is to be disclosed separately from the aggregated information on joint ventures.
36. An investment entity need not provide the disclosures required by paragraphs 35(b)–35(c).
37. An entity shall also disclose:
- (a) The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements or 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

- 38. 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, *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

- 39. **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 42–44); and**
 - (b) **To evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (paragraphs 45–47).**
- 40. The information required by paragraph 38(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 involvement by way of binding arrangement (including rights from contracts or other legal rights) with the structured entity at the reporting date.
- 41. An investment entity need not provide the disclosures required by paragraph 39 for an unconsolidated structured entity that it controls and for which it presents the disclosures required by paragraphs 26–32.

Nature of Interests

- 42. 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.
- 43. If an entity has sponsored an unconsolidated structured entity for which it does not provide information required by paragraph 45 (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 from those structured entities during the reporting period, including a description of the types of revenue presented; and
 - (c) The carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.

44. An entity shall present the information in paragraph 43(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

45. 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.
46. If during the reporting period an entity has, without having an 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.
47. 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. Such current intentions include intentions to provide support as a result of obligations under binding arrangements and intentions to provide support where the entity has no obligation under a binding arrangement.

Transitional Provisions

48. An entity is encouraged to provide information required by this [draft] Standard earlier than annual periods beginning on or after [Date]. Providing some of the disclosures required by this [draft] Standard does not compel the entity to comply with all the requirements of this [draft] Standard or to apply [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Joint Arrangements*, [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]) and [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) early.
49. The disclosure requirements of this [draft] Standard need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which [draft] IPSAS XX, *Disclosure of Interests in Other Entities* is applied.

50. The disclosure requirements of paragraphs 39–47 and the corresponding guidance in paragraphs AG21–AG26 of this Standard need not be applied for any period presented that begins before the first annual period for which [draft] IPSAS XX, *Disclosure of Interests in Other Entities* is applied.

Effective Date

51. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged.**

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS XX, Disclosure of Interests in Other Entities.-

AG1. 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 [draft] Standard.

Aggregation (paragraph 4)

AG2. 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. An entity may aggregate the disclosures required by this [draft] Standard 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. An entity shall present information separately for interests in:

- (a) Controlled entities;
- (b) Joint ventures;
- (c) Joint operations;
- (d) Associates; and
- (e) Unconsolidated structured entities.

AG5. In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and benefit 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. 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.
- (c) Geography (e.g., country or region).

Interests in Other Entities

- AG7. An interest in another entity refers to 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 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. 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. A reporting entity is typically exposed to variability of benefits 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 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. Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of benefits for the other entity but do not typically expose the reporting entity to variability of benefits 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 higher benefits that reflect 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 from the performance of the structured entity because the CDS transfers variability to the structured entity, rather than absorbing variability of benefits of the structured entity.

Summarized Financial Information for Controlled Entities, Joint Ventures and Associates (paragraphs 18 and 35)

- AG10. For each 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 and cash flows of the controlled entity that enables users to understand the interest that non-controlling interests have in the economic entity'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.
- AG11. The summarized financial information required by paragraph AG10(b) shall be the amounts before inter-entity eliminations.

- AG12. 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.
 - (vii) Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations
 - (viii) Surplus or deficit.
- AG13. 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 transactions and provisions) included in paragraph AG12(b)(iii).
 - (c) Non-current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iv).
 - (d) Depreciation and amortization.
 - (e) Interest revenue.
 - (f) Interest expense.
 - (g) Income tax expense.
- AG14. The summarized financial information presented in accordance with paragraphs AG12 and AG13 shall be the amounts included in the IPSAS 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 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. 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 [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]); and
- (b) The joint venture or associate does not prepare IPSAS 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. 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.
- (b) Tax expense.
- (c) Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations.
- (d) Surplus or deficit.

An entity provides the disclosures separately for joint ventures and associates.

Commitments for Joint Ventures (paragraph 38(a))

AG17. 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.

AG18. 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.

AG19. The requirements and examples in paragraphs AG18 and AG19 illustrate some of the types of disclosure required by paragraph 27 of IPSAS 20, *Related Party Disclosures*.

Interests in Unconsolidated Structured Entities (paragraphs 39–47)

Structured Entities

AG20. A structured entity is an entity that has been designed so that the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity. In the case of entities such as departments or ministries where administrative arrangements or legislation are often the dominant factors in deciding who has control of an entity, a structured entity is an entity that has been designed so that administrative arrangements or legislation are not the dominant factor in deciding who controls the entity. In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity (which may be the case for some entities with profit objectives), 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. Although binding arrangements frequently occur between public sector entities, binding arrangements are not normally the dominant factor in determining who controls an entity. Therefore the use of binding arrangements to determine the relevant activities of an entity may indicate the existence of a structured entity. Depending on the context a structured entity could be (i) an entity for which most of the activities are predetermined, with the relevant activities limited in scope but directed through binding arrangements or (ii) an entity for which any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.

AG21. 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 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).

AG22. Examples of entities that are regarded as structured entities include, but are not limited to:

- (a) A partnership between a government and a private sector entity, being a partnership established and directed by binding arrangements.
- (b) Securitization vehicles.
- (c) Asset-backed financings.
- (d) Some investment funds.

AG23. The mere fact that a government provides funding to another entity does not make that entity a structured entity. Nor is an entity that is controlled by voting rights 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 45–47)

AG24. In addition to the information required by paragraphs 45–47, an entity shall disclose additional information that is necessary to meet the disclosure objective in paragraph 39(b).

AG25. 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 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

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, [draft] IPSAS XX, *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. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Disclosure of Interests in Other Entities*, issued in [Date], amended paragraphs 4, 12, 88(n), 95(d), 97, 103, 118, 134, 135 and 139. An entity shall apply those amendments when it applies [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Disclosure of Interests in Other Entities*.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, ED 50, Disclosure of Interests in Other Entities.

Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS XX, *Disclosure of Interests in Other Entities*. As this Standard is based on IFRS 12, *Disclosure of Interests in Other Entities* issued by the IASB, the Basis for Conclusions outlines only those areas where [draft] IPSAS XX departs from the main requirements of IFRS 12.

Terminology

- BC2. The IPSASB agreed to change terminology throughout the [draft] Standard to make it more appropriate for application by public sector entities. Changes are consistent with those made in [draft] IPSAS XX, *Consolidated Financial Statements*.

Significant Judgments and Assumptions (paragraphs 11 to 13)

- BC3. The IPSASB noted that IFRS 12 paragraph 7 requires that an entity disclose information about significant judgments and assumptions it has made in determining the nature of its interest in another entity (for example, control, joint control or significant influence). Although the IPSASB agreed that users need information about how an entity has made these judgments, it noted that a public sector entity could be required to make many judgments and assumptions in relation to particular entities and that the disclosure of such judgments and assumptions and changes in such judgments from period to period could result in unnecessary detail. The IPSASB also noted that, in the public sector, decisions about the reporting entity may be made having regard to frameworks developed in conjunction with other parties such as legislative bodies or oversight committees. The assessments made in respect of the classification of certain types of entities as controlled entities, jointly controlled entities or entities subject to significant influence may be recorded in public documents other than the financial statements. The IPSASB therefore agreed to require that an entity disclose the methodology used to decide the existence or absence of control, joint control of an arrangement or significant influence, either in the financial statements themselves or by way of reference to another publicly available document.

Definition of Structured Entity (paragraphs 9 and AG20 to AG23)

- BC4. The IPSASB noted that the definition of 'structured entity' in IFRS 12 focusses on voting or similar rights, which tend to occur less frequently or have less significance in the public sector than in the private sector. However, the IPSASB agreed that it was still appropriate to refer to voting or similar rights in the definition of a structured entity because voting or similar rights may be the predominant way in which a public sector entity establishes control over another entity. The IPSASB decided to modify the definition of a structured entity to highlight that they occur when the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity and encompass the broader range of circumstances that occur in the public sector.
- BC5. The IPSASB identified administrative arrangements and statutory provisions (legislation) as common means by which control may be determined for many public sector entities. Accordingly, the IPSASB took the view that the reference to "similar rights" in the definition of structured entity should encompass administrative arrangements and statutory provisions. Thus, the ED proposes

that entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity would not be structured entities. The IPSASB considers that the disclosures required of structured entities are appropriate, but that in order to be useful they need to be focused on a limited class of entities (consistent with the intention of the IASB's requirements in relation to entities applying IFRS 12).

Investment Entities (paragraphs 26 to 32)

- BC6. The IPSASB considered the investment entity disclosures required by IFRS 12 and concluded that those disclosures were appropriate in the public sector context.
- BC7. The IPSASB considered whether a non-investment controlling entity accounting for investment entities at fair value should be required to make any additional disclosures. The IPSASB considered that the disclosures required in relation to unconsolidated investment entities were appropriate and should also be provided in the consolidated financial statements of a controlling entity with unconsolidated investment entities.

Comparison with IFRS 12

IPSAS XX (ED 50), *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 and October 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 XX (ED 50) and IFRS 12 are as follows:

- IPSAS XX (ED 50) 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 XX (ED 50). The equivalent terms in IFRS 12 are “equity,” “group,” “parent,” “subsidiary” and “income.”
- Commentary additional to that in IFRS 12 has been included in IPSAS XX (ED 50) to clarify the applicability of the Standard to accounting by public sector entities.
- The definition of a structured entity has been changed to acknowledge the differing ways in which control may be obtained in the public sector.
- IPSAS XX (ED 50) requires that a controlling entity that controls an investment entity and is not itself an investment entity disclose information in respect of unconsolidated investment entities. IFRS 12 does not require such disclosures because it would require that the controlling entity consolidate the investment entities.

Exposure Draft 51

[September 2013]

Comments due: [January 31, 2014]

*Proposed International Public Sector Accounting
Standard*

**Separate Financial
Statements**



This Exposure Draft 51, *Separate Financial Statements* was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © [September 2013] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx bookmark "page xx" to copyright page].

REQUEST FOR COMMENTS

This Exposure Draft 51, *Separate Financial Statements*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [January 31, 2014].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matter for Comment requested for the Exposure Draft is provided below.

Specific Matter for Comment 1:

Do you agree with the proposal to continue to permit the use of the equity method in separate financial statements?

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*

IPSAS 6 (ED 51) — SEPARATE FINANCIAL STATEMENTS (Amended in [Date])

CONTENTS

	Paragraph
Objective	1
Scope	2–6
Definitions	7–11
Preparation of Separate Financial Statements	12–19
Disclosure	20–30
Effective Date	31–32
Withdrawal of IPSAS 6 (December 2006).....	33
Basis for Conclusions	
Comparison with IAS 27 (Amended in 2011)	

Objective

1. **The objective of this [draft] Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.**

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.**
3. **This [draft] Standard shall be applied in accounting for investments in controlled entities, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.**
4. This [draft] Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with International Public Sector Accounting Standards.
5. **This [draft] Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
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*.

Definitions

7. **The following terms are used in this [draft] Standard with the meanings specified:**

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

Separate financial statements are those presented by a controlling entity (i.e., an entity with control of another entity) or an investor with joint control of, or significant influence over, another entity, in which the investments are accounted for at cost or in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*.

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.

8. 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 10–11. Separate financial statements need not be appended to, or accompany, those statements.
9. Financial statements in which the equity method is applied are not separate financial statements. Similarly, the financial statements of an entity that does not have a controlled entity, associate or joint venturer's interest in a joint venture are not separate financial statements.

10. An entity that is exempted in accordance with paragraph 5(a) of [draft] IPSAS XX, *Consolidated Financial Statements* from consolidation or paragraph 22 of [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) from applying the equity method may present separate financial statements as its only financial statements.
11. 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 controlled entities in accordance with paragraph 58 of [draft] IPSAS XX, *Consolidated Financial Statements* presents separate financial statements as its only financial statements.

Preparation of Separate Financial Statements

12. **Separate financial statements shall be prepared in accordance with all applicable IPSASs, except as provided in paragraph 13.**
13. **When an entity prepares separate financial statements, it shall account for investments in controlled entities, joint ventures and associates either:**
 - (a) **Using the equity method as described in [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]);**
 - (b) **At cost, or**
 - (c) **In accordance with IPSAS 29.**

The entity shall apply the same accounting for each category of investments.

14. If an entity elects, in accordance with paragraph 23 of [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]), to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with IPSAS 29, it shall also account for those investments in the same way in its separate financial statements.
15. If a controlling entity is required, in accordance with paragraph 55 of [draft] IPSAS XX, *Consolidated Financial Statements*, to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29, it shall also account for its investment in a controlled entity in the same way in its separate financial statements.
16. When a controlling entity 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 13, either:
 - (i) Account for an investment in a controlled entity at cost. The fair value of the controlled entity 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 controlled entity in accordance with IPSAS 29.
 - (b) When an entity becomes an investment entity, it shall account for an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29. The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in surplus or deficit. The cumulative amount of any fair value adjustment previously recognized directly in net assets/equity in respect of

those controlled entities shall be treated as if the investment entity had disposed of those controlled entities at the date of change in status.

17. **An entity shall recognize a dividend or similar distribution from a controlled entity, a joint venture or an associate in surplus or deficit in its separate financial statements when its right to receive the dividend or similar distribution is established.**
18. When a controlling entity reorganizes the structure of its economic entity by establishing a new entity as its controlling entity in a manner that satisfies the following criteria:
 - (a) The new controlling entity obtains control of the original controlling entity either (i) by issuing equity instruments in exchange for existing equity instruments of the original controlling entity or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;
 - (b) The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the reorganization; and
 - (c) The owners of the original controlling entity before the reorganization have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the reorganization,

and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph 13(a) in its separate financial statements, the new controlling entity shall measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity at the date of the reorganization.

19. Similarly, an entity that is not a controlling entity might establish a new entity as its controlling entity in a manner that satisfies the criteria in paragraph 18. The requirements in paragraph 18 apply equally to such reorganizations. In such cases, references to “original controlling entity” and “original economic entity” are to the “original entity”.

Disclosure

20. **An entity shall apply all applicable IPSASs when providing disclosures in its separate financial statements, including the requirements in paragraphs 21 and 23.**
21. **When a controlling entity, in accordance with paragraph 5(a) of [draft] IPSAS XX, *Consolidated Financial Statements*, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:**
 - (a) **The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with IPSASs have been produced for public use; and the address where those consolidated financial statements are obtainable.**
 - (b) **A list of significant investments in controlled entities, joint ventures and associates, including:**
 - (i) **The name of those controlled entities, joint ventures and associates.**
 - (ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).**

- (iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**
 - (c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**
22. **When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph 21) prepares, in accordance with paragraph 11, 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 [draft] IPSAS XX, *Disclosure of Interests in Other Entities*.**
23. **When a controlling entity (other than a controlling entity covered by paragraphs 21–22) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the controlling entity or investor shall identify the financial statements prepared in accordance with [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Joint Arrangements* or [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])* to which they relate. The controlling entity or investor shall also disclose in its separate financial statements:**
- (a) **The fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by legislation or other authority.**
 - (b) **A list of significant controlled entities, joint ventures and associates, including:**
 - (i) **The name of those controlled entities, joint ventures and associates.**
 - (ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity).**
 - (iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**
 - (c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**
24. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at cost shall instead measure that investment at fair value through surplus or deficit as if the requirements of this [draft] Standard had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust accumulated surplus/deficit 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 controlled entity.**
25. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at fair value directly to net assets/equity shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognized in net assets/equity shall be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.**

26. At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a controlled entity that it had previously elected to measure at fair value through surplus or deficit in accordance with IPSAS 29, as permitted in paragraph 13.
27. An investment entity shall use the fair value amounts previously reported to investors or to management.
28. If measuring the investment in the controlled entity in accordance with paragraphs 24–27 is impracticable (as defined in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this [draft] Standard at the beginning of the earliest period for which application of paragraphs 24–27 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 controlled entity is earlier than the beginning of the immediately preceding period, the investor shall adjust net assets/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 controlled entity.

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.
29. If an investment entity has disposed of, or lost control of, an investment in a controlled entity before the date of initial application of this [draft] Standard, the investment entity is not required to make adjustments to the previous accounting for that investment.
30. Notwithstanding the references to the annual period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs 24–28, 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 24–28 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.

Effective Date

31. An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this [draft] Standard for a period beginning before [Date], it shall disclose that fact and apply [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Joint Arrangements*, [draft] IPSAS XX, *Disclosure of Interests in Other Entities* and [draft] IPSAS 7 *Investments in Associates and Joint Ventures* (Amended in [Date]) at the same time.
32. 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.

Withdrawal of IPSAS 6 (December 2006)

33. This Standard is issued concurrently with [draft] IPSAS XX, *Consolidated Financial Statements*. Together, the two [draft] Standards supersede IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006).

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 6 (Amended in [Date]).

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 6, *Separate Financial Statements* (Amended in [Date]). As this [draft] Standard is based on IAS 27, *Separate Financial Statements* (Amended in 2011) issued by the IASB, the Basis for Conclusions outlines only those areas where [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]) departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.

Use of the Equity Method in Separate Statements

BC2. IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006) permitted an entity, in its separate financial statements, to measure investments in controlled entities, jointly controlled entities and associates:

- (a) Using the equity method;
- (b) At cost; or
- (c) As a financial instrument in accordance with IPSAS 29.

BC3. The IPSASB noted that in 2003 the IASB limited the measurement options for investments presented in an entity's separate financial statements by removing the option to use the equity method. The IPSASB noted that the reasons given by the IASB for making this change included the following:

- (a) The focus in separate financial statements is on the performance of the assets as investments. Cost and fair value can provide relevant information for this; and
- (b) To the extent that the equity method provides information about the profit and loss of a subsidiary or an associate, that information would be available in the consolidated financial statements.

BC4. The IPSASB also noted that, at the time it issued this ED, the IASB had signaled its intention to reconsider the use of the equity method in separate financial statements. In deciding to reconsider this issue the IASB acknowledged that corporate law in some countries requires that the equity method of accounting be used to measure certain investments when presenting separate financial statements.

BC5. The IPSASB decided to continue to permit the use of the equity method in separate financial statements for the following reasons:

- (a) The equity method is a well-established method of accounting for certain investments in the public sector. In many circumstances where investments are held by public sector entities, the equity method can provide information that is reliable and useful, and possibly at a lower cost than either the cost method or the fair value method. In the public sector, investment entities are often used more as "instruments" to enable service provision, rather than as a holding for investment purposes, as might generally be the case in the private sector. The equity method may therefore, in some circumstances, be better suited to meeting user needs

in the public sector, as it allows the financial statements to portray the fluctuations in the equity of, and performance by, an investment over time, in a cost effective and easily understood manner.

- (b) Although application of the cost method is often relatively straightforward, where investments have been held for some time, using the cost method may result in outdated and less relevant information, in which case, it would not meet user needs.
- (c) In the public sector there are likely to be a higher proportion of investments for which there are no active markets and in respect of which fair values are not readily observable. Although the guidance in IPSAS 29 can be used to derive a value for such investments, the IPSASB considered that this approach would generally result in information that did not faithfully represent the underlying circumstances.

Separate Financial Statements of Investment Entities

- BC6. In developing [draft] IPSAS XX, *Consolidated Financial Statements* the IPSASB decided to introduce the concept of investment entities and require that a controlling entity that is an investment entity shall measure its investments in particular controlled entities at fair value through surplus or deficit in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*.
- BC7. Consequently, the IPSASB decided to require that an investment entity measure its investments in controlled entities at fair value through surplus or deficit in its separate financial statements. The IPSASB also adjusted the disclosure requirements for an investment entity's separate financial statements, noting that if an investment entity prepares separate financial statements as its only financial statements, it is still appropriate for the investment entity to make the disclosures otherwise required in [draft] IPSAS XX, *Disclosure of Interests in Other Entities* about its interests in controlled entities.

Comparison with IAS 27 (Amended in 2011)

IPSAS 6, *Separate Financial Statements (Amended in [Date])* is drawn primarily from IAS 27, *Separate Financial Statements (Amended in 2011)*. IPSAS 6 (Amended in [Date]) is based on IAS 27, *Separate Financial Statements (Amended in 2011)*, including the amendments to that Standard as a result of *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* issued by the IASB in October 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 the underlying IASB standard have therefore been replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 6 (Amended in [Date]) and IAS 27 (Amended in 2011) are as follows:

- IPSAS 6 (Amended in [Date]) uses different terminology, in certain instances, from IAS 27 (Amended in 2011). The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity”, “revenue” in IPSAS 6. The equivalent terms in IAS 27 are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS 6 (Amended in [Date]) permits investments in controlled entities, joint ventures and associates to be accounted for in separate financial statements using the equity method, at cost or as financial instruments in accordance with IPSAS 29. [At the time of issue of ED 51] IAS 27 (Amended in 2011) does not permit the use of the equity method.

Exposure Draft 52

[September 2013]

Comments due: [January 31, 2014]

*Proposed International Public Sector Accounting
Standard*

Investments in Associates and Joint Ventures



This Exposure Draft 52, *Investments in Associates and Joint Ventures* was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © [September 2013] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx bookmark "page xx" to copyright page].

REQUEST FOR COMMENTS

This Exposure Draft 52, *Investments in Associates and Joint Ventures*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [January 31, 2014].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matter for Comment requested for the Exposure Draft is provided below.

Specific Matter for Comment 1:

Do you agree with the proposal to require the use of the equity method to account for investments in joint ventures? If not, please provide reasons and indicate your preferred treatment.

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: "*Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback.*"

IPSAS 7 (ED 52) — INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Amended in [Date])

CONTENTS

	Paragraph
Objective	1
Scope	2–7
Definitions	8
Significant Influence	9–14
Equity Method	15–20
Application of the Equity Method	21–46
Exemptions from Applying the Equity Method	22–24
Discontinuing the Use of the Equity Method	25–26
Changes in Ownership Interests	27
Equity Method Procedures	28–41
Impairment Losses	42–45
Separate Financial Statements	46
Effective Date	47–48
Withdrawal of IPSAS 7 (December 2006)	49
Basis for Conclusions	
Comparison with IAS 28, <i>Investments in Associates and Joint Ventures</i> (Amended in 2011)	

Objective

1. The objective of this [draft] Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for investments in associates and joint ventures.**
3. **This [draft] Standard shall be applied by all entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest).**
4. This [draft] Standard provides the basis for accounting for ownership interests in associates and joint ventures. That is, the investment in the other entity confers on the entity the risks and rewards incidental to an ownership interest. This Standard applies only to quantifiable ownership interests, including ownership interests arising from investments in the formal equity structure (or its equivalent) of another entity. A formal equity structure means share capital or an equivalent form of capital, such as units in a property trust, but may also include other equity structures in which the entity's interest can be measured reliably. Where the equity structure is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest.
5. Some contributions made by public sector entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are non-exchange in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.
6. **This [draft] Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
7. 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

8. **The following terms are used in this [draft] Standard with the meanings specified:**

An associate is an entity over which the investor has significant influence.

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

The **equity method** is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.

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, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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.

Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

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

Significant Influence

9. Whether an investor has significant influence over the investee is a matter of judgment based on the nature of the relationship between the investor and the investee, and on the definition of significant influence in this [draft] Standard. This [draft] Standard applies only to those associates in which an entity holds an ownership interest in the form of a shareholding or other formal equity structure.
10. If an entity holds an ownership interest in the form of a shareholding or other formal equity structure and it holds, directly or indirectly (e.g., through controlled entities), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g., through controlled entities), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.
11. The existence of significant influence by an entity is usually evidenced in one or more of the following ways:
 - (a) Representation on the board of directors or equivalent governing body of the investee;
 - (b) Participation in policy-making processes, including participation in decisions about dividends or similar distributions;
 - (c) Material transactions between the entity and its investee;
 - (d) Interchange of managerial personnel; or
 - (e) Provision of essential technical information.

12. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (i.e., potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
13. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other binding arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.
14. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of another government, a court or an administrator. It could also occur as a result of a binding arrangement.

Equity Method

15. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the surplus or deficit of the investee after the date of acquisition. The investor's share of the investee's surplus or deficit is recognized in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's surplus or deficit. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in net assets/equity of the investor.
16. The recognition of revenue on the basis of distributions received may not be an adequate measure of the revenue earned by an investor on an investment in an associate or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the surplus or deficit of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets/equity and surplus or deficit.
17. When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture 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 derivative instruments, unless paragraph 18 applies.

18. In some circumstances, an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives it access to the benefits associated with an ownership interest. In such circumstances, the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the benefits.
19. IPSAS 29, *Financial Instruments: Recognition and Measurement* does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the benefits associated with an ownership interest in an associate or a joint venture, the instruments are not subject to IPSAS 29. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with IPSAS 29.
20. An investment in an associate or a joint venture accounted for using the equity method shall be classified as a non-current asset.

Application of the Equity Method

21. An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 22–24.

Exemptions from Applying the Equity Method

22. An entity need not apply the equity method to its investment in an associate or a joint venture if:
 - (a) the entity is a controlling entity that is exempt from preparing consolidated financial statements by the scope exception in paragraph 5(a) of [draft] IPSAS XX, *Consolidated Financial Statements*; or
 - (b) all the following apply:
 - (i) The entity itself is a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.
 - (ii) The entity's 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) The entity 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.
 - (iv) The ultimate or any intermediate controlling entity of the entity produces consolidated financial statements available for public use that comply with IPSASs.
23. 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 surplus or deficit in accordance with IPSAS 29.

24. When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through surplus or deficit in accordance with IPSAS 29 regardless of whether the venture capital organisation, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds.

Discontinuing the Use of the Equity Method

25. **An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:**
- (a) **If the investment becomes a controlled entity, the entity shall account for its investment in accordance with the relevant national or international pronouncement dealing with public sector combinations and [draft] IPSAS XX, *Consolidated Financial Statements*.**
 - (b) **If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IPSAS 29. If there are no published price quotations, the entity shall measure the retained interest at the carrying amount of the investment at the date that it ceases to be an associate or joint venture and that carrying amount shall be regarded as its cost on initial recognition as a financial asset in accordance with IPSAS 29. The entity shall recognize in surplus or deficit any difference between:**
 - (i) **the fair value (or, where relevant, the carrying amount) of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and**
 - (ii) **the carrying amount of the investment at the date the equity method was discontinued.**
 - (c) **When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognized directly in the entity's net assets/equity in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.**
26. **If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.**

Changes in Ownership Interest

27. If an entity's ownership interest in an associate or a joint venture is reduced, but the entity continues to apply the equity method, the entity shall transfer directly to accumulated surpluses or deficits the proportion of the gain or loss that had previously been recognized in net assets/equity relating to that reduction in ownership interest if that gain or loss would be required to be transferred directly to accumulated surpluses or deficits on the disposal of the related assets or liabilities.

Equity Method Procedures

28. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in [draft] IPSAS XX, *Consolidated Financial Statements*. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a controlled entity are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.
29. An economic entity's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the controlling entity and its controlled entities. The holdings of the economic entity's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has controlled entities, associates or joint ventures, the surplus or deficit and net assets taken into account in applying the equity method are those recognized in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the surpluses or deficits and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 37 and 38).
30. Gains and losses resulting from "upstream" and "downstream" transactions between an entity (including its consolidated controlled entities) and its associate or joint venture are recognized in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. "Upstream" transactions are, for example, sales of assets from an associate or a joint venture to the investor. "Downstream" transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.
31. When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognized in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognize its share in those losses.
32. The contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 30, except when the contribution lacks commercial substance, as that term is described in IPSAS 17, *Property, Plant and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 33 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.
33. If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognizes in full in surplus or deficit the portion of the gain or loss on the contribution relating to the monetary or non-monetary assets received.
34. An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- (a) When an entity has included goodwill relating to an associate or a joint venture in the carrying amount of the investment, amortization of that goodwill is not permitted.
- (b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as revenue in the determination of the entity's share of the associate or joint venture's surplus or deficit in the period in which the investment is acquired.

Appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made for impairment losses such as for property, plant and equipment or, where relevant, goodwill.

- 35. **The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity or the entity uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the financial statements of the entity.**
- 36. **The financial statements of the entity and the financial statements of an associate or a joint venture used in applying the equity method shall be prepared as at the same reporting date. When the end of the reporting period of the entity is different from that of an associate or a joint venture the entity either:**
 - (a) **Obtains, for the purpose of applying the equity method, additional financial information as of the same date as the financial statements of the entity; or**
 - (b) **Uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the entity's financial statements.**
- 37. **The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**
- 38. If an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.
- 39. If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of surplus or deficit after adjusting for the dividends on such shares, whether or not the dividends have been declared.
- 40. If an entity's share of the deficit of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further deficits. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term

receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Deficits recognized using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (i.e. priority in liquidation).

41. After the entity's interest is reduced to zero, additional deficits are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports surpluses, the entity resumes recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognized.

Impairment Losses

42. After application of the equity method, including recognizing the associate's or joint venture's deficits in accordance with paragraph 40, the entity applies IPSAS 29 to determine whether it is necessary to recognize any additional impairment loss with respect to its net investment in the associate or joint venture.
43. The entity also applies IPSAS 29 to determine whether any additional impairment loss is recognized with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.
44. Whenever application of IPSAS 29 indicates that the investment in an associate or a joint venture may be impaired, an entity applies IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*. IPSAS 26 directs an entity to determine the value in use of the cash-generating investment. In determining the value in use of the cash-generating investment in accordance with IPSAS 26, an entity estimates:
 - (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or
 - (b) The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment, and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

45. The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Separate Financial Statements

46. An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 13 of [draft] IPSAS 6, *Separate Financial Statements (Amended [Date])*.

Effective Date

47. An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this [draft] Standard for a period beginning before [Date], it shall disclose that fact and apply [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Joint Arrangements*, [draft] IPSAS XX, *Disclosure of Interests in Other Entities* and [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]) at the same time.
48. 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.

Withdrawal of IPSAS 7 (December 2006)

49. This Standard supersedes IPSAS 7, *Investments in Associates* (December 2006).

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 7 (Amended in [Date]).

Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching its conclusions on IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]). As this [draft] Standard is based on IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011) issued by the IASB, the Basis for Conclusions outlines only those areas where [draft] IPSAS 7, departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.
- BC2. The amendment of IPSAS 7 results from the Board's project to update IPSASs 6–8. As a result of incorporating the accounting for joint ventures into IPSAS 7, the title of IPSAS 7 was changed from *Investments in Associates* to *Investments in Associates and Joint Ventures*.
- BC3. In amending IPSAS 7, the Board did not reconsider all the Standard's requirements. The most significant changes resulted from the decision to require the use of the equity method to account for investments in joint ventures and therefore to combine the accounting for investments in associates and joint ventures in one standard. The Board's views on the use of the equity method to account for investments in joint ventures are discussed in the Basis for Conclusions on [draft] IPSAS XX, *Joint Arrangements*.

Scope

Quantifiable Ownership Interests

- BC4. The IPSASB noted that the scope of IPSAS 7 (December 2006) had been limited to investments in associates “where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure”. In developing IPSAS 7 (December 2006) the IPSASB noted that it is unlikely equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure. The IPSASB reflected on the intention of this modification and concluded that it was intended to prevent the inappropriate application of that Standard to interests other than ownership interests.
- BC5. In contrast with IPSAS 7 (December 2006) this [draft] Standard applies to both associates and joint ventures. Because joint ventures can take many forms, including partnership arrangements which do not have formal equity structures, the scope limitation in IPSAS 7 (December 2006) was not appropriate. The IPSASB decided that the scope of this [draft] Standard should be limited to “quantifiable ownership interests”.

Temporary Joint Control and Significant Influence

- BC6. IPSAS 7, *Investments in Associates* (December 2006) and IPSAS 8, *Interests in Joint Ventures* (December 2006) did not require application of the equity method or proportionate consolidation when joint control of, or significant influence over, another entity was intended to be temporary. The IPSASB noted that the IASB had removed these exemptions from the equivalent IFRSs in 2003, as a consequence of issuing IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

- BC7. The IPSASB noted that in developing [draft] IPSAS XX, *Consolidated Financial Statements* it had considered the related issue of whether to incorporate a temporary control exemption in that [draft] Standard, and had agreed not to do so. Accordingly the IPSASB decided not to provide exemptions based on temporary joint control or temporary significant influence in [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]).

Share of Other Net Asset Changes

- BC8. The IPSASB noted that at the time [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) was being developed, the IASB was in the process of considering proposals to clarify how an investor should account for other net asset changes of the investee. The IASB's proposals were set out in IASB ED/2012/3 *Equity Method: Share of Other Net Asset Changes* (Proposed Amendments to IAS 28). The IPSASB noted that the IASB had indicated its intention to finalize the proposed amendments by the end of 2013.
- BC9. At the time that this ED was issued, the outcome of the IASB's deliberations on these proposals were uncertain. The IPSASB therefore decided not to incorporate the proposals from IASB ED/2012/3 in this ED, but to retain the existing requirements in IPSAS 7.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- BC10. The IPSASB noted that at the time [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) was being developed, the IASB was deliberating on proposals to amend IAS 28 so that the requirements for the recognition of a partial gain or loss for transactions between an investor and its associate or joint venture apply only to the gain or loss resulting from the sale or contribution of assets *that do not constitute a business*, as defined in IFRS 3, *Business Combinations*. These proposals were set out in IASB ED 2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Proposed amendments to IFRS 10 and IAS 28). The IPSASB agreed not to incorporate the amendments in ED/2012/6 in [draft] IPSAS 7, *Investments in Associates and Joint Ventures* on the grounds that it would be more appropriate to consider the recognition of full or partial gains and losses in the context of drafting standards level requirements for public sector combinations.

Comparison with IAS 28 (Amended in 2011)

IPSAS 7 (ED 52), *Investments in Associates and Joint Ventures* (Amended in [Date]) is drawn primarily from IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011). At the time of issuing this [draft] Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IAS 28 have therefore been replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 7 (Amended in [Date]) and IAS 28 (Amended in 2011) are as follows:

- Commentary additional to that in IAS 28 (Amended in 2011) has been included in IPSAS 7 (Amended in [Date]) to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 7 (Amended in [Date]) uses different terminology, in certain instances, from IAS 28 (Amended in 2011). The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity,” “revenue” in IPSAS 7 (Amended [Date]). The equivalent terms in IAS 28 (Amended in 2011) are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS 7 (Amended in [Date]) applies to all investments where the investor has a quantifiable ownership interest. IAS 28 (Amended in 2011) does not contain a similar requirement. However, it is unlikely that equity accounting could be applied unless there was a quantifiable ownership interest.
- Where there are no published quotations available IPSAS 7 (Amended in [Date]) permits an entity with a retained interest in a former associate or joint venture to use carrying amount as the cost on initial recognition of the financial asset. IAS 28 (Amended in 2011) requires that the financial asset be recognized at fair value.

Exposure Draft 48

[September 2013]

Comments due: [January 31, 2014]

*Proposed International Public Sector Accounting
Standard*

Consolidated Financial Statements

IPSASB

International Public
Sector Accounting
Standards Board™

This Exposure Draft 48, *Consolidated Financial Statements* was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © [September 2013] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx bookmark "page xx" to copyright page].

REQUEST FOR COMMENTS

This Exposure Draft 48, *Consolidated Financial Statements*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [January 31, 2014].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose principles for the presentation and preparation of consolidated financial statements when a public sector entity controls one or more other entities.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1:

Do you agree with the proposed definition of control? If not, how would you change the definition?

Specific Matter for Comment 2:

Do you agree that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this ED)? If you consider that certain categories of entities should not be consolidated, please justify your proposal having regard to user needs and indicate your preferred accounting treatment for any such controlled entities. If you have any comments about temporarily controlled entities, please respond to Specific Matter for Comment 3.

Specific Matter for Comment 3:

Do you agree with the proposal to withdraw the current exemption in IPSAS 6, *Consolidated and Separate Financial Statements* for temporarily controlled entities? If you agree with the withdrawal of the exemption please give reasons. If you disagree with the withdrawal of the exemption please indicate any modifications that you would propose to the current exemption in IPSAS 6.

Specific Matter for Comment 4:

Do you agree that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus or deficit?

Specific Matter for Comment 5:

Do you agree that a non-investment entity that controls an investment entity should be required to account for that investment entity at fair value through surplus or deficit?

COPYRIGHT, TRADEMARK, AND PERMISSIONS INFORMATION

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*

Published by:



IPSAS XX (ED 48)—CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

	Paragraph
Objective	1–2
Scope	3–9
Public Sector Combinations	4
Presentation of Consolidated Financial Statements	5–6
Government Business Enterprises	7–9
Definitions	10–11
Control	12–31
Power	17–23
Benefits	24–28
Link between Power and Benefits	29–31
Accounting Requirements	32–51
Consolidation Procedures	34
Uniform Accounting Policies.....	35
Measurement.....	36
Potential Voting Rights	37–39
Reporting Dates.....	40
Non-controlling Interests	41–45
Loss of Control	46–49
Determining Whether an Entity is an Investment Entity.....	50–59
Investment Entities: Fair Value Requirement	55–57
Accounting for a Change in Investment Entity Status	58–59
Transitional Provisions	60–75
References to the “Immediately Preceding Period”	74–75
Effective Date	76–77
Withdrawal of IPSAS 6 (December 2006).....	78
Appendix A: Application Guidance	AG1–AG112
Appendix B: Amendments to Other IPSASs	
Basis for Conclusions	
Implementation Guidance	
Illustrative Examples	
Comparison with IFRS 10	

Objective

1. The objective of this [draft] Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. [Based on IFRS 10, paragraph 1]

Meeting the Objective

2. To meet the objective in paragraph 1, this [draft] Standard:
 - (a) Requires an entity (the controlling entityparent) that controls one or more other entities (controlled entitiesubsidiaries) 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 entityinvestor controls an other entityinvestee and therefore must consolidate that entitythe 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 controlled entitiesubsidiaries of an investment entity. [Based on IFRS 10, paragraph 2]
- ~~4. 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). [IFRS 10, paragraph 3 not used]~~

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in the preparation and presentation of consolidated financial statements for the economic entity. [Based on IPSAS 6, paragraph 1]

Public Sector Combinations

4. This [draft] 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). [Based on IPSAS 6, paragraph 2]

Presentation of Consolidated Financial Statements

5. An entity that is a controlling entityparent shall present consolidated financial statements. This [draft] Standard applies to all entities, except as 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 entitiesubsidiary and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, 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 controlling entity parent not presenting consolidated financial statements;

- (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
 - (iv) Its ultimate or any intermediate controlling entity~~parent~~ produces consolidated financial statements that are available for public use and comply with IPSASs.
- (b) Post-employment benefit plans or other long-term employee benefit plans to which IPSAS 25, *Employee Benefits* applies.
- (c) An investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 3455 of this [draft] Standard, to measure all of its controlled entities~~subsidiaries~~ at fair value through surplus or deficit~~profit or loss~~. [Based on IFRS 10, paragraph 4]

6. 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 27]

Government Business Enterprises

7. This [draft] Standard applies to all public sector entities other than GBEs. [Generic GBE paragraph]
8. 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*. [Generic GBE paragraph]
9. Although GBEs are not required to comply with this [draft] Standard in their own financial statements, the provisions of this [draft] Standard will apply where a public sector entity that is not a GBE has one or more controlled entities that are GBEs. In these circumstances, this [draft] Standard shall be applied in consolidating GBEs into the financial statements of the economic entity. [Based on IPSAS 6, paragraph 6]

Definitions

10. The following terms are used in this [draft] 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 or similar distributions. 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 have positive or negative aspects. [New]
- Binding arrangement: For the purposes of this [draft] Standard, a binding arrangement describes an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. [New, Similar to IPSAS 31 but refers to “enforceable rights and obligations”]

Consolidated financial statements are the financial statements of an economic entity group in which the assets, liabilities, net assets/equity, revenue/income, expenses and cash flows of the parent-controlling entity and its controlled entities/subsidiaries are presented as those of a single economic entity.

Control: An entity investor controls an other entity investee when the entity investor 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/the 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 entity group is a controlling entity parent and its controlled entities/subsidiaries.

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 revenue/income, or both; and
- (c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.

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

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 [draft] 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 returns.

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

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

[Definitions based on IFRS 10, Appendix A, apart from “benefits” and “binding arrangements”]

Economic Entity

11. The term economic entity is used in this [draft] 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 14.]

Control (see paragraphs AG2–AG895)

12. An entity investor, regardless of the nature of its involvement with another entity ~~(the investee)~~, shall determine whether it is a controlling entity parent by assessing whether it controls the other entity ~~the investee~~. [Based on IFRS 10, paragraph 5]
13. An entity investor controls another 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~~. [Based on IFRS 10, paragraph 6]
14. Thus, an entity investor controls another entity investee if and only if the entity investor has all the following:
 - (a) Power over the other entity ~~investee~~ (see paragraphs 170–2314);
 - (b) Exposure, or rights, to variable benefits returns from its involvement with the other entity ~~investee~~ (see paragraphs 24–2815 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 29–3117 and 18). [Based on IFRS 10, paragraph 7]
15. An entity investor shall consider all facts and circumstances when assessing whether it controls another entity ~~investee~~. The entity investor shall reassess whether it controls another entity ~~investee~~ if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 147 (see paragraphs AG840–AG895). [Based on IFRS 10, paragraph 8]
16. Two or more entities ~~investors~~ collectively control another 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, such as [draft] IPSAS XX, *Joint Arrangements*, [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) 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*). [Based on IFRS 10, paragraph 9]

Power

17. An entity investor has power over another 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. [Based on IFRS 10, paragraph 10]
18. 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. [Based on IFRS 10, paragraph 11]

19. 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 ED 238, paragraph IG8]
20. The existence of rights over another entity does not necessarily give rise to power for the purposes of this [draft] Standard. An entity does not have power over another entity solely due to the existence of:
 - (a) Regulatory control (see paragraph AG10.2); or
 - (b) Economic dependence (see paragraphs AG40.1–AG40.3). [New]
21. 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. [Based on IFRS 10, paragraph 12]
22. 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. [Based on IFRS 10, paragraph 13]
23. 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 AG296–AG3128), and consequently does not control the other entity investee. [Based on IFRS 10, paragraph 14]

Benefits>Returns

24. 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. [Based on IFRS 10, paragraph 15]
25. 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).

[New]

26. 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's 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 2745.3); and
 - (h) Other exposures to variable benefits that are not available to other entities. [New]
27. Examples of non-financial benefits 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. [New]
28. Although only one entity investor can control another 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. [Based on IFRS 10, paragraph 16]

Link between Power and Benefits/Returns

29. An entity investor controls another 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. [Based on IFRS 10, paragraph 17]
30. 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 ED 238 03-13, paragraph IG18]

31. 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 AG5861–AG762 does not control another ~~entity investee~~ when it exercises decision-making rights delegated to it. [Based on IFRS 10, paragraph 18]

Accounting Requirements

32. A ~~controlling entity parent~~ shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. [Based on IFRS 10, paragraph 19]
33. 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~~. [Based on IFRS 10, paragraph 20]
- ~~Paragraphs B86–B93 set out guidance for the preparation of consolidated financial statements. [IFRS 10, paragraph 21 not used]~~

Consolidation Procedures

34. Consolidated financial statements:
- 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~~.
 - Offset (eliminate) the carrying amount of the ~~controlling entity's parent's~~ investment in each ~~subsidiary controlled entity~~ and the ~~controlling entity 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).
 - 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 income tax 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, paragraph B86]

Uniform Accounting Policies

35. 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, paragraph 87]

Measurement

36. An entity includes the ~~revenue income~~ 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 income~~ 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, paragraph B88]

Potential Voting Rights

37. 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 ~~3821-5B90~~ applies. [Based on IFRS 10, paragraph B89]
38. 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, paragraph B90]
39. ~~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, paragraph B91]

Reporting Dates

40. 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) ~~Obtains 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, paragraphs 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.~~

Non-controlling Interests

41. 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. [Based on IFRS 10, paragraph 22]
42. 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)~~. [Based on IFRS 10, paragraph 23]
[IFRS 10, paragraph 24 not used]~~Paragraphs B94–B96 set out guidance for the accounting for non-controlling interests in consolidated financial statements.~~
43. 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, paragraph B94]
44. 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, paragraph B95]

Changes in the Proportion held by Non-controlling Interests

45. 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, paragraph B96]

Loss of Control

46. 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 IPSASs. 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. [Based on IFRS 10, paragraph 25]

[IFRS 10, paragraph 26 not used] ~~Paragraphs B97–B99 set out guidance for the accounting for the loss of control.~~

47. 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 investment shares is priced below market and is compensated for by a subsequent disposal priced above market. [Based on IFRS 10, paragraph B97]
48. 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, the amounts recognized directly in net assets/equityother comprehensive income in relation to the ~~subsidiarycontrolled entity~~ on the basis described in paragraph ~~4926.3B99~~.
 - (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, paragraph B98]
49. 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/equity~~other comprehensive income~~ would be transferred directly to accumulated surplus/deficit~~retained earnings~~ on the disposal of the asset, the parent~~controlling entity~~ shall transfer the revaluation surplus directly to accumulated surplus/deficit~~retained earnings~~ when it loses control of the subsidiary~~controlled entity~~. [Based on IFRS 10, paragraph B99]

Determining Whether an Entity is an Investment Entity

50. A controlling entity~~parent~~ shall determine whether it is an investment entity. An investment entity is an entity that:
- (a) Obtains funds from one or more other individuals or entities~~investors~~ for the purpose of providing those individuals or entities~~investor(s)~~ with investment management services;
 - (b) Commits to those individuals or entities ~~its investor(s)~~ that its ~~business~~ purpose is to invest funds solely for returns from capital appreciation, investment revenue~~income~~, or both; and
 - (c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.
 - (d) Paragraphs B85AG90–AG102B85M provide related application guidance. [Based on IFRS 10, paragraph 27]
51. In assessing whether it meets the definition described in paragraph 5027, an entity shall consider whether it has the following typical characteristics of an investment entity:
- (a) It has more than one investment (see paragraphs B85QAG104–AG105B85P);
 - (b) It has obtained funds from more than one individual or entity~~investor~~ (see paragraphs B85QAG106–AG108B85S);
 - (c) The individuals or entities that have provided funds to the entity ~~It has investors that~~ are not related parties of the entity (see paragraphs B85TAG109–AG110B85U); and
 - (d) It has ownership interests in the form of equity or similar interests (see paragraphs B85VAG111–AG112B85W). [Based on IFRS 10, paragraph 28]]
52. 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 149A of [draft] IPSAS XX, *Disclosure of Interests in Other Entities*. [Based on IFRS 10, paragraph 28]
53. 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 5027, or the typical characteristics of an investment entity, as described in paragraph 5128, a controlling entity~~parent~~ shall reassess whether it is an investment entity. [Based on IFRS 10, paragraph 29]
54. A controlling entity~~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 B40058–59B404). [Based on IFRS 10, paragraph 30]

Investment Entities: Fair Value Requirement~~Exception to Consolidation~~

55. Except as described in paragraph 5632, an investment entity shall not consolidate its controlled entities~~subsidiaries~~ or apply the relevant international or national accounting standard dealing with public sector combinations~~IFRS 3~~ when it obtains control of another entity. Instead, an investment entity shall measure an investment in a controlled entity~~subsidiary~~ at fair value through surplus or deficit~~profit or loss~~ in accordance with IPSAS 29, Financial Instruments: Recognition and Measurement~~IFRS 9~~.⁴ [Based on IFRS 10, paragraph 31]
56. Notwithstanding the requirement in paragraph 5534, if an investment entity has a controlled entity~~subsidiary~~ that provides services that relate to the investment entity's investment activities (see paragraphs AGB85C92-AG94B85E), it shall consolidate that controlled entity~~subsidiary~~ in accordance with paragraphs 4932-4926 of this [draft] Standard and apply the requirements of any relevant international or national accounting standard dealing with public sector combinations ~~IFRS 3~~ to the acquisition of any such controlled entity~~subsidiary~~. [Based on IFRS 10, paragraph 32]
57. A controlling entity~~parent~~ of an investment entity that is not itself an investment entity shall not consolidate all entities that it controls indirectly through the controlled investment entity. Instead, a controlling entity shall measure an investment in a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, including those controlled through an investment entity~~controlled entity~~~~subsidiary, unless the controlling entity parent itself is an investment entity~~. [New, replaces IFRS 10, paragraph 33. Bolded for consistency with paragraph 55] [IFRS 10, paragraph 33 not used]

Note to IPSASB

Paragraph 57 proposes that a non-investment controlling entity be required to account for a controlled investment entity at fair value. This is the treatment recommended in the issues paper (as Option 2). If the IPSASB decides instead to propose Option 1 (consolidation) or Option 3 (fair value of the investment entity's investments) then this paragraph would need to be changed.

Under Option 1 the requirement would revert to what is required by IFRS 10. That is, it would require that "A controlling entity of an investment entity that is not itself an investment entity shall consolidate all entities that it controls, including those controlled through a controlled investment entity."

Under Option 3 the requirement would be as follows "A controlling entity of an investment entity that is not itself an investment entity shall not consolidate entities that it controls indirectly through the controlled investment entity. Instead, a controlling entity shall measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and shall consolidate the other assets and liabilities of the controlled investment entity".

Accounting for a Change in Investment Entity Status

- 57-58. When an entity ceases to be an investment entity, it shall apply the relevant international or national accounting standard dealing with public sector combinations ~~IFRS 3~~ to any controlled entity~~subsidiary~~ that was previously measured at fair value through surplus or deficit ~~profit or loss~~ in accordance with paragraph 5534. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity ~~subsidiary~~ at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that

⁴ 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."

arises from the deemed acquisition. All **controlled entities/subsidiaries** shall be consolidated in accordance with paragraphs ~~4932–245~~ of this [draft] Standard from the date of change of status. [Based on IFRS 10, paragraph B100]

~~58-59.~~ When an entity becomes an investment entity, it shall cease to consolidate its **controlled entities/subsidiaries** at the date of the change in status, except for any **controlled entity/subsidiary** that shall continue to be consolidated in accordance with paragraph ~~5632~~. The investment entity shall apply the requirements of paragraphs ~~4625~~ and ~~4726~~ to those **controlled entities/subsidiaries** that it ceases to consolidate as though the investment entity had lost control of those **controlled entities/subsidiaries** at that date. [Based on IFRS 10, paragraph B101]

Transitional Provisions

~~59-60.~~ An entity shall apply this [draft] Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs ~~61–72~~ ~~C2A–C6~~. [Based on IFRS 10, paragraph C2]

~~60-61.~~ Notwithstanding the requirements of paragraph ~~3328~~ of IPSAS 3, when this [draft] Standard is first applied, ~~and, if later, when the requirements relating to investment entities are first applied,~~ an entity need only present the quantitative information required by paragraph ~~3328~~(f) of IPSAS 3 for the annual period immediately preceding the date of initial application of this [draft] Standard (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, paragraph C2A]

~~64-62.~~ For the purposes of this [draft] Standard, the date of initial application is the beginning of the annual reporting period for which this [draft] Standard is applied for the first time. [Based on IFRS 10, paragraph C2B]

~~62-63.~~ 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, *Consolidated and Separate Financial Statements* (December 2006) ~~and SIC-12 Consolidation—Special Purpose Entities~~ and are still consolidated in accordance with this [draft] Standard; or
- (b) Entities that would not be consolidated at that date in accordance with IPSAS 6 (December 2006) ~~and SIC-12~~ and are not consolidated in accordance with this [draft] Standard. [Based on IFRS 10, paragraph C3]

~~63-64.~~ 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 ~~65–68~~ ~~C3B–C3F~~ instead of paragraphs ~~71–72~~ ~~C5–C5A~~. [Based on IFRS 10, paragraph C3A]

~~64-65.~~ Except for any **controlled entity/subsidiary** that is consolidated in accordance with paragraph ~~5632~~ (to which paragraphs ~~63C3~~ ~~and C6~~ or paragraphs ~~69–70~~ ~~C4–C4C~~, whichever is relevant, apply), an investment entity shall measure its investment in each **controlled entity/subsidiary** at fair value through ~~surplus or deficit~~ ~~profit or loss~~ as if the requirements of this [draft] Standard ~~IFRS~~ had always been effective. The investment entity shall retrospectively adjust both the annual period that immediately precedes the date of initial application and **net assets/equity** at the beginning of the immediately preceding period for any difference between:

(a) The previous carrying amount of the controlled entity subsidiary; and

(b) The fair value of the investment entity's investment in the controlled entity subsidiary.

The cumulative amount of any fair value adjustments previously recognized directly in net assets/equity in other comprehensive income shall be transferred to accumulated surplus/deficit retained earnings at the beginning of the annual period immediately preceding the date of initial application. [Based on IFRS 10, paragraph C3B]

~~65-66. Before the date that IFRS 13 Fair Value Measurement is adopted, a~~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.~~ [Based on IFRS 10, paragraph C3C]

~~66-67.~~ If measuring an investment in a controlled entity subsidiary in accordance with paragraphs ~~C3B65-66C3C~~ is impracticable (as defined in IPSAS 3/IAS 8), an investment entity shall apply the requirements of this [draft] Standard at the beginning of the earliest period for which application of paragraphs ~~C3B65-66C3C~~ 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 net assets/equity shall be recognized at the beginning of the current period. [Based on IFRS 10, paragraph C3D]

~~67-68.~~ If an investment entity has disposed of, or has lost control of, an investment in a controlled entity subsidiary before the date of initial application of this [draft] Standard, the investment entity is not required to make adjustments to the previous accounting for that controlled entity subsidiary. [Based on IFRS 10, paragraph C3E]

~~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.' [IFRS 10, paragraph C3F not used]

~~68-69.~~ If, at the date of initial application, an entity investor concludes that it shall consolidate an other entity investee that was not consolidated in accordance with IPSAS 6 (December 2006) ~~IAS 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 recognise, 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 recognised; 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 [draft] Standard. 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, paragraph C4]

~~69-70.~~ If measuring ~~a controlled entity's/an investee's~~ assets, liabilities and non-controlling interests in accordance with paragraph ~~69C4~~(a) or (b) is impracticable (as defined in IPSAS 3), 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.

~~70-71.~~ 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, paragraph 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. They explain which version of IAS 27 to apply. There has been only one prior version of IPSAS 6.]

~~71.72.~~ 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 (December 2006) ~~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 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 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, paragraph C5]

~~72.73.~~ If measuring the interest in the ~~other entity investee~~ in accordance with paragraph ~~71C5~~ is impracticable (as defined in IPSAS 3), an ~~entity investor~~ shall apply the requirements of this [draft] Standard at the beginning of the earliest period for which application of paragraph ~~71C5~~ 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 [draft] 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~~.

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, paragraph 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. It refers to requirements that did not form part of IPSAS 6 (December 2006)]~~

References to the “Immediately Preceding Period”

~~73-74. Notwithstanding the references to the annual period immediately preceding the date of initial application (the “immediately preceding period”) in paragraphs 69–73C3B–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 69–73C3B–C5A shall be read as the “earliest adjusted comparative period presented.” [Based on IFRS 10, paragraph C6A]~~

~~74-75. 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, paragraph 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*. [IFRS 10, paragraph C7 not used]~~

Effective Date

~~75-76. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this [draft] Standard for a period beginning before [Date], it shall disclose that fact and apply [draft] IPSAS XX, *Joint Arrangements*, [draft] IPSAS XX, *Disclosure of Interests in Other Entities*, [draft] IPSAS 6, *Separate Financial Statements (Amended in [Date])* and [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])* at the same time.** [Generic effective date paragraph]~~

~~76-77. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity’s annual financial statements covering periods beginning on or after the date of adoption. [Generic effective date paragraph]~~

~~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.~~

~~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. [IFRS 10, paragraphs C1, C1A and C1B not used]~~

Withdrawal of ~~other~~ IPSASs 6 (2006)

~~77-78. _____ This [draft] Standard supersedes the requirements relating to consolidated financial statements in IPSAS 6 (December 2006). [Based on IFRS 10, paragraph C8.]~~

~~C9 This IFRS also supersedes SIC-12 Consolidation—Special Purpose Entities. [IFRS 10, paragraph C9 not used.]~~

Application Guidance

This Appendix is an integral part of [draft] IPSAS XX, Consolidated Financial Statements.

AG1. 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 [draft] IPSAS XX, *Consolidated Financial Statements*. [Based on IFRS 10, paragraph B1]

Assessing Control

AG2. 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. [Based on IFRS 10, paragraph B2]

AG3. 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 AG~~4~~13–AG~~1~~53);
- (c) Whether the rights of the entity~~investor~~ give it the current ability to direct the relevant activities of the other entity (see paragraphs AG~~1~~64–AG~~5~~74);
- (d) Whether the entity~~investor~~ is exposed, or has rights, to variable ~~benefits~~returns from its involvement with the other entity~~investee~~ (see paragraphs AG~~5~~85–AG~~6~~057); 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 AG~~6~~158–AG~~7~~62). [Based on IFRS 10, paragraph B3]

AG4. When assessing control of an other entity~~investee~~, an investor shall consider the nature of its relationship with other parties (see paragraphs AG~~7~~73–AG~~7~~95). [Based on IFRS 10, paragraph B4]

Purpose and Design of an other Entity~~Investee~~

AG5. 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. [Based on IFRS 10, paragraph B5]

AG6. When an other entity~~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 AG324–AG530). 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. [Based on IFRS 10, paragraph B6]

AG7. To determine whether an entity investor controls another entity investee in more complex cases, it may be necessary to consider some or all of the other factors in paragraph AG3. [Based on IFRS 10, paragraph B7]

AG8. ~~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 ~~the relevant activities of another entity may 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. [Based on IFRS 10, paragraph B8]

Power

AG9. 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 AG252–AG3128). [Based on IFRS 10, paragraph B9]

AG10. 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. [Based on IFRS 10, paragraph B10]

AG11. 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 ED 238, paragraph IG5]

Regulatory Control

AG12. Regulatory control does not give rise to power over an investee for the purposes of this [draft] 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]

Relevant Activities and Direction of Relevant Activities

AG13. For many ~~entities~~~~investees~~, 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);

~~(c)~~(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. [Based on IFRS 10, paragraph B11]

AG14. Examples of decisions about relevant activities include but are not limited to:

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

(b) Appointing and remunerating an ~~entity's~~~~investee's~~ key management personnel or service providers and terminating their services or employment. [Based on IFRS 10, paragraph B12]

AG15. 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 ~~entities~~~~investors~~ have the current ability to direct relevant activities and those activities occur at different times, those ~~entities~~~~investors~~ shall determine which ~~entity~~~~investor~~ is able to direct the activities that most significantly affect those ~~benefits~~~~returns~~ consistently with the treatment of concurrent decision-making rights (see paragraph ~~2243~~). The ~~entities~~~~investors~~ concerned shall reconsider this assessment over time if relevant facts or circumstances change. [Based on IFRS 10, paragraph B13]

Rights that Give an Entity~~Investor~~ Power over another Entity~~Investee~~

AG16. 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~~. [Based on IFRS 10, paragraph B14]

AG17. 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;
- ~~(a)~~(b) Rights in the form of voting rights (or potential voting rights) of another entity investee (see paragraphs AG324–AG530);
- ~~(b)~~(c) Rights to appoint, reassign or remove members of another entity's 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.

[Based on IFRS 10, paragraph B15. Modified to include additional examples of rights that may occur in the public sector. Additional examples based on AASB ED 238]

AG18. 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. [New]

~~[IFRS 10, paragraph B16 not used.] 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.~~

AG19. ~~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 entity investor has rights sufficient to give it power, the entity investor shall also consider the purpose and design of the other entity investee (see paragraphs AG5–AG8) and the requirements in paragraphs AG541–AG574 together with paragraphs AG4820–AG220. [Based on IFRS 10, paragraph B17]

AG20. In some circumstances it may be difficult to determine whether an entity's investor'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 entity investor 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 AG219 and AG220, may provide evidence that the entity's investor's rights are sufficient to give it power over the other entity investee:

- (a) The entity investor can, without having the contractual right (whether obtained from contracts or other legal rights) to do so, appoint or approve the other entity's investee's key management personnel who have the ability to direct the relevant activities.
- (b) The entity investor can, without having the contractual right (whether obtained from contracts or other legal rights) to do so, direct the other entity investee to enter into, or can veto any changes to, significant transactions for the benefit of the entity investor.
- (c) The entity investor can dominate either the nominations process for electing members of the other entity's investee's governing body or the obtaining of proxies from other holders of voting rights.
- (d) The other entity's investee's key management personnel are related parties of the entity investor (for example, the chief executive officer of the other entity investee and the chief executive officer of the entity investor are the same person).
- (e) The majority of the members of the other entity's investee's governing body are related parties of the entity investor. [Based on IFRS 10, paragraph B18]

AG21. Sometimes there will be indications that the entity investor has a special relationship with the other entity investee, which suggests that the entity investor has more than a passive interest in the other entity investee. 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 has having more than a passive interest in the another entity investee this may indicate that the entity investor has other related rights sufficient to give it power or provide evidence of existing power over an other entity investee. For example, the following suggests that the entity investor has more than a passive interest in the other entity investee 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's investee'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 entity investee 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's investee'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 entity investor controls assets such as licenses or trademarks that are critical to the other entity's investee'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 investor entity.
- (d) The entity's investor's exposure, or rights, to benefits/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 entity investor is entitled, or exposed, to more than half of the returns/benefits of the other entity investee but holds less than half of the voting rights of the other entity investee. [Based on IFRS 10, paragraph B19]

AG22. Public sector entities often have special relationships with other parties as a result of the indicators listed in paragraph AG219. Public sector entities often fund the activities of other entities. Economic dependence is discussed in paragraphs AG 40.1 to AG40.3. [New]

AG23. The greater an entity's investor's exposure, or rights, to variability of benefits/returns from its involvement with an other entity investee, the greater is the incentive for the entity investor to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of benefits/returns is an indicator that the entity investor may have power. However, the extent of the entity's investor's exposure does not, in itself, determine whether an entity investor has power over the other entity investee. [Based on IFRS 10, paragraph B20]

AG24. When the factors set out in paragraph AG~~2048~~ and the indicators set out in paragraphs AG~~219~~ and AG~~230~~ are considered together with an entity's investor's rights, greater weight shall be given to the evidence of power described in paragraph AG~~2048~~. [Based on IFRS 10, paragraph B21]

Substantive Rights

AG25. 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. [Based on IFRS 10, paragraph B22]

AG26. 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 AG4750–AG539) 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. [Based on IFRS 10, paragraph B23]

AG27. 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. [Based on IFRS 10, paragraph B24]

AG28. 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 AG296–AG3128), 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. [Based on IFRS 10, paragraph B25]

Protective Rights

- AG29. 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 AG153 and AG563). [Based on IFRS 10, paragraph B26]
- AG30. 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 2344). [Based on IFRS 10, paragraph B27]
- AG31. 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.
 - (d) 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.
 - (e) 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.
 - (f) 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.
 - (g) 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 IFRS 10, paragraph B28. Additional examples based on AASB ED 238, paragraph IG15]

Franchises

[IFRS 10, paragraphs B29-B33 not used.]

- AG32. ~~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.~~

- AG33. ~~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.~~
- AG34. ~~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.~~
- AG35. ~~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.~~
- AG36. ~~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

- AG32. ~~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 AG335–AG530) in making that assessment if the relevant activities of an investee are directed through voting rights.~~ [Based on IFRS 10, paragraph B34]

Power with a Majority of the Voting Rights

- AG33. An ~~entity investor~~ that holds more than half of the voting rights of an ~~other entity investee~~ has power in the following situations, unless paragraph AG346 or paragraph AG357 applies:
- The relevant activities are directed by a vote of the holder of the majority of the voting rights; or
 - 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. [Based on IFRS 10, paragraph B35]

Majority of the Voting Rights but no Power

- AG34. 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 AG252–AG285, 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~~. [Based on IFRS 10, paragraph B36]
- AG35. 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. [Based on IFRS 10, paragraph B37]

Power without a Majority of the Voting Rights

AG36. 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 AG378-1);
- (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) or rights arising from legislative or executive authority (see paragraph AG40);
- (d) The entity's investor's voting rights (see paragraphs AG378-1 and AG441–AG485);
- (e) Potential voting rights (see paragraphs AG4750–AG530); or
- (f) A combination of (a)–(ed). [Based on IFRS 10, paragraph B38]

Special Voting Rights Attaching to Ownership Interests (Golden Shares)

AG37. 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]

Control of the Board or Other Governing Body

AG38. 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. [New]

Binding Contractual Arrangement with Other Vote Holders

AG39. 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. [Based on IFRS 10, paragraph B39]

Rights from Other ~~contractual~~ Binding Arrangements and Legislative or Executive Authority

AG40. 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) and rights arising from legislative or executive authority 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.~~ [Based on IFRS 10, paragraph B40]

Economic Dependence

AG41. Economic dependence, on its own, does not give rise to power over an entity for the purposes of this [draft] 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. [New]

AG42. 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)]

AG43. 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 have 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 have ultimate discretion about how assets are used. [New. Based on AASB ED 238 paragraph IG10]

The Investor's Voting Rights

- AG44. An entity investor with less than a majority of the voting rights has rights that are sufficient to give it power when the entity investor has the practical ability to direct the relevant activities unilaterally. [Based on IFRS 10, paragraph B41]
- AG45. When assessing whether an entity's investor's voting rights are sufficient to give it power, an entity investor considers all facts and circumstances, including:
- (a) The size of the entity's investor'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 entity investor holds, the more likely the entity investor is to have existing rights that give it the current ability to direct the relevant activities;
 - (ii) The more voting rights an entity investor holds relative to other vote holders, the more likely the entity investor 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 entity investor, the more likely the entity investor is to have existing rights that give it the current ability to direct the relevant activities;
 - (b) Potential voting rights held by the entity investor, other vote holders or other parties (see paragraphs BAG4750–BAG530);
 - (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 entity investor 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. [Based on IFRS 10, paragraph B42]
- AG46. When the direction of relevant activities is determined by majority vote and an entity investor 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 AG452(a)–(c) alone, that the entity investor has power over the other entity investee. [Based on IFRS 10, paragraph B43]
- AG47. In other situations, it may be clear after considering the factors listed in paragraph AG452(a)–(c) alone that an entity investor does not have power. [Based on IFRS 10, paragraph B44]
- AG48. However, the factors listed in paragraph AG452(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 AG2048 and the indicators in paragraphs AG21–2349 and AG20. 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 AG4820–AG230 are considered together with the entity's investor's rights, greater weight shall be given to the evidence of power in paragraph AG2048

than to the indicators of power in paragraphs ~~AG21–239~~ and ~~AG20~~. [Based on IFRS 10, paragraph B45]

AG49. If it is not clear, having considered the factors listed in paragraph AG452(a)–(d), that the entity investor has power, the entity investor does not control the other entity investee. [Based on IFRS 10, paragraph B46]

Potential Voting Rights

AG50. 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 another 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 AG252–AG285). [Based on IFRS 10, paragraph B47]

AG51. 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. [Based on IFRS 10, paragraph B48]

AG52. If the entity investor also has voting or other decision-making rights relating to the other entity investor's activities, the entity investor assesses whether those rights, in combination with potential voting rights, give the entity investor power. [Based on IFRS 10, paragraph B49]

AG53. 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 another entity investee and, in accordance with paragraph AG263, holds substantive rights arising from options to acquire a further 20 per cent of the voting rights. [Based on IFRS 10, paragraph B50]

Power when Voting or Similar Rights do not have a Significant Effect on ~~Benefits~~the Investee's Returns

AG54. In assessing the purpose and design of another entity investee (see paragraphs AG5–AG8), an entity investor 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 entity investor with rights that are sufficient to give it power. Being involved in the design of another entity investee alone is not sufficient to give an entity investor control of that other entity. However, involvement in the design of the other entity may indicate that the entity investor had the opportunity to obtain rights that are sufficient to give it power over the other entity investee. [Based on IFRS 10, paragraph B51]

AG55. In addition, an entity investor shall consider ~~contractual-binding~~ arrangements (including rights from contracts or other legal rights) such as call rights, put rights, ~~and~~ liquidation rights and rights arising from legislative or executive authority established at the investee's inception of the other entity. When ~~these binding contractual~~ arrangements involve activities that are closely related to the other entity investee, then these activities are, in substance, an integral part of the other entity investor's overall activities, even though they may occur outside the legal boundaries of the other entity investee. Therefore, explicit or implicit decision-making rights embedded in ~~contractual-binding~~ arrangements

that are closely related to the other entity investee need to be considered as relevant activities when determining power over the other entity investee. [Based on IFRS 10, paragraph B52]

AG56. For some other entities investees, relevant activities occur only when particular circumstances arise or events occur. The other entity investee 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's investee's activities when those circumstances or events occur can significantly affect its benefits returns and thus be relevant activities. The circumstances or events need not have occurred for an entity investor 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. [Based on IFRS 10, paragraph B53]

AG57. An investor entity may have an explicit or implicit commitment to ensure that an other 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 investor to obtain rights sufficient to give it power. Therefore a commitment to ensure that an other entity investee operates as designed may be an indicator that the entity investor has power, but does not, by itself, give an entity investor power, nor does it prevent another party from having power. [Based on IFRS 10, paragraph B54]

Exposure, or Rights, to Variable Benefits Returns from another Entity Investee

AG58. When assessing whether an entity investor has control of an other entity investee, the entity investor determines whether it is exposed, or has rights, to variable benefits returns from its involvement with the other entity investee. [Based on IFRS 10, paragraph B55]

AG59. Variable benefits returns are benefits returns that are not fixed and have the potential to vary as a result of the performance of an other entity investee. Variable benefits returns can be only positive, only negative or both positive and negative (see paragraph 2415). An entity investor assesses whether benefits returns from an other entity investee are variable and how variable those benefits returns are on the basis of the substance of the arrangement and regardless of the legal form of the benefits returns. For example:

(a) In the context of non-financial benefits an entity may receive benefits as a result of the activities of another entity furthering its objectives. Although the benefits from these activities may be constant in amount, the benefits may be variable benefits for the purpose of this [draft] Standard because they expose the entity to the performance risk of the other entity. If the other entity were unable to perform those activities then the entity would incur additional costs, either from undertaking the activities itself or by providing additional funds or other forms of assistance to enable the other entity to continue providing those activities.

(a)(b) In the context of financial benefits an entity investor can hold a bond with fixed interest payments. The fixed interest payments are variable benefits returns for the purpose of this [draft] Standard ~~IFRS~~ because they are subject to default risk and they expose the entity investor to the credit risk of the issuer of the bond. The amount of variability (i.e., how variable those benefits returns are) depends on the credit risk of the bond. Similarly, fixed performance fees for managing an other entity's investee's assets are variable benefits returns because they expose the entity investor to the performance risk of the other entity investee. The amount of

variability depends on the other entity's investee's ability to generate sufficient revenue income to pay the fee. [Based on IFRS 10, paragraph B56]

AG60. Examples of benefits returns include:

- ~~(a)~~ Dividends, other distributions of economic benefits from another entity investee (e.g., interest from debt securities issued by the other entity investee) and changes in the value of the entity's investor's investment in that other entity investee.
- (a) Remuneration for servicing another entity's investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the other entity's investee's assets and liabilities on liquidation of that other entity investee, tax benefits, and access to future liquidity that an entity investor has from its involvement with another entity investee.
- (b) Benefits 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 entity investor might use its assets in combination with the assets of the other entity investee, 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 entity's investor's other assets.
- ~~(b)~~(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. [Based on IFRS 10, paragraph B57]

Link between Power and Benefits Returns

Delegated Power

AG61. When an entity investor with decision-making rights (a decision maker) assesses whether it controls another entity investee, it shall determine whether it is a principal or an agent. An entity investor shall also determine whether another entity with decision-making rights is acting as an agent for the entity investor. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the other entity investee when it exercises its decision-making authority (see paragraphs 29-31, 17 and 18). Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal. A decision maker is not an agent simply because other parties can benefit from the decisions that it makes. [Based on IFRS 10, paragraph B58]

AG62. It is common for public sector entities to be responsible for carrying out government policy. In some cases they may have the authority to act in their own right, in other cases they may act as agent for a Minister or another entity. For example:

- (a) A government department, which is authorized by a Minister to act on the Minister's behalf, might act solely as an agent of the responsible Minister in relation to another entity. In such cases the department would not control the other entity and would not consolidate it.
- (b) A government department may operate under a delegation of power from a Minister. The department uses its own discretion in making decisions and taking actions and is not subject to direction from the Minister. In such cases the department is acting in its own right and would need to apply the other requirements of this [draft] Standard to determine whether it controlled another entity. The scope of the department's decision-making authority over

another entity would be a significant factor in distinguishing whether it is acting as an agent or as a principal.

(c) An entity may establish a trust to carry out specified activities and appoints the trustee. The trustee is responsible for making decisions about the financing and operating activities of the trust in accordance with the trust deed. If the entity can replace the trustee at its discretion, the entity would need to assess whether it controls the trust given that, for example, it would be exposed, or have rights, to variable benefits in terms of the extent to which its objectives are achieved or furthered through the activities of the trust. [New. Based on AASB ED 238 paragraph IG19]

AG63. An entity investor may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls an other entity investee, the entity investor shall treat the decision-making rights delegated to its agent as held by the entity investor directly. In situations where there is more than one principal, each of the principals shall assess whether it has power over the other entity investee by considering the requirements in paragraphs AG5–AG574. Paragraphs AG640–AG762 provide guidance on determining whether a decision maker is an agent or a principal. [Based on IFRS 10, paragraph B59]

AG64. A decision maker shall consider the overall relationship between itself, the other entity investee being managed (and assessed for control) and other parties involved with that entity the investee. In particular, a decision maker shall consider all the factors below, in determining whether it is an agent:

- (a) The scope of its decision-making authority over the other entity investee (paragraphs AG662 and AG673).
- (b) The rights held by other parties (paragraphs AG684–AG671).
- (c) The remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs AG6872–AG740).
- (d) The decision maker's exposure to variability of benefits returns from other interests that it holds in the other entity investee (paragraphs AG754 and AG762).

Different weightings shall be applied to each of the factors on the basis of particular facts and circumstances. [Based on IFRS 10, paragraph B60]

AG65. Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph AG640 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph AG695). [Based on IFRS 10, paragraph B61]

The Scope of the Decision-Making Authority

AG66. 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. [Based on IFRS 10, paragraph B62]

AG67. 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. [Based on IFRS 10, paragraph B63]

Rights held by Other Parties

AG68. 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. [Based on IFRS 10, paragraph B64]

AG69. 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. [Based on IFRS 10, paragraph B65]

AG70. 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 AG252–AG285 for additional guidance on rights and whether they are substantive.) [Based on IFRS 10, paragraph B66]

AG71. Consideration of the rights held by other parties shall include an assessment of any rights exercisable by an other entity's investee's board of directors (or other governing body) and their effect on the decision-making authority (see paragraph AG263(b)). [Based on IFRS 10, paragraph B67]

Remuneration

AG72. 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. [Based on IFRS 10, paragraph B68]

AG73. 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. [Based on IFRS 10, paragraph B69]

AG74. A decision maker cannot be an agent unless the conditions set out in paragraph AG6973(a) and (b) are present. However, meeting those conditions in isolation is not sufficient to conclude that a decision maker is an agent. [Based on IFRS 10, paragraph B70]

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

AG75. 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. [Based on IFRS 10, paragraph B71]

AG76. 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. [Based on IFRS 10, paragraph B72]

Relationship with Other Parties

AG77. 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. [Based on IFRS 10, paragraph B73]

AG78. Such a relationship need not involve a ~~contractual-binding~~ arrangement (including rights from contracts or other legal rights). ~~Such relationships could also arise from legislative or executive authority.~~ 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. [Based on IFRS 10, paragraph B74]

AG79. 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) An other 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. [Based on IFRS 10, paragraph B75]

Control of Specified Assets

- AG80. 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. [Based on IFRS 10, paragraph B76]
- AG81. 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 benefits returns from the specified assets can be used by the remaining portion 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".
[Based on IFRS 10, paragraph B77]
- AG82. When the condition in paragraph AG81~~77~~ 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. [Based on IFRS 10, paragraph B78]
- AG83. 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. [Based on IFRS 10, paragraph B79]

Continuous Assessment

- AG84. 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 147. [Based on IFRS 10, paragraph B80]

- AG85. If there is a change in how power over another entity investee can be exercised, that change must be reflected in how an entity investor assesses its power over another 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. [Based on IFRS 10, paragraph B81]
- AG86. An event can cause an entity investor to gain or lose power over another entity investee without the entity investor being involved in that event. For example, an entity investor can gain power over another entity investee because decision-making rights held by another party or parties that previously prevented the entity investor from controlling another entity investee have lapsed. [Based on IFRS 10, paragraph B82]
- AG87. An entity investor also considers changes affecting its exposure, or rights, to variable benefits returns from its involvement with another entity investee. For example, an entity investor that has power over another entity investee can lose control of that other entity 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 147(b) (e.g., if a contract to receive performance-related fees is terminated). [Based on IFRS 10, paragraph B83]
- AG88. 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. [Based on IFRS 10, paragraph B84]
- AG89. 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 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 147 or changes the overall relationship between a principal and an agent. [Based on IFRS 10, paragraph B85]

Determining Whether an Entity is an Investment Entity

- AG90. 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 5027 is an investment entity. Paragraphs AG9185B–AG10285M describe the elements of the definition in more detail. [Based on IFRS 10, paragraph B85A]

Business Purpose

- AG91. The definition of an investment entity requires that the purpose of the entity is to invest solely for capital appreciation, investment revenue income (such as dividends or similar distributions, interest or rental revenue income), or both. Documents that indicate what the entity's investment objectives are, such as the entity's mandate, constitution, 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 ~~objective~~business as 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 AG85I). An entity's purpose may change over time. In assessing whether it continues to meet the definition of an investment entity, an entity would need to have regard to any changes in the environment in which it operates and the impact of such changes on its investment strategy.
[Based on IFRS 10, paragraph B85B]

AG92. An investment entity may provide investment-related services (e.g., investment advisory services, investment management, investment support and administrative services), either directly or through a controlled entity~~subsidiary~~, to third parties as well as to its controlling entity or other investors, even if those activities are substantial to the entity. [Based on IFRS 10, paragraph B85C]

AG93. An investment entity may also participate in the following investment-related activities, either directly or through a controlled entity~~subsidiary~~, if these activities are undertaken to maximize the investment return (capital appreciation or investment revenue~~income~~) from its investees and do not represent a separate substantial ~~business~~ activity or a separate substantial source of revenue~~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.
- [Based on IFRS 10, paragraph B85D]

AG94. If an investment entity has a controlled entity~~subsidiary~~ that provides investment-related services or activities, such as those described in paragraphs ~~AG85C92–93~~AG85D, to the entity or other parties, it shall consolidate that controlled entity~~subsidiary~~ in accordance with paragraph ~~332~~.
[Based on IFRS 10, paragraph B85E]

Exit Strategies

AG95. 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. [Based on IFRS 10, paragraph B85F]

AG96. 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. [Based on IFRS 10, paragraph B85G]

AG97. 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. [Based on IFRS 10, paragraph B85H]

Earnings from Investments

AG98. An entity is not investing solely for capital appreciation, investment ~~revenue~~income, or both, if the entity or another member of the ~~economic entity~~group containing the entity (i.e., the ~~economic entity~~group that is controlled by the investment entity's ultimate ~~controlling entity~~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 of the economic entity 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 ~~[draft] IPSAS XX, Joint Arrangements~~IFRS 14) or other agreements between the entity or another ~~group~~member of the economic entity 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 of the economic entity (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 of the economic entity, an ownership interest in an investee of the entity;
- (e) Except as described in paragraph ~~AG9985J~~, transactions between the entity or another ~~group~~member of the economic entity 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 of the economic entity 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 forming part of the economic entity. [Based on IFRS 10, paragraph B85I]

AG99. 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 ~~revenue~~income from those investees. Notwithstanding paragraph ~~B85~~AG98(e), an

entity is not disqualified from being classified as an investment entity merely because such investees trade with each other. [Based on IFRS 10, paragraph B85J]

Fair Value Measurement

AG100. 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 controlled entities/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 IPSASs; and
- (b) Reports fair value information internally to the entity's key management personnel (as defined in IPSAS 20/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. [Based on IFRS 10, paragraph B85K]

AG101. In order to meet the requirement in B85K/AG100(a), an investment entity would:

- (a) Elect to account for any investment property using the fair value model in IPSAS 16/IAS 40, Investment Property;
- (b) Elect the exemption from applying the equity method in [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date])/IAS 28 for its investments in associates and joint ventures; and refer to cost and equity method; and
- (c) Measure its financial assets at fair value using the requirements in IPSAS 29/IFRS 9. [Based on IFRS 10, paragraph B85L]

AG102. 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 2750(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. [Based on IFRS 10, paragraph B85M]

Typical Characteristics of an Investment Entity

AG103. 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 5128). 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. [Based on IFRS 10, paragraph B85N]

More than One Investment

AG104. 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. [Based on IFRS 10, paragraph B85O]

- AG105. 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;
 - (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 (e.g., when the required minimum investment is too high for an individual investor); or
 - (d) Is in the process of liquidation. [Based on IFRS 10, paragraph B85P]

More than One Investor

AG106. 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 economic entity group containing the entity, would obtain benefits other than capital appreciation or investment revenue income (see paragraph AG9854). [Based on IFRS 10, paragraph B85Q]

AG107. Alternatively, an investment entity may be formed by, or for, a single controlling entity investor that represents or supports the interests of a wider group of investors (e.g., a pension fund, government investment fund or family trust). [Based on IFRS 10, paragraph B85R]

AG108. 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. [Based on IFRS 10, paragraph B85S]

Unrelated Investors

AG109. Typically, an investment entity has several investors that are not related parties (as defined in IPSAS 20/IAS-24) of the entity or other members of the economic entity group containing the entity. Having unrelated investors would make it less likely that the entity, or other members of the economic entity group containing the entity, would obtain benefits other than capital appreciation or investment revenue income (see paragraph AG9B854). [Based on IFRS 10, paragraph B85T]

AG110. 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. [Based on IFRS 10, paragraph B85U]

Ownership Interests

- AG111. An investment entity is typically, but is not required to be, a separate legal entity. Ownership interests in an investment entity may be, but are not always, are typically in the form of equity or similar interests (e.g., 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. [Based on IFRS 10, paragraph B85V]
- AG112. In addition, an entity that has significant ownership interests in the form of debt that, in accordance with other applicable IPSASs, does not meet the definition of net assets/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. [Based on IFRS 10, paragraph B85W]

Amendments to Other IPSASs

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 [draft] IPSAS XX, *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 [draft] IPSAS 6, *Consolidated and Separate Financial Statements (Amended in [Date])*.
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. [Draft] IPSAS XX, *Consolidated Financial Statements* ~~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. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Disclosure of Interests in Other Entities, issued in [Date], amended paragraphs 4, 12, 88(n), 95(d), 97, 103, 118, 134, 135 and 139. An entity shall apply those amendments when it applies [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Disclosure of Interests in Other Entities.

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 50A, 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

50A An investment entity, as defined in [draft] IPSAS XX, Consolidated Financial Statements, need not apply paragraphs 50(c) or 50(d) to an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.

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, unless the controlled entity is held by an investment entity, as defined in [draft] IPSAS XX, Consolidated Financial Statements, and is required to be measured at fair value through surplus or deficit.

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 [draft] IPSAS XX, Consolidated Financial Statements), unless the controlled entity is held by an investment entity and is required to be measured at fair value through surplus or deficit. Accordingly, the resulting cash flows are classified in the same way as other transactions described in paragraph 26.

63C. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraph 30(b) and added paragraphs 52A and 52B. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 6, *Consolidated and Separate Financial Statements (Amended in [Date])*, 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~~ [draft] IPSAS XX, *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, [draft] IPSAS XX, *Consolidated Financial Statements* ~~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 [draft] IPSAS XX, *Consolidated Financial Statements* ~~IPSAS 6~~

71A. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*, issued in [Date], amended paragraphs 22, 47, 51, 53 and 55. An entity shall apply those amendments when it applies [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*.

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 [draft] 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 6, Consolidated and Separate Financial Statements, and IPSAS 7 require disclosure of a list of significant controlled entities and associates.~~ [Draft] IPSAS XX, Disclosure of Interests in Other Entities requires an entity to disclose information that enables users of its consolidated financial statements to understand the composition of the economic entity and information about each joint arrangement and associate that is material to the reporting entity.
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, except for those between an investment entity and its controlled entities measured at fair value through surplus or deficit, are eliminated on consolidation in accordance with [draft] IPSAS XX, Consolidated Financial Statements ~~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. [Draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS XX, Joint Arrangements and IPSAS XX, Disclosure of Interests in Other Entities issued in [Date], amended paragraphs 24 and 33. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS XX, Joint Arrangements and [draft] IPSAS XX, Disclosure of Interests in Other Entities.**

Implementation Guidance

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

...

(Note: [Draft] IPSAS XX, 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 [draft] IPSAS X6, 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 [draft] IPSAS X6, 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 [draft] IPSAS X6, *Consolidated Financial Statements* are not applied in respect of the relationship of the GGS sector with entities in the PFC and PNFC sectors.
27. [Draft] IPSAS X6, *Consolidated Financial Statements* requires controlling entities to prepare financial statements that consolidate controlled entities on a line-by-line basis. [Draft] IPSAS X6, *Consolidated Financial Statements* 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 [draft] IPSAS X6, *Consolidated Financial Statements*, 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 [draft] IPSAS X6, *Consolidated Financial Statements* 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 [draft] IPSAS X6, *Consolidated Financial Statements*. 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. [Draft] IPSAS X6, *Consolidated Financial Statements* 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 [draft] IPSAS X6, *Consolidated Financial Statements* 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. [Draft] IPSAS XX, *Consolidated Financial Statements* issued in [Date], amended paragraphs 24, 26, 27, 29, 30, and 41. An entity shall apply those amendments when it applies [draft] IPSAS XX, *Consolidated Financial Statements*.**

Basis for Conclusions

- BC9. When GGS disclosures are made in financial statements, the requirements of [draft] IPSAS X6, *Consolidated Financial Statements* should not be applied in respect of PFCs and PNFCs. This is because the application of [draft] IPSAS X6, *Consolidated Financial Statements* 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

In the Illustrative Examples that accompany IPSAS 24 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 [draft] IPSAS X6, 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 [draft] IPSAS X6, Consolidated and Separate Financial Statements;

47A. [Draft] IPSAS XX, Consolidated Financial Statements issued in [Date], amended paragraph 12. An entity shall apply that amendment when it applies [draft] IPSAS XX, Consolidated Financial Statements.

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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended [Date]) or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), or IPSAS 8, Interests in Joint Ventures. However, in some cases, [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Separate Financial Statements (Amended [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), or IPSAS 8 require or 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. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements issued in [Date], amended paragraph 3. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements].

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 [draft] IPSAS ~~X6~~, Consolidated Financial Statements. When ...

IPSAS 29, Financial Instruments: Recognition and Measurement

Paragraphs 2(a), 17 and 89 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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), or IPSAS 8, Interests in Joint Ventures.~~ However, in some cases, [draft] IPSAS XX, Consolidated Financial Statements, IPSAS 6, Separate Financial Statements (Amended [Date]), or IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]) require or permit an entity to account for entities shall apply this Standard to an interest in a controlled entity, associate, or joint venture that according to IPSAS 6, IPSAS 7, or IPSAS 8 is accounted for under in accordance with some or all of the requirements of 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 ~~[draft] IPSAS 6X, Consolidated Financial Statements 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.
89. For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the entity can be designated as hedged items. It follows that hedge accounting can be applied to transactions between entities in the same economic entity only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the economic entity except for the consolidated financial statements of an investment entity, as defined in [draft] IPSAS XX, Consolidated Financial Statements, where transactions between an investment entity and its controlled entities measured at fair value through surplus or deficit will not be eliminated in the consolidated financial statements. As an exception, ...
- 125B. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraphs 2(a), 17, 89, AG2, AG14 and C2. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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

Consolidate all controlled entities, (including any Special Purpose Entities) [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 an economic entity 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 6.49 [draft]~~ IPSAS XX, Consolidated Financial Statements paragraph 21.1 requires that “Balances, transactions, revenue and expenses within the economic entity shall be eliminated in full.” a controlling entity “Eliminate in full intra-economic entity assets and liabilities, net assets/equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity”.

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

...

It depends. ~~[Draft] IPSAS X6, 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.

In the Basis for Conclusions, paragraph BC4 is footnoted as follows

In [Date] the IPSASB introduced the concept of investment entities in [draft] IPSAS XX, Consolidated Financial Statements and required investment entities, as defined in that Standard, to measure their investments in controlled entities, other than those providing investment-related services or activities, at fair value through surplus or deficit.

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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), or IPSAS 8, Interests in Joint Ventures. However, in some cases, [draft] IPSAS XX, Consolidated Financial

Statements, [draft] IPSAS 6, Separate Financial Statements (Amended [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), or IPSAS 8 require or permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; in those cases

52A. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraph 3(a). An entity shall apply that amendment when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended [Date]), and [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), and IPSAS 8, Interests in Joint Ventures; and...

132A. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements issued in [Date], amended paragraph 6(d). An entity shall apply that amendment when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 48, Consolidated Financial Statements.

Objective

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

Scope (paragraphs 5–8)

Wholly and Partly Owned Controlling Entities

BC2. The IPSASB agreed that, consistent with the requirements in IPSAS 6 (December 2006) and IFRS 10, wholly or partly owned controlling entities that meet certain conditions, and post-employment or other long-term employee benefit plans should not be required to present consolidated financial statements. The IPSASB decided that a controlling entity which itself is a controlled entity should not be required to present consolidated financial statements only if “users of such financial statements are unlikely to exist or their information needs are met by the controlling entity’s consolidated financial statements”. This limitation is intended to protect users where such controlling entities represent key sectors or activities of a government and there are users that need consolidated financial statements for accountability or decision making purposes.

Application of the Consolidation Requirements to all Controlled Entities

BC3. The IPSASB noted the general principle in both IFRS 10 and IPSAS 6 that a controlling entity should consolidate, on a line by line basis, all of its controlled entities. The IPSASB noted that over recent years the potential scale and complexity of a public sector entity’s involvement with other entities (particularly the relationships between a government and other entities) had increased. Government interventions during times of financial crisis had been a contributing factor to governments (and other public sector entities) having a broad range of interests in other entities, some of which could give rise to control as defined in the proposed Standard. The implications of consolidation when a government has a large number of controlled entities, controlled entities carrying out activities there were formerly regarded as solely private sector activities, and controlled entities where control is intended to be temporary, had led some to query whether consolidation of all controlled entities was justified, having regard to the costs and benefits of doing so.

BC4. The IPSASB deliberated extensively on the issue of whether all controlled entities should be consolidated, having regard to users’ needs. The IPSASB focused on the information provided by consolidated financial statements, whilst noting that users’ information needs may also be met through other statements and reports such as (i) separate financial statements of both controlling and controlled entities; (ii) performance reports; and (iii) statistical reports. Although some of the IPSASB’s discussions were relevant to any type of public sector entity that is a controlling entity, many of the matters considered were more pertinent at the whole of government level. The IPSASB considered views on the usefulness of consolidation in relation to the following types of controlled entities (whilst noting that these broad categories would not be universally applicable):

- (a) Departments and ministries;

- (b) Government agencies;
- (c) Government Business Enterprises (GBE);
- (d) Financial institutions (excluding government sponsored enterprises); and
- (e) Other investments (including intentional investments, incidental investments and investment entities). The term "incidental investments" was used to refer to interests acquired in the course of meeting another objective, such as preventing the collapse of a private sector entity.

BC5. The IPSASB noted that although there was general agreement that consolidation of controlled departments and ministries and government agencies is appropriate, some members were less certain that the cost of preparing consolidated financial information was justified for other categories of controlled entities.

BC6. The IPSASB noted arguments in support of requiring consolidation of all controlled entities of a government, including the following:

- (a) Consolidated financial statements provide a panoramic view of a government's activities and current financial position. This panoramic view ensures that users do not lose sight of the risks associated with certain sectors. It shows the performance of the government as a whole.
- (b) Identifying categories of entities which should not be consolidated could be difficult. Such attempts could lead to rules-based standards. For example, there could be difficulties in separately identifying entities rescued from financial distress on a consistent basis across jurisdictions and over time. Similar issues could arise in respect of any separate proposals for GBEs. Although the term GBE is a defined term within IPSASs, the IPSASB noted that there are differences in the way this definition is being applied in practice in different jurisdictions. In addition to the issue of clearly identifying any group of entities for which different accounting requirements would be appropriate, the IPSASB noted that similar activities can be conducted by a variety of entity types both within and across jurisdictions. So, although proposals for different accounting treatments might lead to consistent treatment for a group of entities within a jurisdiction, it might not result in comparable accounting for similar activities.
- (c) Consolidation of all controlled entities is an example of like items being accounted for in like ways. Exceptions to consolidation reduce the coherence of the financial statements. Given that there could be a number of entities that could potentially be regarded as warranting separate treatment or disclosure, this could adversely affect the coherence of consolidated financial statements.
- (d) Whole of government financial statements have a different perspective from separate financial statements. Separate financial statements provide information on the activities of the core government.

BC7. The IPSASB also noted arguments that have been raised in opposition to consolidation of certain controlled entities of a government, including the following:

- (a) The consolidation of entities that have activities that differ from the activities of the core government could obscure the presentation of the results and the condition of the government itself. This argument was raised in relation to a variety of controlled entities

including manufacturing activities, large financial institutions, temporarily controlled entities and entities with financial objectives as opposed to social objectives.

- (b) Some consider that equity accounting for certain categories of controlled entities provides appropriate information on financial performance subsequent to acquisition without incurring high costs or obscuring information about the core government.
- (c) Some consider that it is inappropriate to consolidate entities that have been rescued from financial distress because they do not represent core government activities and are not intended to be long-term investments.
- (d) Where governments have high numbers of controlled entities the costs of consolidation process are high and may be perceived to outweigh the benefits of consolidating those entities on a line by line basis.

BC8. Reflecting on these arguments for and against requiring consolidation of all controlled entities the IPSASB had regard to:

- (a) The objectives of financial reporting, as outlined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*;
- (b) The limited availability of evidence on user needs and usefulness of consolidated financial information (particularly on the usefulness of consolidated financial information in respect of specific types of controlled entities);
- (c) The context within which whole of government consolidated financial statements are prepared;
- (d) The interaction between the definition of control and the consolidation requirements in the proposed Standard; and
- (e) The IPSASB's role as an international accounting standard setter.

BC9. With regard to the objectives of financial reporting, the IPSASB noted that Chapter 2 of the *Conceptual Framework* identifies the objectives of financial reporting as being to provide information that is useful for accountability purposes and for decision-making purposes. Because of the importance of the budget in the public sector (and the importance of demonstrating compliance with the budget) the IPSASB considered an argument that consolidated financial statements should consolidate only those entities that comprise a government's budget entity. However, the IPSASB agreed that a budget entity approach would not be appropriate for general purpose financial reporting because:

- (a) Decisions about which entities are included in a government's budget may be based on factors other than the degree of autonomy of the entity and the extent to which it provides market goods or makes a commercial return.
- (b) Decisions about which entities are included in a government's budget are often related to whether the entity's activity is intended to be self-funding. The exclusion of self-funding entities from a government's budget, essentially allows the offsetting of revenue and expenses for those activities and means that budget sector information does not reflect the substance of all transactions controlled by a government.

- (c) The budget boundary for a jurisdiction is determined within a jurisdiction. If financial reporting were based on budget sectors there would be no comparable standardized and comparable financial reporting by governments in an international context.

BC10. IPSAS 6 (December 2006) required the consolidation of all controlled entities apart from controlled entities where there was evidence that (a) control was intended to be temporary because the controlled entity was held exclusively with a view to its disposal within twelve months from acquisition and (b) management was actively seeking a buyer. Such temporarily controlled entities were required to be accounted for as financial instruments. The IPSASB considered whether this treatment of temporarily controlled entities should also be required in the proposed Standard. The IPSASB noted a number of concerns regarding the requirements in IPSAS 6 (December 2006). These included:

- (a) The difficulty of identifying temporarily controlled entities;
- (b) The difficulty of justifying a different accounting treatment for controlled entities that are held for more than a couple of years (which can occur with some entities that are initially considered to be temporarily controlled);
- (c) The difficulty of disposing of an investment in its current form. A public sector entity may need to retain responsibility for certain risks in order to dispose of its investment in a temporarily controlled entity. Accounting for such entities as financial instruments provides only a partial representation of the risks associated with the investment;
- (d) If a public sector entity is exposed to risks from an investment in a “temporarily” controlled entity these risks should be reported consistently with the risk exposures from other controlled entities; and
- (e) The provision of additional explanations by the reporting entity can address some of the issues that arise when large temporarily controlled entities are consolidated.

BC11. The IPSASB therefore decided not to require a different accounting treatment for temporarily controlled entities.

BC12. In considering the existence of research regarding the usefulness of consolidated financial statements in meeting user needs, the IPSASB noted that although an increasing number of governments are applying the accrual basis of accounting, this has been a relatively recent trend and consolidation is often implemented in stages, with core government activities being consolidated first, followed by the consolidation of other categories of entities as time and resources permit. As a result, there are few jurisdictions that currently present consolidated whole of government financial statements, and empirical research on the usefulness of consolidated whole of government financial statements has been limited. Research to date has tended to focus on who uses consolidated financial statements and the overall benefits of consolidated financial statements, as opposed to the usefulness of consolidating certain types of controlled entities or accounting for them in an alternative way.

BC13. The IPSASB noted that in developing its requirements for investment entities the IASB focused on user needs. Matters considered by the IPSASB in relation to investment entities are discussed later in this Basis for Conclusions.

BC14. The IPSASB noted that many governments prepare statistical reports which present consolidated financial information on three sectors of government activity, being the General Government Sector, the Public Non-financial Corporations Sector and the Public Financial Corporations Sector.

This information is compiled in accordance with relevant national or international statistical reporting guidelines, including the *Government Finance Statistics Manual 2012* and the *European System of Accounts 2008*. The IPSASB considered whether such statistical reports could constitute an alternative to whole of government consolidated financial statements. The IPSASB noted that IPSAS 22, *Disclosure of Financial Information about the General Government Sector* provides guidance on the presentation of such statistical information in consolidated financial statements. However, IPSAS 22 neither requires the provision of such information in consolidated financial statements, nor permits the presentation of such information as an alternative to consolidation of all controlled entities. Although the IPSASB noted that statistical reporting serves an important role and provides information that is comparable across countries, the IPSASB agreed that such information had a different objective and did not fulfil the role of consolidated financial statements in giving an overview of all government activity. The IPSASB also noted that mandating the provision of statistical sector information by governments other than national governments could be difficult. The IPSASB therefore agreed that any changes to IPSAS 22 should not form part of its project to update IPSASs 6 to 8.

- BC15. Having taken all these factors into consideration in the development of the proposed Standard, the IPSASB agreed to propose the consolidation of all controlled entities, other than the exception(s) from consolidation relating to investment entities (discussed separately in this Basis for Conclusions). The IPSASB also agreed to seek the views of constituents as to whether there are any categories of entities that should not be consolidated, with any proposals for non-consolidation being justified having regard to user needs.

Investment Entities

- BC16. In October 2012 the IASB issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27). As a result of these amendments IFRS 10 required that a controlling entity that is an investment entity account for most of its investments at fair value through profit or loss, as opposed to consolidating them. The IPSASB considered the appropriateness of the requirements in IFRS 10 for similar entities in the public sector. The IPSASB first considered which entities might be affected by such requirements. Entities that might meet the definition of an investment entity include some sovereign wealth funds, some pension funds and some funds holding controlling interests in public-private partnership projects (PPP) or private finance initiatives (PFI). The IPSASB noted that any requirements applicable only to investment entities might apply to a relatively small number of public sector entities (having regard to the types of entities that might be investment entities and the fact that these entities might be required to report in accordance with a range of accounting standards, including domestic standards).
- BC17. The IPSASB noted the comments made by respondents to the IASB in relation to the IASB's investment entity proposals and considered that similar arguments would apply in the public sector. Indeed, the IPSASB noted that some types of entities specifically identified by the IASB as potential investment entities (for example, sovereign wealth funds) could be public sector entities applying IPSASs. The IPSASB noted the IASB's focus on user needs in the IASB's deliberations on investment entities. The IPSASB noted that, depending on the reporting framework of the jurisdiction in which they operate, a public sector investment entity might be required to report in accordance with IPSASs, IFRSs, or domestic standards. The IPSASB agreed that the IFRS 10 requirement for an investment entity to account for its investments at fair value appeared to be appropriate in the public sector. The IPSASB also noted that consistent requirements in IPSASs

and IFRSs would reduce any opportunity for accounting arbitrage when determining which accounting standards an investment entity should be required to apply.

- BC18. The IPSASB considered whether the definition of an investment entity and the typical characteristics of an investment entity, as outlined in IFRS 10, were appropriate in the public sector and agreed that they were.
- BC19. The IPSASB also agreed that the typical characteristics of an investment entity were generally appropriate for application in the public sector. The IPSASB noted that IFRS 10 allows for the possibility that an entity may be an investment entity, despite not meeting all the typical characteristics. In such cases the entity is required to explain why it is an investment entity, despite not having all of the typical characteristics of an investment entity. The IPSASB expressed the view that this situation could be more prevalent in the public sector context. For example, a sovereign wealth fund might:
- (a) Have a single investor (being a Minister or a public sector entity). However, the fund could argue that it is investing funds on behalf of, or for the benefit of, citizens. Indeed, IFRS 10, paragraph BC259 explicitly refers to government-owned investment funds and funds wholly owned by pension plans and endowments when explaining why the IASB decided to make this a typical characteristic rather than an essential part of the definition of an investment entity.
 - (b) Have investors that are related parties. A fund with a related party investor could argue that it meets this characteristic in substance because it is acting on behalf of many unrelated beneficiary investors.
 - (c) Have ownership interests in a form other than equity or similar interests. The IPSASB noted both that the form of ownership interests in sovereign wealth funds could vary, and that IFRS 10, paragraph BC264, specifically refers to pension funds and sovereign wealth funds when explaining why the IASB decided to make this a typical characteristic rather than an essential part of the definition. IFRS 10, paragraph BC264 states "For example, a pension fund or sovereign wealth fund with a single direct investor may have beneficiaries that are entitled to the net assets of the investment fund, but do not have ownership units."
- BC20. The IPSASB noted that in comparison with private sector entities which tend to have clear financial objectives, public sector entities can have a broader range of objectives, and these objectives can change over time. A public sector entity's objectives may also change as a result of changes in government policy and changes could lead to an entity that had formerly met the definition of an investment entity ceasing to do so. Having regard to the possibility of changing objectives the IPSASB therefore agreed to highlight the need for an entity to reassess its status on a regular basis.
- BC21. The IPSASB noted that the IFRS 10 investment entity requirements apply to the financial statements of an investment entity itself – they cannot be applied by the controlling entity of any investment entity. IFRS 10 requires that a controlling entity that is not itself an investment entity shall present consolidated financial statements in which all controlled entities are consolidated on a line by line basis. The IPSASB considered whether the public sector context would lead it to place more or less weight on arguments considered by the IASB in relation to this matter, and whether there were any public sector characteristics that would support a differing accounting treatment by the controlling entity of an investment entity.

BC22. The IPSASB noted that the IASB had concerns that if a non-investment controlling entity were required to retain the fair value treatment used by its controlled investment entities, it could achieve different accounting outcomes by holding controlled entities directly or indirectly through a controlled investment entity. The IPSASB did not share these concerns in the public sector context. In particular the IPSASB noted that ownership interests through shares or other equity instruments are less common in the public sector. As a consequence, it is less likely that entities within an economic entity in the public sector would hold an investment in the ultimate controlling entity and less likely that they would be investing in other entities within the economic entity. The IPSASB therefore agreed to propose that the fair value treatment of an investment entity be retained in the controlling entity's financial statements.

Control (paragraphs 5–31)

BC23. The IPSASB agreed that the three requirements for control outlined in IFRS 10 are generally 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 (December 2006), although IPSAS 6 (December 2006) required that both power and benefits be present. Consistent with the terminology used in IPSAS 6 (December 2006) the IPSASB decided that the term “benefits” was more appropriate than “returns” in the public sector context (as discussed under the subheading “Terminology” below).

Power (paragraphs 17–23)

BC24. 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 [draft] 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

BC25. The IPSASB agreed that the previous guidance on regulatory control in IPSAS 6 (December 2006) should be incorporated in the [draft] 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.

BC26. In considering how to incorporate guidance on regulatory control in the [draft] 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.

BC27. The IPSASB noted that the discussion of regulation and control in [draft] *Government Finance Statistics Manual 2012* (GFSM 2012) (draft, as at November 2012) (Chapter 2) is similar to that previously in IPSAS 6. For example, in discussing eight indicators of control that need to be

considered to determine if a corporation is controlled by the government, the [draft] GFSM 2012 states

Regulation and control. The borderline between regulation that applies to all entities within a class or industry group and the control of an individual corporation can be difficult to judge. There are many examples of government involvement through regulation, particularly in areas such as monopolies and privatized utilities. It is possible for regulatory involvement to exist in important areas, such as in price setting, without the entity ceding control of its general corporate policy. Choosing to enter into or continue to operate in a highly regulated environment suggests that the entity is not subject to control. When regulation is so tight as to effectively dictate how the entity performs its business, then it could be a form of control. If an entity retains unilateral discretion as to whether it will take funding from, interact commercially with, or otherwise deal with a public sector entity, the entity has the ultimate ability to determine its own corporate policy and is not controlled by the public sector entity.

Economic Dependence

- BC28. IFRS 10 paragraph AG40 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.” Although the IPSASB agreed that economic dependence, on its own, does not give rise to control, the IPSASB noted that, in the public sector, economic dependence may occur in conjunction with other rights. These other rights need to be assessed to determine if they give rise to control.
- BC29. 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

- BC30. 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 AG26). 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 19).

Terminology

- BC31. 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

- BC32. 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 most parts of this Standard 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.
- BC33. 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 [draft] Standard. The IPSASB noted that IPSASs generally refer to the entity applying the [draft] Standard as “the entity”. In the case of this [draft] Standard, the entity applying the [draft] 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 [draft] 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.

- BC34. The IPSASB noted that in most cases this approach would result in clear identification of the relevant entities. 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 [draft] Standard. The IPSASB agreed to retain use of the term “investors” where the [draft] Standard is referring to a specific investment and the term is used in accordance with its usual meaning. This was particularly relevant in the parts of the Standard dealing with investment entities.
- BC35. The IPSASB agreed that the terms “investor” and “investee” are appropriate when referring to interests in joint ventures and associates.

Binding Arrangements

- BC36. The IPSASB agreed to replace references to “contractual arrangements” with 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. In addition, the IPSASB agreed that rights may arise from legislative or executive authority and to refer to this where appropriate throughout the [draft] Standard.

Benefits

- BC37. The IPSASB agreed 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. The IPSASB considered that the term “returns” could be regarded as giving an inappropriate emphasis to financial returns, whereas, in the public sector, benefits are more likely to be non-financial than financial.
- BC38. 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;
 - (b) Note that benefits can have positive or negative aspects; and
 - (c) Include examples of benefits in a public sector context.
- BC39. The definition of control in [draft] IPSAS XX, *Consolidated Financial Statements* refers to “variable benefits” and this concept is referred to throughout the Standard. The IPSASB considered how the Standard would apply to benefits that appeared to be fixed or constant. The IPSASB noted that the IASB had explicitly considered this issue and had given examples to show that apparently fixed benefits could in fact be variable because they exposed the entity to performance risk. The IPSASB

noted that the IASB examples related to financial benefits and agreed to incorporate an example of a non-financial benefit in paragraph AG594.

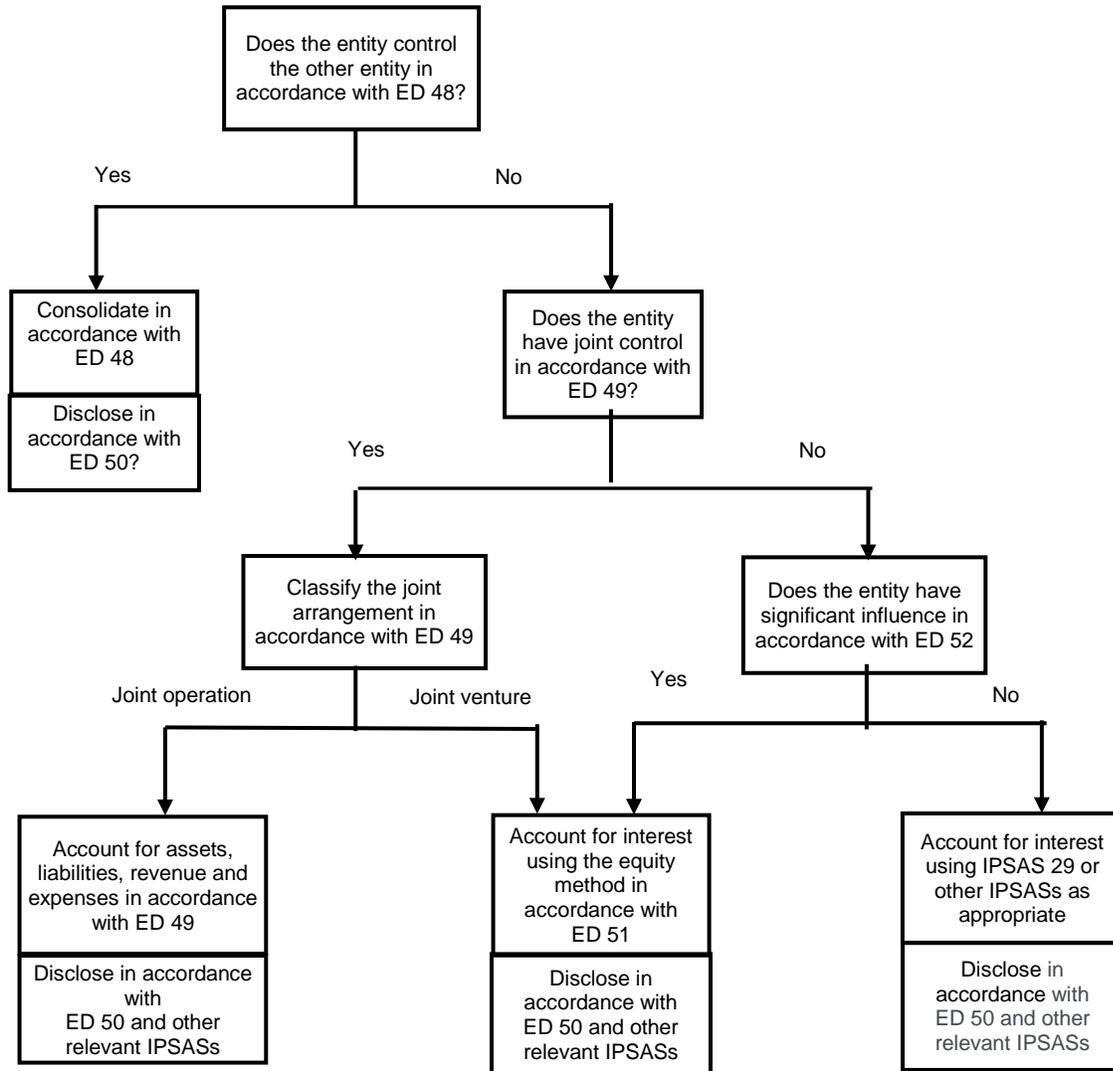
Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS XX, Consolidated Financial Statements.

Nature of Relationship with Another Entity

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

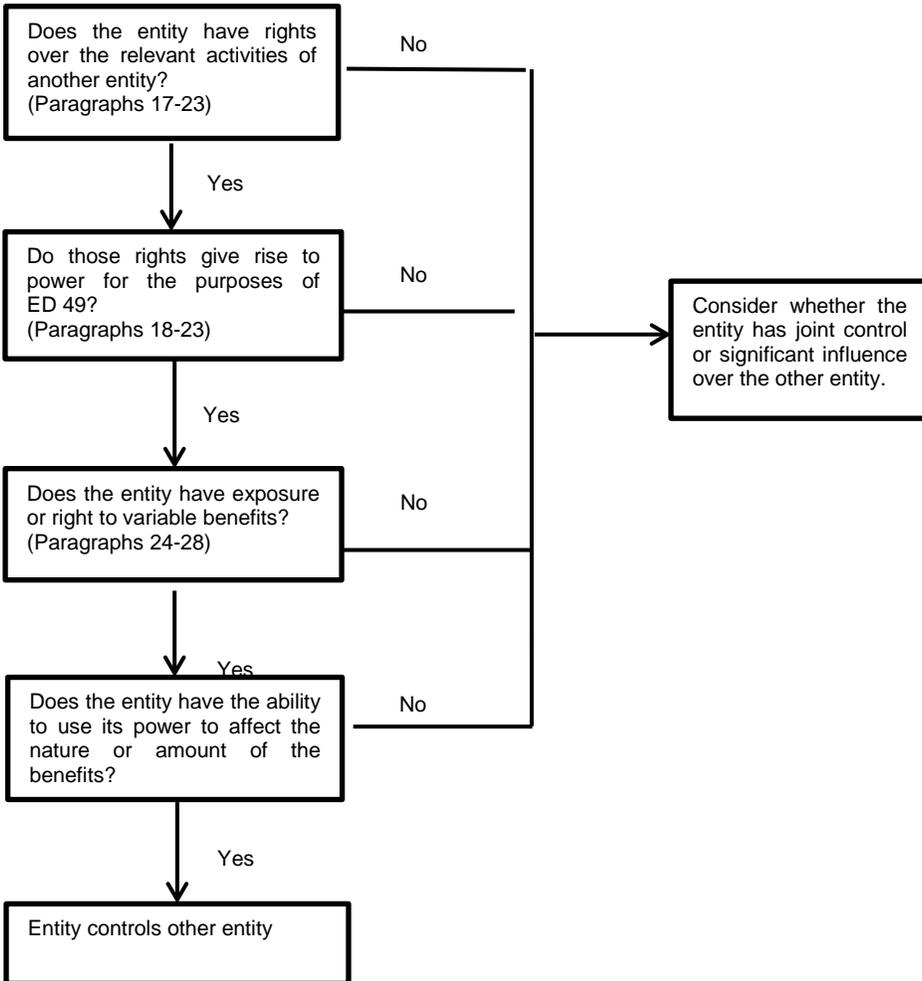
Flowchart 1: Forms of Involvement with Other Parties



Assessing Control of Another Entity for Financial Reporting Purposes

IG2. The diagram below summarizes the key issues an entity will need to consider in deciding whether it has control of another entity.

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



Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS XX, Consolidated Financial Statements.

IE1. 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 [draft] IPSAS XX, *Consolidated Financial Statements*.

Power (paragraphs AG9–AG574)

IE2. The following example illustrates an assessment of whether power exists.

Example 1

A state government partially funds the activities of a local government. Some of this funding is required to be spent on specified activities. The local government has a council that is elected every four years by the local community. The council decides how to use the local government's resources for the benefit of the local community. 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 the relevant activities of the local government. Many of these activities also coincide with the interests of the state government.

Despite its partial funding of the local government's activities, the state government does not have the power to direct the relevant activities of the local government. The rights of the local government over the relevant activities preclude the state government from having control.

[New, Based on AASB IG6]

Regulatory Control (paragraph AG10.2)

IE3. The following examples illustrate various forms of regulatory control. None of these forms of regulatory control give rise to power over the relevant activities for the purposes of this [draft] Standard.

Example 2

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.

[New]

Example 3

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.

[New]

Example 4

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.

[New]

Example 5

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 govern the conduct of gaming activities in the state. The rules and regulations stem from 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 or not. The purpose of the gaming legislation and regulations is to protect the public.

[New]

Relevant Activities and Direction of Relevant Activities (paragraphs AG134–AG153)

- IE4. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity.

Example 6

~~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 ~~they are~~~~it is~~ able to direct the activities that most significantly affect the ~~investee's returns~~~~benefits from 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~~~~benefits from entity C~~ and whether ~~they are~~~~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 C's performance~~ with respect to the factors in (b); and
- (d) Their ~~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.

[Based on IFRS 10, Example 1]

Example 7

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 ~~benefit~~~~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 ~~benefits from~~~~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's~~~~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 ~~benefits from 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~~.
[Based on IFRS 10, Example 2]

Rights that Give an Investor Entity Power over another Entity Investee (paragraphs AG164–AG285)

IE5. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity.

Example 8

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 8A and 8B described below. Each example is considered in isolation.

Example 8A

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.

Based on the facts and circumstances outlined above, the government housing agency controls the association.

Example 8B

In this example, the facts of Example 8A 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.

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 entity [\(refer paragraph 3017.4\)](#).

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.

[New, Based on AASB IG1]

Example 9

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.

[New, Based on AASB IG11]

Example 10

A local government 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 government 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 government 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 government 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 government'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 government'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 government 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 government may receive indirect, non-financial benefits from the association in that the local government'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 [3047.4](#)). In order to have power over the housing association the local government would need to have the ability to direct the housing association to work with the local government to further the local governments' objectives.

[New, [Refers to paragraph 3047.4 which is based on AASB IG18](#)]

Example 11

[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 11A–11D described below. Each example is considered in isolation.

[Based on IFRS 10, Example 3]

Example 11A

An [entity](#)~~investor~~ holds a majority of the voting rights in the [other entity](#)~~investee~~. The [entity](#)~~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 11B

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 11A 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](#)~~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 11C

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 11B.

Example 11D

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.

Power without a Majority of the Voting Rights (paragraphs AG368–AG378-4)

IE6. The following examples illustrate assessments of whether special voting rights attaching to ownership interests in another entity give rise to power.

Example 12

A central government has privatized a number of entities. In the case of certain strategic entities 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.

[New]

Example 13

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.

[New]

Example 14

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:

- (g) 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.

[New]

Control of the Board or Other Governing Body (paragraphs AG38.2)

- IE7. The following examples illustrate assessments of whether an entity has control of the board or governing body of another entity. The existence of such control may provide evidence that an entity has sufficient rights to have power over another entity.

Example 15

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 department has the power to appoint the majority of the museum's trustees. The department has the potential to exercise power over the museum.

Economic Dependence (paragraphs AG40.1–AG40.3)

- IE8. The following examples illustrate assessments of whether dependence on funding from another entity gives rise to power in the context of this [draft] IPSAS.

Example 16

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 because the research institution can choose to decline funding from the government, seek alternative sources of funding or cease to operate.

[New]

Example 17

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

Current arrangements are for a period of five years. At the end of this period, if the catering entity wishes to continue supplying school meals it is required to go through a tendering process and compete with other entities for the business.

The school does not control the catering entity because the catering entity can choose to stop supplying school meals, seek other work, or cease to operate.

[New]

Example 18

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 because the agency can choose not to accept funding from the donor and seek alternative sources of funding, or cease to operate.

[New]

Voting Rights (paragraphs AG441–AG496)

- IE9. The following examples illustrate assessments of whether an entity with less than a majority of the voting rights in another entity has the practical ability to direct the relevant activities unilaterally, and whether its rights are sufficient to give it power over that other entity.

Example 19

An entity investor acquires 48 per cent of the voting rights of an other entity investee. 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 entity investor 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 entity investor concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

[Based on IFRS 10, Example 4]

Example 20

Entity investor A holds 40 per cent of the voting rights of an other entity investee and twelve other investors each hold 5 per cent of the voting rights of the other entity investee. A shareholder agreement grants Entity investor 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, Entity investor 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 it the investor has rights sufficient to give it power. However, Entity investor 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 entity investee. The fact that Entity investor A might not have exercised this right or the likelihood of Entity investor A exercising its right to select, appoint or remove management shall not be considered when assessing whether Entity investor A has power.

[Based on IFRS 10, Example 5]

Example 21

~~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~~.
[Based on IFRS 10, Example 6]

Example 22

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.
[Based on IFRS 10, Example 7]

Example 23

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~~.
[Based on IFRS 10, Example 8]

Potential Voting Rights (paragraphs AG4750–AG539)

IE10. The following examples illustrate assessments of whether potential voting rights are substantive.

Example 24

~~Entity~~~~investor~~ A holds 70 per cent of the voting rights of another ~~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. [Based on IFRS 10, Example 9]

Example 25

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

[Based on IFRS 10, Example 10]

Power when Voting or Similar Rights do not have a Significant Effect on Benefits
(paragraphs AG544–AG574)

- IE11. The following examples illustrate assessments of whether an entity has power in the absence of voting rights or similar rights.

Example 26

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.

[New]

Example 27

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 government 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 government.

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.

[New]

Example 28

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

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 government. The other 5 directors must be independent. That is, they must not be elected representatives, officers or employees of the local government 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 government is not responsible for the debts of the leisure trust (its liability is limited to one currency unit).

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

[New]

Example 29

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

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

[New]

Example 30

A local government has transferred its sports and leisure facilities into a charitable trust. The local government 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 government 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 government does not control the trust.

[New]

Example 31

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 government 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.

[New]

Example 32

~~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~~ ~~the investee~~ automatically puts the receivable to ~~Entity B~~ ~~an investor~~ as agreed separately in a put agreement between ~~Entity A~~ ~~and Entity B~~ ~~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~~ ~~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~~ ~~the investee~~ that significantly affect ~~Entity A's~~ ~~the investee's~~ ~~financial performance~~ ~~returns~~. In this example, the design of ~~Entity A~~ ~~the investee~~ ensures that ~~Entity B~~ ~~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~~ ~~the investee~~. Therefore, the terms of the put agreement together with the founding documents of ~~Entity A~~ ~~the investee~~ lead to the conclusion that ~~Entity B~~ ~~the investor~~ has power over ~~Entity A~~ ~~the investee~~ even though ~~Entity B~~ ~~the investor~~ takes ownership of the receivables only upon default and manages the defaulted receivables outside the legal boundaries of ~~Entity A~~ ~~the investee~~.

[Based on IFRS 10, Example 11]

Example 33

The only assets of ~~Entity A~~ ~~an investee~~ are receivables. When the purpose and design of ~~Entity A~~ ~~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 investee, irrespective of whether any of the borrowers have defaulted.

[Based on IFRS 10, Example 12]

Exposure, or Rights, to Variable Benefits from another Entity
(paragraphs AG558–AG596)

IE12. The following examples illustrate assessments of whether an entity receives variable benefits from another entity.

Example 34

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 above background information is relevant to examples 34A and 34B described below. Each example is considered in isolation.

[New]

Example 34A

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.

University A receives non-financial benefits from having childcare services available on campus. Although University A 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 34B

University B has made a building available free of charge for the provision of childcare services on the grounds of the University. 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 of the incorporated society and are in charge of the childcare centre's operating and financial policies. The childcare 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.

Link between Power and Benefits

Delegated Power (paragraphs AG5861–AG654)

IE13. The following examples illustrate assessments of whether an entity is acting as a principal or an agent.

Example 35

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.

[New]

Example 36

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;
- (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.

[New]

Example 37

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. [New, Based on AASB IG4]

Example 38

The facts are the same as in Example 37 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.

[New, Based on AASB IG4]

Example 39

The head of the government department related to finance and taxation (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.

[New]

Example 40

A local government 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 government 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 government 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 government thinks proper and having regard to the interests of the inhabitants of the former district. The local government 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 government.

[New]

Example 41

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.

[New]

Example 42

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 **benefitsreturns** 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 **benefitsreturns** 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.

[IFRS 10, Example 13]

Example 43

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 benefits 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.

[IFRS 10, Example 14]

The above fact pattern and analysis applies to examples 44–46 described below. Each example is considered in isolation.

Example 44

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 benefits 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 benefits 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.

[IFRS 10, Example 14A]

Example 45

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 benefits 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.

[IFRS 10, Example 14B]

Example 46

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 ~~benefits~~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 ~~benefits~~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.

[IFRS 10, Example 14C]

Example 47

~~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 ~~benefits~~from~~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's~~the ~~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 ~~surplus~~profits) if ~~Entity A's~~the ~~investee's~~ ~~surpluses~~profits exceed a specified level. The fees are commensurate with the services provided. The asset manager holds 35 per cent of the equity ~~instruments of~~ ~~Entity A~~the ~~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's~~the investee's~~ prospectus, the asset manager has the current ability to make investment decisions that significantly affect Entity A's~~the 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 A~~the 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 A~~the investee~~.

[IFRS 10, Example 15]

Example 48

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 benefit from ~~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 benefits~~returns~~ from the activities of the conduit because of its rights to any residual benefits~~returns of from~~ 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 benefits from 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 benefits from returns of the conduit and the provision of credit enhancement and liquidity facilities expose the sponsor to variability of benefits 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.
[IFRS 10, Example 16]

Investment Entities (paragraphs IE14)

IE14. The following examples illustrate assessments of whether an entity is an investment entity.

Example 449

An entity, Limited Partnership, is formed in 20X1 as a limited partnership with a 10-year life. The offering memorandum states that Limited Partnership's purpose is to invest in entities with rapid growth potential, with the objective of realising capital appreciation over their life. Entity GP (the general partner of Limited Partnership) provides 1 per cent of the capital to Limited Partnership and has the responsibility of identifying suitable investments for the partnership. Approximately 75 limited partners, who are unrelated to Entity GP, provide 99 per cent of the capital to the partnership.

Limited Partnership begins its investment activities in 20X1. However, no suitable investments are identified by the end of 20X1. In 20X2 Limited Partnership acquires a controlling interest in one entity, ABC Corporation. Limited Partnership is unable to close another investment transaction until 20X3, at which time it acquires equity interests in five additional operating companies. Other than acquiring these equity interests, Limited Partnership conducts no other activities. Limited Partnership measures and evaluates its investments on a fair value basis and this information is provided to Entity GP and the external investors.

Limited Partnership has plans to dispose of its interests in each of its investees during the 10-year stated life of the partnership. Such disposals include the outright sale for cash, the distribution of marketable equity securities to investors following the successful public offering of the investees' securities and the disposal of investments to the public or other unrelated entities.

Conclusion

From the information provided, Limited Partnership meets the definition of an investment entity from formation in 20X1 to 31 December 20X3 because the following conditions exist:

- (a) Limited Partnership has obtained funds from the limited partners and is providing those limited partners with investment management services;
- (b) Limited Partnership's only activity is acquiring equity interests in operating companies with the purpose of realising capital appreciation over the life of the investments. Limited Partnership has identified and documented exit strategies for its investments, all of which are equity investments; and

- (c) Limited Partnership measures and evaluates its investments on a fair value basis and reports this financial information to its investors.

In addition, Limited Partnership displays the following typical characteristics of an investment entity:

- (a) Limited Partnership is funded by many investors;
- (b) Its limited partners are unrelated to Limited Partnership; and
- (c) Ownership in Limited Partnership is represented by units of partnership interests acquired through a capital contribution.

Limited Partnership does not hold more than one investment throughout the period. However, this is because it was still in its start-up period and had not identified suitable investment opportunities.

[IFRS 10, Example 1, IE1-IE6]

Example 502

High Technology Fund was formed by Technology Corporation to invest in technology start-up companies for capital appreciation. Technology Corporation holds a 70 per cent interest in High Technology Fund and controls High Technology Fund; the other 30 per cent ownership interest in High Technology Fund is owned by 10 unrelated investors. Technology Corporation holds options to acquire investments held by High Technology Fund, at their fair value, which would be exercised if the technology developed by the investees would benefit the operations of Technology Corporation. No plans for exiting the investments have been identified by High Technology Fund. High Technology Fund is managed by an investment adviser that acts as agent for the investors in High Technology Fund.

Conclusion

Even though High Technology Fund's business purpose is investing for capital appreciation and it provides investment management services to its investors, High Technology Fund is not an investment entity because of the following arrangements and circumstances:

- (a) Technology Corporation, the ~~controlling entity~~parent of High Technology Fund, holds options to acquire investments in ~~investments~~investees held by High Technology Fund if the assets developed by ~~those entities~~the investees would benefit the operations of Technology Corporation. This provides a benefit in addition to capital appreciation or investment ~~revenue~~income; and
- (b) The investment plans of High Technology Fund do not include exit strategies for its investments, which are equity investments. The options held by Technology Corporation are not controlled by High Technology Fund and do not constitute an exit strategy.

[IFRS 10, Example 2, IE7-IE8]

Example 513

Real Estate Entity was formed to develop, own and operate retail, office and other commercial properties. Real Estate Entity typically holds its property in separate wholly-owned ~~controlled entities~~subsidiaries, which have no other substantial assets or liabilities other than borrowings used to finance the related investment property. Real Estate Entity and each of its ~~controlled~~

entitiessubsidiaries report their investment properties at fair value in accordance with IPSAS 16, IAS 40 Investment Property. Real Estate Entity does not have a set time frame for disposing of its property investments, but uses fair value to help identify the optimal time for disposal. Although fair value is one performance indicator, Real Estate Entity and its investors use other measures, including information about expected cash flows, rental revenues and expenses, to assess performance and to make investment decisions. The key management personnel of Real Estate Entity do not consider fair value information to be the primary measurement attribute to evaluate the performance of its investments but rather a part of a group of equally relevant key performance indicators.

Real Estate Entity undertakes extensive property and asset management activities, including property maintenance, capital expenditure, redevelopment, marketing and tenant selection, some of which it outsources to third parties. This includes the selection of properties for refurbishment, development and the negotiation with suppliers for the design and construction work to be done to develop such properties. This development activity forms a separate substantial part of Real Estate Entity's business activities.

Conclusion

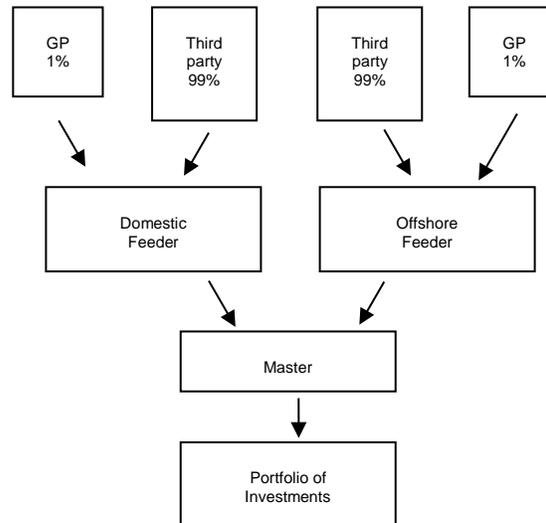
Real Estate Entity does not meet the definition of an investment entity because:

- (a) Real Estate Entity has a separate substantial business activity that involves the active management of its property portfolio, including lease negotiations, refurbishments and development activities, and marketing of properties to provide benefits other than capital appreciation, investment revenueincome, or both;
- (b) The investment plans of Real Estate Entity do not include specified exit strategies for its investments. As a result, Real Estate Entity plans to hold those property investments indefinitely; and
- (c) Although Real Estate Entity reports its investment properties at fair value in accordance with IPSAS 16IAS 40, fair value is not the primary measurement attribute used by management to evaluate the performance of its investments. Other performance indicators are used to evaluate performance and make investment decisions.

[IFRS 10, Example 3, IE9-IE11]

Example 524

An entity, Master Fund, is formed in 20X1 with a 10-year life. The equity of Master Fund is held by two related feeder funds. The feeder funds are established in connection with each other to meet legal, regulatory, tax or similar requirements. The feeder funds are capitalised with a 1 per cent investment from the general partner and 99 per cent from equity investors that are unrelated to the general partner (with no party holding a controlling financial interest).



The purpose of Master Fund is to hold a portfolio of investments in order to generate capital appreciation and investment revenueincome (such as dividends, interest or rental revenueincome). The investment objective communicated to investors is that the sole purpose of the Master-Feeder structure is to provide investment opportunities for investors in separate market niches to invest in a large pool of assets. Master Fund has identified and documented exit strategies for the equity and non-financial investments that it holds. Master Fund holds a portfolio of short- and medium-term debt investments, some of which will be held until maturity and some of which will be traded but Master Fund has not specifically identified which investments will be held and which will be traded. Master Fund measures and evaluates substantially all of its investments, including its debt investments, on a fair value basis. In addition, investors receive periodic financial information, on a fair value basis, from the feeder funds. Ownership in both Master Fund and the feeder funds is represented through units of equity.

Conclusion

Master Fund and the feeder funds each meet the definition of an investment entity. The following conditions exist:

- (a) Both Master Fund and the feeder funds have obtained funds for the purpose of providing investors with investment management services;
- (b) The Master-Feeder structure's business purpose, which was communicated directly to investors of the feeder funds, is investing solely for capital appreciation and investment revenueincome and Master Fund has identified and documented potential exit strategies

for its equity and non-financial investments.

- (c) Although the feeder funds do not have an exit strategy for their interests in Master Fund, the feeder funds can nevertheless be considered to have an exit strategy for their investments because Master Fund was formed in connection with the feeder funds and holds investments on behalf of the feeder funds; and
- (d) The investments held by Master Fund are measured and evaluated on a fair value basis and information about the investments made by Master Fund is provided to investors on a fair value basis through the feeder funds.

Master Fund and the feeder funds were formed in connection with each other for legal, regulatory, tax or similar requirements. When considered together, they display the following typical characteristics of an investment entity:

- (a) The feeder funds indirectly hold more than one investment because Master Fund holds a portfolio of investments;
- (b) Although Master Fund is wholly capitalised by the feeder funds, the feeder funds are funded by many investors who are unrelated to the feeder funds (and to the general partner); and
- (c) Ownership in the feeder funds is represented by units of equity interests acquired through a capital contribution.

[IFRS 10, Example 4, IE12-IE15]

Comparison with IFRS 10

IPSAS XX (ED 48), *Consolidated Financial Statements* is drawn primarily from IFRS 10, *Consolidated Financial Statements* (originally issued in 2011, including amendments published in July and October 2012). At the time of issuing this [draft] 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 XX (ED 48) and IFRS 10 are as follows:

- Commentary additional to that in IFRS 10 has been included in IPSAS XX (ED 48) to clarify the applicability of the [draft] Standard to accounting by public sector entities.
- IPSAS XX (ED 48) 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 XX (ED 48). The equivalent terms in IFRS 10 are “income statement,” “equity,” “group,” “parent,” and “subsidiary.”
- IPSAS XX (ED 48) contains more guidance on non-financial benefits.
- IPSAS XX (ED 48) does not require that a controlling entity, that is not itself an investment entity, consolidate all controlled entities. Instead it requires that such a controlling entity shall measure an investment in a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29
- IPSAS XX (ED 48) contains additional illustrative examples that reflect the public sector context.

Exposure Draft 49

[September 2013]

Comments due: [January 31, 2014]

*Proposed International Public Sector Accounting
Standard*

Joint Arrangements

This Exposure Draft 49, *Joint Arrangements* was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © [September 2013] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx bookmark "page xx" to copyright page].

REQUEST FOR COMMENTS

This Exposure Draft 49, *Joint Arrangements*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [January 31, 2014].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1:

Do you agree that joint arrangements should be classified 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?

Specific Matter for Comment 2:

Do you agree that joint ventures should be accounted for in consolidated financial statements using the equity method?

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*

IPSAS XX (ED 49)—JOINT ARRANGEMENTS

CONTENTS

	Paragraph
Objective	1–2
Scope	3–5
Definitions	6–7
Joint Arrangements	8–23
Joint Control	11–17
Types of Joint Arrangement	18–23
Financial Statements of Parties to a Joint Arrangement.....	24–29
Joint Operations	24–27
Joint Ventures	28–29
Separate Financial Statements.....	30–31
Transitional Provisions	32–44
Joint Ventures—Transition from Proportionate Consolidation to the Equity Method	33–37
Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities.....	38–41
Transitional Provisions in an Entity’s Separate Financial Statements	42
References to the “Immediately Preceding Period”	43–44
Effective Date	45
Withdrawal of IPSAS 8 (2006)	46
Appendix A: Application Guidance	AG1–AG37
Appendix B: Amendments to Other IPSASs	
Basis for Conclusions	
Illustrative Examples	
Comparison with IFRS 11	

Objective

1. The objective of this [draft] Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e., *joint arrangements*). [Based on IFRS 11, paragraph 1]

~~Meeting the Objective-~~

2. To meet the objective in paragraph 1, this [draft] Standard 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. [Based on IFRS 11, paragraph 2]

Scope

3. **This [draft] Standard shall be applied by all entities that are a party to a joint arrangement.** [Based on IFRS 11, paragraph 3]
4. **This [draft] Standard applies to all public sector entities other than Government Business Enterprises (GBEs).** [Generic GBE paragraph]
5. **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.** [Generic GBE paragraph]

Definitions

6. **The following terms are used in this [draft] 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.

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

[Definitions based on IFRS 10, Appendix A, apart from “benefits” and “binding arrangements”]

7. For the purposes of this [draft] Standard a binding arrangement, as referred to in the definition of joint control, describes an arrangement that confers enforceable 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. [New, based on definition of binding arrangement in ED 48]

Joint Arrangements (see paragraphs AG2–AG33)

8. **A joint arrangement is an arrangement of which two or more parties have joint control.** [Based on IFRS 11, paragraph 4]
9. **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 ~~711~~–~~173~~).** [Based on IFRS 11, paragraph 5]
10. **A joint arrangement is either a joint operation or a joint venture.** [Based on IFRS 11, paragraph 6]

Joint Control

11. **Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The sharing of control may have been agreed by way of a binding arrangement or result from legislative or executive authority.** [Based on IFRS 11, paragraph 6]
12. An entity that is a party to an arrangement shall assess whether the binding contractual arrangement or legislative or executive authority 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 benefits from~~returns of~~ the arrangement (i.e., the relevant activities). [Based on IFRS 11, paragraph 7]
13. 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. [Based on IFRS 11, paragraph 8]
14. 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. [Based on IFRS 11, paragraph 9]
15. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This [draft] Standard 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. [Based on IFRS 11, paragraph 10]
16. 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). [Based on IFRS 11, paragraph 11]

17. If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement. [Based on IFRS 11, paragraph 12]

Types of Joint Arrangement

18. **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.** [Based on IFRS 11, paragraph 13]
19. **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.** [Based on IFRS 11, paragraph 14]
20. **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.** [Based on IFRS 11, paragraph 15]
21. 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 ~~binding contractual~~ arrangement or established by legislative or executive authority and, when relevant, other facts and circumstances (see paragraphs AG12–AG33). [Based on IFRS 11, paragraph 16]
22. 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. [Based on IFRS 11, paragraph 17]
23. If facts and circumstances change, an entity shall reassess whether the type of joint arrangement in which it is involved has changed. [Based on IFRS 11, paragraph 18]

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

Joint Operations

24. **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.** [Based on IFRS 11, paragraph 19]

25. 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 applicable to the particular assets, liabilities, revenues and expenses. [Based on IFRS 11, paragraph 20]
26. 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. [Based on IFRS 11, paragraph 21]
27. 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 ~~250–262~~ 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 applicable to that interest. [Based on IFRS 11, paragraph 22]

Joint Ventures

28. **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 [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])* unless the entity is exempted from applying the equity method as specified in that [draft] standard.** [Based on IFRS 11, paragraph 23]
29. 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: Disclosures*~~IFRS 9—Financial Instruments~~, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*. [Based on IFRS 11, paragraph 24]

Separate Financial Statements

30. **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 ~~250–262~~;**
 - (b) **A joint venture in accordance with paragraph 130 of [draft] IPSAS 6, *Separate Financial Statements (Amended in [Date])*.** [Based on IFRS 11, paragraph 25]
31. **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 ~~283~~;**
 - (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 130 of [draft] IPSAS 6, *Separate Financial Statements (Amended in [Date])*. [Based on IFRS 11, paragraph 26]

Transitional Provisions

32. Notwithstanding the requirements of paragraph ~~3328~~ of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, when this [draft] Standard is first applied, an entity need only present

the quantitative information required by paragraph 3328(f) of IPSAS 3, for the annual period immediately preceding the first annual period for which this [draft] Standard 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. [Based on IFRS 11, paragraph C1B]

Joint Ventures—Transition from Proportionate Consolidation to the Equity Method

33. 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 and the allocation of goodwill to joint ventures can be found in the relevant international or national standards on entity combinations and 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.~~ [Based on IFRS 11, paragraph C2]
34. The opening balance of the investment determined in accordance with paragraph ~~3327.2C2~~ is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs ~~430–463~~ of [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) 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.~~ [Based on IFRS 11, paragraph C3]
35. 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 is first applied. [Based on IFRS 11, paragraph C4]
36. 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 ~~33–3727.2–27.6 C2–C6~~. [Based on IFRS 11, paragraph C5]
37. After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]). [Based on paragraph C6]

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

38. 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 4138 of [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) 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. [Based on IFRS 11, paragraph C7]

39. 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 ~~binding contractual~~ 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. [Based on IFRS 11, paragraph C8]
40. 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 4138 of [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]), 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. [Based on IFRS 11, paragraph C9]
41. 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. [Based on IFRS 11, paragraph C10]
- ~~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. [IFRS 11, paragraph C11 not used]~~

Transitional Provisions in an Entity's Separate Financial Statements

42. An entity that, in accordance with paragraph 139 of [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]), 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 ~~33-37 27.7-27.9 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. [Based on IFRS 11, paragraph C12]

References to the “Immediately Preceding Period”

43. Notwithstanding the references to the “immediately preceding period” in paragraphs ~~33-4227.2-27.11C2-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 ~~33-4227.11-27.11C2-C12~~ shall be read as the “earliest adjusted comparative period presented”. [Based on IFRS 11, paragraph C12A]
44. 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 11, paragraph C12B]
- ~~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. [IFRS 11, paragraphs C13 and C14 not used]~~

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

45. An entity shall apply this [draft] Standard for annual **financial statements covering** periods beginning on or after [Date]~~1 January 2013~~. Earlier application is **encouraged/permited**. If an entity applies this [draft] Standard **for a period beginning before [Date]-earlier**, it shall disclose that fact and apply [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Disclosure of Interests in Other Entities*, [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]) and [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) at the same time. [Based on IFRS 11, paragraph C1]
- ~~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. [IFRS 11, paragraph C1A not used]~~

Withdrawal of **IPSAS 8** other IFRSs

46. This [draft] Standard supersedes IPSAS 8, *Interests in Joint Ventures* (December 2006).
- ~~(a) IAS 31 *Interests in Joint Ventures*; and~~
- ~~(b) SIC 13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*.~~ [Based on IFRS 11, paragraph C15]

Application Guidance

This Appendix is an integral part of [draft] IPSAS XX, Joint Arrangements.

AG1. 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 [draft] IPSAS XX, *Joint Arrangements*. [Based on IFRS 11, paragraph B1]

Joint Arrangements

Binding Contractual Arrangement and Legislative or Executive Authority (paragraph 59)

AG2. ~~Binding Contractual~~ arrangements can be evidenced in several ways. A 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 such as legislative or executive authority can also create enforceable arrangements, similar to binding arrangements, either on their own or in conjunction with contracts between the parties. The discussion of binding arrangements in this [draft] Standard is also relevant to enforceable arrangements created by legislative or executive authority. [Based on IFRS 11, paragraph B2]

AG3. When joint arrangements are structured through a separate vehicle (see paragraphs AG19–AG33), the ~~binding contractual~~ arrangement, or some aspects of the ~~binding contractual~~ arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle. [Based on IFRS 11, paragraph B3]

AG4. 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. [Based on IFRS 11, paragraph B4]

Joint Control (paragraphs 711–173)

AG5. 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. [Draft] IPSAS XX, *Consolidated Financial Statements* 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-benefits from their involvement with the arrangement and have the ability to affect those returns-benefits 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-benefits~~ of the arrangement (i.e., the relevant activities), the parties control the arrangement collectively. [Based on IFRS 11, paragraph B5]

AG6. 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. [Based on IFRS 11, paragraph B6]

AG7. 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. [Based on IFRS 11, paragraph B7]

AG8. 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. [Based on IFRS 11, paragraph B8]

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).

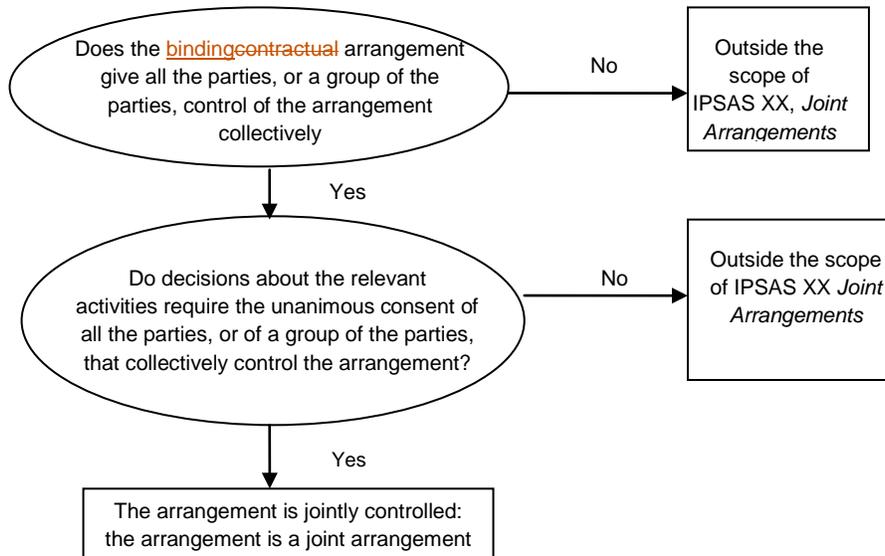
In such a situation, to be a joint arrangement the ~~binding contractual~~ arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.

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. 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. [Based on IFRS 11, paragraph B9]
- AG10. 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. [Based on IFRS 11, paragraph B10]

Assessing Joint Control



AG11. When an arrangement is outside the scope of [draft] IPSAS XX, *Joint Arrangements* an entity accounts for its interest in the arrangement in accordance with relevant IPSASs, such as [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) or IPSAS 29~~IFRS 9~~. [Based on IFRS 11, paragraph B11]

Types of Joint Arrangement (paragraphs 184–2349)

AG12. 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. [Based on IFRS 11, paragraph B12]

AG13. 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. [Based on IFRS 11, paragraph B13]

AG14. The classification of joint arrangements required by this [draft] Standard depends upon the parties' rights and obligations arising from the arrangement in the normal course of business operations. This [draft] 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. [Based on IFRS 11, paragraph B14]

Classification of a Joint Arrangement

AG15. 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). [Based on IFRS 11, paragraph B15]

Structure of the Joint Arrangement

Joint Arrangements not Structured Through a Separate Vehicle

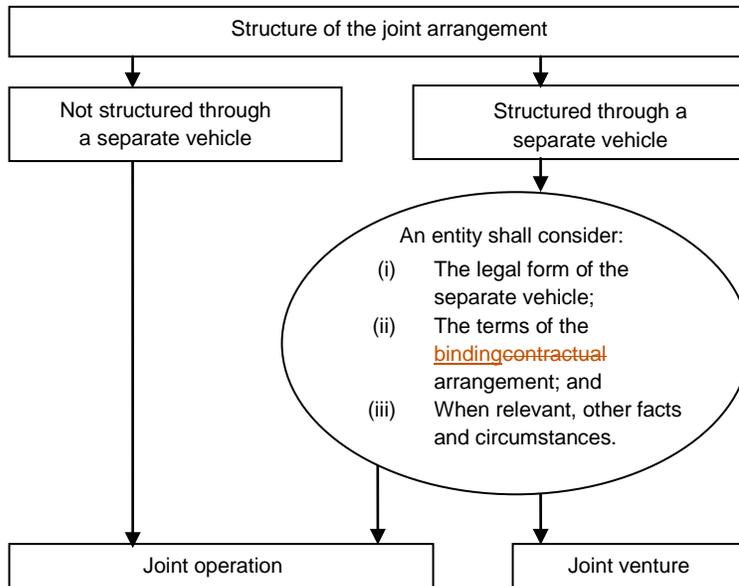
AG16. A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the binding contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses. [Based on IFRS 11, paragraph B16]

- AG17. 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. [Based on IFRS 11, paragraph B17]
- AG18. 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. [Based on IFRS 11, paragraph B18]

Joint Arrangements Structured through a Separate Vehicle

- AG19. 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. [Based on IFRS 11, paragraph B19]
- AG20. 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. [Based on IFRS 11, paragraph B20]
- AG21. 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). [Based on IFRS 11, paragraph B21]

Classification of a Joint Arrangement: Assessment of the Parties' Rights and Obligations Arising from the Arrangement



The Legal Form of the Separate Vehicle

- AG22. 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. [Based on IFRS 11, paragraph B22]
- AG23. 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. [Based on IFRS 11, paragraph B23]
- AG24. 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). [Based on IFRS 11, paragraph B24]

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

- AG25. 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. [Based on IFRS 11, paragraph B25]
- AG26. 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. [Based on IFRS 11, paragraph B26]

Application example
<p>Example 4</p> <p>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.</p> <p>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.</p>

- AG27. 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. [Based on IFRS 11, paragraph B27]

Assessing the Terms of the Binding contractual Arrangement		
	Joint Operation	Joint Venture
The terms of the binding contractual arrangement	The binding contractual arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The binding contractual 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).
Rights to assets	The binding contractual 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 binding contractual 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.
Obligations for liabilities	The binding contractual 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 binding contractual arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.</p> <p>The binding contractual 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>

Assessing the Terms of the <u>Binding contractual</u> Arrangement		
	Joint Operation	Joint Venture
	<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>Revenues, expenses, <u>surplus or deficit</u>profit or loss</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>profit or loss 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>profit or loss relating to the activities of the arrangement.</p>

Assessing the Terms of the <u>Binding contractual</u> Arrangement		
	Joint Operation	Joint Venture
Guarantees	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. 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 AG29–AG33) for the purposes of classifying the joint arrangement. [Based on IFRS 11, paragraph B28]

Assessing Other Facts and Circumstances

AG29. 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. [Based on IFRS 11, paragraph B29]

AG30. 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. [Based on IFRS 11, paragraph B30]

AG31. 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. [Based on IFRS 11, paragraph B31]

AG32. 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. [Based on IFRS 11, paragraph B32]

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:

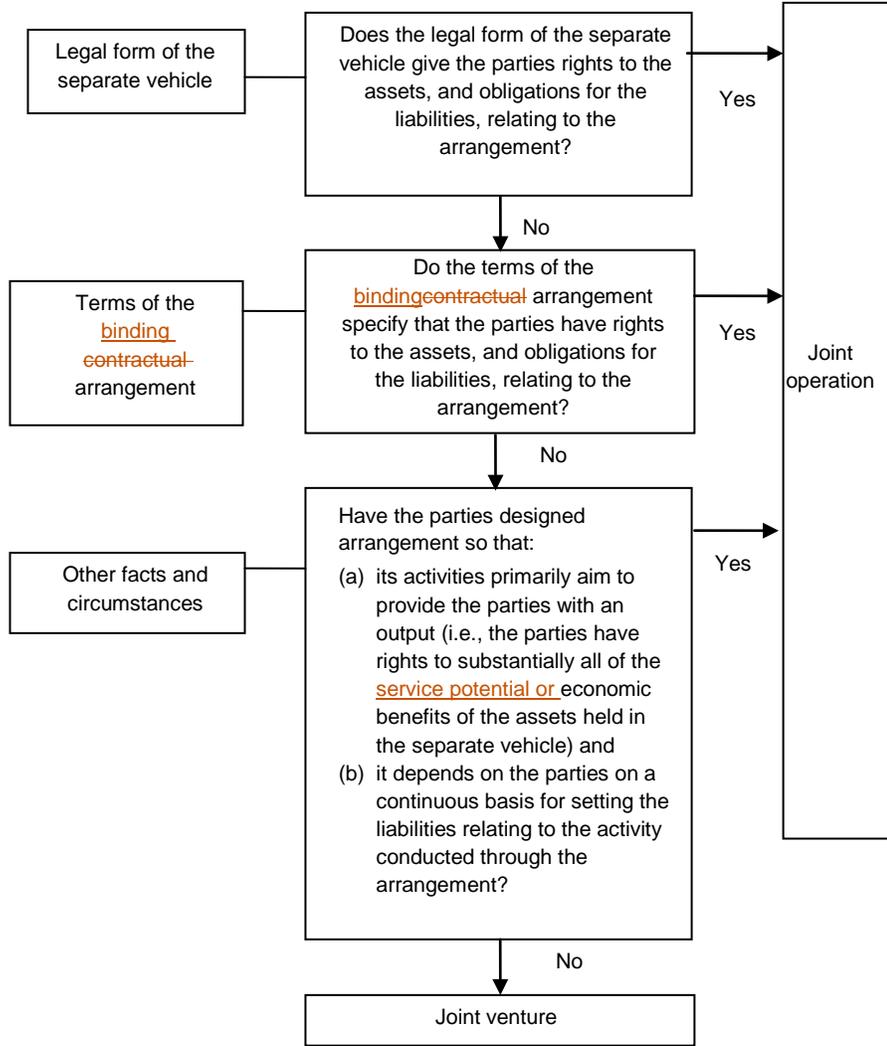
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the ~~service potential or~~ 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. The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle: [Based on IFRS 11, paragraph B33]

Classification of a Joint Arrangement Structured Through a Separate Vehicle



Financial Statements of Parties to a Joint Arrangement (paragraph 272)

Accounting for Sales or Contributions of Assets to a Joint Operation

- AG34. 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. [Based on IFRS 11, paragraph B34]
- AG35. 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. [Based on IFRS 11, paragraph B35]

Accounting for Purchases of Assets from a Joint Operation

- AG36. 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. [Based on IFRS 11, paragraph B36]
- AG37. 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. [Based on IFRS 11, paragraph B37]

Amendments to Other IPSASs

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~~
 - ~~(be) The amount and nature of restricted cash balances.~~

63C. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *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 [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Joint Arrangements*.

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 [draft] IPSAS XX, 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 [draft] IPSAS X6, Consolidated Financial Statements. 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 [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]), ~~and IPSAS 8~~.

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.

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 entity holding the interest, 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. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraphs 3(b), 10, 13, 21, 22, 38, 47, 50 to 51, 53, 55, and 57 to 58. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*);

....

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

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

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. [Draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraph 37. An entity shall apply that amendment when it applies [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*);

...

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in [draft] IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*.

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. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraphs 4 and 15. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]); and
- (c) Joint arrangements ventures, as defined in IPSAS 8, Interests in Joint Ventures [draft] IPSAS XX, Joint Arrangements;

....

82C. [Draft] IPSAS XX, Joint Arrangements issued in [Date], amended paragraph 13. An entity shall apply that amendment when it applies [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]); and
- (c) Joint arrangements ventures, as defined in IPSAS 8, Interests in Joint Ventures [draft] IPSAS XX, Joint Arrangements;

47A. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements issued in [Date], amended paragraph 12. An entity shall apply that amendment when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended in [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]), or IPSAS 8, Interests in Joint Ventures. However, in some cases, [draft] IPSAS 6, Separate Financial Statements (Amended in [Date]) or [draft] IPSAS 7, Investments in Associates and Joint Ventures

(Amended in [Date]) or IPSAS 8 permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; ...

60A. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraph 3. An entity shall apply that amendment when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

IPSAS 29 Financial Instruments: Recognition and Measurement

Paragraph 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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended in [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]), 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 [draft] IPSAS 6, Separate Financial Statements (Amended in [Date]) or IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]) or IPSAS 8 is accounted for under this Standard. ...

125B. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraphs 2(a), 17, AG2, AG14 and C2. An entity shall apply those amendments when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]) 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. [Draft] IPSAS 7 Investments in Associates and Joint Ventures (Amended in [Date]) 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 [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]) 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 [draft] IPSAS XX, 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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended in [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]), ~~or IPSAS 8, Interests in Joint Ventures~~. However, in some cases, [draft] IPSAS 6, Separate Financial Statements (Amended in [Date]), or [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]), 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. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraph 3(a). An entity shall apply that amendment when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

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 [draft] IPSAS XX, Consolidated Financial Statements, [draft] IPSAS 6, Consolidated and Separate Financial Statements (Amended in [Date]), and [draft] IPSAS 7, Investments in Associates and Joint Ventures (Amended in [Date]), and ~~IPSAS 8, Interests in Joint Ventures~~; and....

132A. [Draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements, issued in [Date], amended paragraph 6(d). An entity shall apply that amendment when it applies [draft] IPSAS XX, Consolidated Financial Statements and [draft] IPSAS XX, Joint Arrangements.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, ED 49.

Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS XX, *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 [draft] IPSAS XX, *Joint Arrangements* departs from the main requirements of IFRS 11.

Classification of Joint Arrangements

- BC2. [Draft] IPSAS XX, *Joint Arrangements* 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. The IPSASB agreed that the classification of joint arrangements in [draft] IPSAS XX, *Joint Arrangements* should be consistent with IFRS 11.

Elimination of Accounting Option

- BC3. [Draft] IPSAS XX, *Joint Arrangements* 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. The IPSASB agreed that the accounting treatments permitted by [draft] IPSAS XX, *Joint Arrangements* should be consistent with IFRS 11.

Acquisition of an Interest in a Joint Operation

- BC4. The IPSASB noted that at the time [draft] IPSAS XX, *Joint Arrangements* was being developed, the IASB was deliberating on proposals to amend IFRS 11. The objective of the proposed amendments, set out in IASB ED/2012/7 *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11), was to introduce guidance on the accounting, by a joint operator, for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, *Business Combinations*. IFRS 11 did not provide guidance on this issue.
- BC5. The IPSASB agreed not to incorporate the amendments in ED/2012/7 in [draft] IPSAS XX, *Joint Arrangements* on the grounds that it would be more appropriate to consider such proposals in the context of drafting standards level requirements for public sector combinations.

ILLUSTRATIVE EXAMPLES

CONTENTS

		Paragraph
1	Construction Services	IE2–IE8
2	<u>ServiceShopping</u> 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, [draft] IPSAS XX, Joint Arrangements. ~~They illustrate aspects of IFRS 11 but are not intended to provide interpretative guidance.~~

IE1. These examples portray hypothetical situations illustrating the judgments that might be used when applying [draft] IPSAS XX, *Joint Arrangements* 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 [draft] IPSAS XX, *Joint Arrangements*. [Based on IFRS 11, paragraph IE1]

Example 1 – Construction Services

IE2. A and B (the parties) are two ~~entities~~companies whose ~~activities~~businesses ~~include~~are 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. [Based on IFRS 11, paragraph IE2]

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. [Based on IFRS 11, paragraph IE3]

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. [Based on IFRS 11, paragraph IE4]

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. [Based on IFRS 11, paragraph IE5]

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. [Based on IFRS 11, paragraph IE6]

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. [Based on IFRS 11, paragraph IE7]

- 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. [Based on IFRS 11, paragraph IE8]

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~~. [Based on IFRS 11, paragraph IE9]

- 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. [Based on IFRS 11, paragraph IE10]

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. [Based on IFRS 11, paragraph IE11]
- 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. [Based on IFRS 11, paragraph IE12]

- IE13. The parties recognise their rights to the net assets of entity X as investments and account for them using the equity method. [Based on IFRS 11, paragraph IE13]

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. [Based on IFRS 11, paragraph IE14]
- 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. [Based on IFRS 11, paragraph IE15]
- 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. [Based on IFRS 11, paragraph IE16]

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. [Based on IFRS 11, paragraph IE17]
- 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. [Based on IFRS 11, paragraph IE18]
- 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. [Based on IFRS 11, paragraph IE19]
- IE20. 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 distribution arrangement or that the parties have an obligation for the liabilities relating to that arrangement. The distribution arrangement is a joint venture. [Based on IFRS 11, paragraph IE20]
- 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. [Based on IFRS 11, paragraph IE21]
- IE22. The parties recognise their rights to the net assets of the distribution arrangement as investments and account for them using the equity method. [Based on IFRS 11, paragraph IE22]

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. [Based on IFRS 11, paragraph IE23]
- 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. [Based on IFRS 11, paragraph IE24]
- 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. [Based on IFRS 11, paragraph IE25]

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. [Based on IFRS 11, paragraph IE26]
- IE27. The variation has no effect on the classification of the distribution arrangement as a joint venture. [Based on IFRS 11, paragraph IE27]
- 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. [Based on IFRS 11, paragraph IE28]

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. [Based on IFRS 11, paragraph IE29]
- 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. [Based on IFRS 11, paragraph IE30]
- 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. [Based on IFRS 11, paragraph IE31]

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. [Based on IFRS 11, paragraph IE32]
- 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. [Based on IFRS 11, paragraph IE33]

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). [Based on IFRS 11, paragraph IE34]
- 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). [Based on IFRS 11, paragraph IE35]
- 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. [Based on IFRS 11, paragraph IE36]

~~Shareholders'~~ Agreement

- 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. [Based on IFRS 11, paragraph IE37]

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. [Based on IFRS 11, paragraph IE38]
- 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. [Based on IFRS 11, paragraph IE39]

- 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. [Based on IFRS 11, paragraph IE40]
- 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. [Based on IFRS 11, paragraph IE41]

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. [Based on IFRS 11, paragraph IE42]
- 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. [Based on IFRS 11, paragraph IE43]

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. [Based on IFRS 11, paragraph IE44]
- 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). [Based on IFRS 11, paragraph IE45]

- 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. [Based on IFRS 11, paragraph IE46]
- IE47. The ~~binding contractual~~ arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity C. [Based on IFRS 11, paragraph IE47]
- 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.¹ [Based on IFRS 11, paragraph IE48]
- IE49. The lending syndicate provides entity C with a CU700 million loan. The arrangement specifies that the syndicate has recourse to ~~entitiescompanies~~ 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 ~~entitiescompanies~~ 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 ~~entitiescompanies~~ A and B, the syndicate maintains protection against default by entity C by taking a lien on the LNG facility. [Based on IFRS 11, paragraph IE49]

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., ~~entitiescompanies~~ 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. [Based on IFRS 11, paragraph IE50]
- IE51. 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 of entity C and that the parties have an obligation for the liabilities of entity C. The joint arrangement is a joint venture. [Based on IFRS 11, paragraph IE51]

¹ In this example monetary amounts are denominated in 'currency units (CU)'.

- IE52. The parties recognise their rights to the net assets of entity C as investments and account for them using the equity method. [Based on IFRS 11, paragraph IE52]

Comparison with IFRS 11

IPSAS XX (ED 49), *Joint Arrangements* is drawn primarily from IFRS 11, *Joint Arrangements* (originally issued in 2011, including amendments published in July and October 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 XX (ED 49) and IFRS 11 are as follows:

- Commentary additional to that in IFRS 11 has been included in IPSAS XX (ED 49) to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS XX (ED 49) 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 XX (ED 49). The equivalent terms in IFRS 11 are “contractual arrangement”, “parent,” “profit or loss” and “retained earnings.”
- IPSAS XX (ED 49) does not provide guidance on the allocation of goodwill to joint ventures. Such guidance is included in IFRS 11.
- IPSAS XX (ED 49) contains additional illustrative examples that reflect the public sector context.

Exposure Draft 50

[September 2013]

Comments due: [January 31, 2014]

*Proposed International Public Sector Accounting
Standard*

**Disclosure of Interests in
Other Entities**

This Exposure Draft 50, *Disclosure of Interests in Other Entities* was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © [September 2013] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx bookmark "page xx" to copyright page].

REQUEST FOR COMMENTS

This Exposure Draft 50, *Disclosure of Interests in Other Entities*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [January 31, 2014].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose principles for the presentation and preparation of consolidated financial statements when a public sector entity controls one or more other entities.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matter for Comment requested for the Exposure Draft is provided below.

Specific Matter for Comment 1:

Do you agree with the proposal that entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity are not structured entities? If not, please explain why and explain how you would identify entities in respect of which the structured entity disclosures would be appropriate.

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *"Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback."*

IPSAS XX (ED 50) — DISCLOSURE OF INTERESTS IN OTHER ENTITIES

CONTENTS

	Paragraph
Objective	1–4
Scope	5–8
Definitions	9–10
Significant Judgments and Assumptions	11–13
Investment Entity Status	14–15
Interests in Controlled Entities	16–25
The Interest that Non-controlling Interests Have in the Economic Entity's Activities and Cash Flows	18
The Nature and Extent of Significant Restrictions	19
Nature of the Risks Associated with an Entity's Interests in Consolidated Structured Entities	20–23
Consequences of Changes in a Controlling Entity's Ownership Interest in a Controlled Entity that do not Result in a Loss of Control	24
Consequence of Losing Control of a Controlled Entity during the Reporting Period	25
Interests in Unconsolidated Controlled Entities (Investment Entities)	26–33
Interests in Joint Arrangements and Associates	34–38
Nature, Extent and Financial Effects of an Entity's Interests in Joint Arrangements and Associates	35–37
Risks Associated with an Entity's Interests in Joint Ventures and Associates	38
Interests in Unconsolidated Structured Entities	39–47
Nature of Interests	42–44
Nature of Risks	45–47
Transitional Provisions	48–50
Effective Date	51
Appendix A: Application Guidance	AG1–AG26
Appendix B: Amendments to Other IPSASs	
Basis for Conclusions	
Comparison with IFRS 12	

Objective

1. **The objective of this [draft] Standard 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.** [Based on IFRS 12, paragraph 1]

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:
 - (i) The nature of its interest in another entity or arrangement;
 - (ii) The type of joint arrangement in which it has an interest (paragraphs ~~711–139~~); and
 - (iii) That it meets the definition of an investment entity, if applicable (paragraph ~~149A~~);
 - (b) Information about its interests in:
 - (i) ~~Controlled entities~~Subsidiaries (paragraphs ~~160–2549~~);
 - (ii) Joint arrangements and associates (paragraphs ~~3420–3823~~); and
 - (iii) *Structured entities* that are not controlled by the entity (unconsolidated structured entities) (paragraphs ~~3924–474634~~). [Based on IFRS 12, paragraph 2]
3. If the disclosures required by this [draft] Standard, together with disclosures required by other IPSASs, do not meet the objective in paragraph 1, an entity shall disclose whatever additional information is necessary to meet that objective. [Based on IFRS 12, paragraph 3]
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 [draft] Standard. 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). [Based on IFRS 12, paragraph 4]

Scope

5. This [draft] Standard 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. [Based on IFRS 12, paragraph 5]
6. This [draft] Standard 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 [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]) 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 ~~3924–4734~~ when preparing those separate financial statements.
 - (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 [draft] Standard:
 - (i) When that interest is an interest in an associate or a joint venture that, in accordance with [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]), 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. [Based on IFRS 12, paragraph 6]
7. This [draft] Standard applies to all public sector entities other than Government Business Enterprises (GBEs). [Generic GBE paragraph]
8. 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*. [Generic GBE paragraph]

Definitions

9. The following terms are used in this [draft] Standard with the meanings specified:

An interest in another entity, for the purpose of this [draft] Standard, ~~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 ~~benefits~~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 AG58–AG60 of [draft] IPSAS XX, *Consolidated Financial Statements* explain variability of ~~benefits~~returns.

Revenue~~income~~ from a structured entity, for the purpose of this [draft] Standard, ~~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:

- (a) In the case of entities where administrative arrangements or legislation are normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factor in deciding who controls the entity, such as when binding arrangements are significant to determining control of the entity and relevant activities are directed by means of binding arrangements;
or
- (a)(b) In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity, 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 [draft] Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. [Definitions based on IFRS 12, Appendix A]

10. For the purposes of this [draft] Standard, as referred to in the definition of an interest in another entity, a binding arrangement describes an arrangement that confers enforceable 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.
[New, based on definition of binding arrangement in ED 48]

Significant Judgments and Assumptions

11. An entity shall disclose the methodology used to~~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 125 and 136 of [draft] IPSAS XX, *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. [Based on IFRS 12, paragraph 7]
12. The disclosures required by paragraph 117 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time. ~~Without the information incorporated by cross-reference, the financial statements are incomplete. 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.~~ [Based on IPSAS 30, paragraph AG6]
13. To comply with paragraph 117, an entity shall disclose, for example, the factors considered ~~significant judgments and assumptions made~~ in determining that:
- (a) It controls a specific entity (or similar category of entities) where the interest in the other entity is not evidenced by the holding of equity or debt instruments;

- ~~(a)~~(b) It does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities).
- ~~(b)~~(c) It controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities).
- ~~(c)~~(d) It is an agent or a principal (see paragraphs AG~~6158~~–AG762 of [draft] IPSAS XX, *Consolidated Financial Statements*).
- ~~(d)~~(e) It does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity.
- ~~(e)~~(f) It has significant influence even though it holds less than 20 per cent of the voting rights of another entity.
[Based on IFRS 12, paragraph 9. Point (b) similar to IPSAS 6.62(e); (c) similar to IPSAS 6.62(d); (e) similar to IPSAS 7.43(d); and (f) similar to IPSAS 7.43(c)]

Investment Entity Status

14. When a controlling entity~~parent~~ determines that it is an investment entity in accordance with paragraph ~~5327~~ of [draft] IPSAS XX, *Consolidated Financial Statements*, the investment entity shall disclose information about significant judgments 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 ~~5428~~ of [draft] IPSAS XX, *Consolidated Financial Statements*), it shall disclose its reasons for concluding that it is nevertheless an investment entity. [Based on IFRS 12, paragraph 9A]
15. 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 controlled entities~~subsidiaries~~ that cease to be consolidated;
 - (b) The total surplus or deficit~~gain or loss~~, if any, calculated in accordance with paragraph ~~B40459~~ of [draft] IPSAS XX, *Consolidated Financial Statements*; and
 - (c) The line item(s) in surplus or deficit~~profit or loss~~ in which the gain or loss is recognized (if not presented separately). [Based on IFRS 12, paragraph 9B]

Interests in Controlled Entities~~Subsidiaries~~

16. 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 ~~182~~); 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 ~~193~~);

- (ii) **The nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs ~~1420–2317~~);**
 - (iii) **The consequences of changes in its ownership interest in a controlled entitysubsidiary that do not result in a loss of control (paragraph ~~2418~~); and**
 - (iv) **The consequences of losing control of a controlled entitysubsidiary during the reporting period (paragraph ~~2519~~).** [Based on IFRS 12, paragraph 10]
17. When the financial statements of a controlled entitysubsidiary 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 ~~B92 and BG93~~ 4024.7 of [draft] IPSAS XX, *Consolidated Financial Statements*), an entity shall disclose:
- (a) The date of the end of the reporting period of the financial statements of that controlled entitysubsidiary; and
 - (b) The reason for using a different date or period. [Based on IFRS 12, paragraph 11]

The Interest that Non-controlling Interests have in the Economic Entity'sgroup's Activities and Cash Flows

18. An entity shall disclose for each of its controlled entitiessubsidiaries that have non-controlling interests that are material to the reporting entity:
- (a) The name of the controlled entitysubsidiary.
 - (b) The domicile and legal form of the controlled entity and the jurisdiction in which it operates. The principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary. [Based on IPSAS 1, paragraph 150(a)]
 - (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 entitysubsidiary during the reporting period.
 - (f) Accumulated non-controlling interests of the controlled entitysubsidiary at the end of the reporting period.
 - (g) Summarized financial information about the controlled entitysubsidiary (see paragraph AG10). [Based on IFRS 12, paragraph 12]

The Nature and Extent of Significant Restrictions

19. 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 entitygroup, such as:
 - (i) Those that restrict the ability of a controlling entityparent or its controlled entitiessubsidiaries to transfer cash or other assets to (or from) other entities within the economic entitygroup.

- (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 entitygroup.
 - (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 entitygroup (such as when a controlling entityparent is obliged to settle liabilities of a controlled entitysubsidiary 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 entitysubsidiary).
 - (c) The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.
- [Based on IFRS 12, paragraph 13. Point (a)(ii) similar to IPSAS 6.62(g)]

Nature of the Risks Associated with an Entity's Interests in Consolidated Structured Entities

- 20. An entity shall disclose the terms of any bindingcontractual arrangements (including rights from contracts or other legal rights) that could require the controlling entityparent or its controlled entitiesubsidiaries 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). [Based on IFRS 12, paragraph 14]
- 21. If during the reporting period a controlling entityparent or any of its controlled entitiesubsidiaries 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 entityparent or its controlled entitiesubsidiaries assisted the structured entity in obtaining financial support; and
 - (b) The reasons for providing the support. [Based on IFRS 12, paragraph 15]
- 22. If during the reporting period a controlling entityparent or any of its controlled entitiesubsidiaries 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 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. [Based on IFRS 12, paragraph 16]
- 23. 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. [Based on IFRS 12, paragraph 17]

Consequences of Changes in a Controlling Entity'sParent's Ownership Interest in a Controlled Entity Subsidiary that do not Result in a Loss of Control

- 24. An entity shall present a schedule that shows the effects on the net assets/equity attributable to owners of the controlling entityparent of any changes in its ownership interest in a controlled entitysubsidiary that do not result in a loss of control. [Based on IFRS 12, paragraph 18]

Consequences of Losing Control of a Controlled Entity~~subsidiary~~ During the Reporting Period

25. An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph ~~4825~~ of [draft] IPSAS XX, *Consolidated Financial Statements*, 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). [Based on IFRS 12, paragraph 19]

Interests in Unconsolidated Controlled Entities~~Subsidiaries~~ (Investment Entities)

26. An investment entity that, in accordance with [draft] IPSAS XX, *Consolidated Financial Statements*, is required to apply the exception to consolidation and instead account for its investment in a controlled entity~~subsidiary~~ at fair value through ~~surplus or deficit~~profit or loss shall disclose that fact. [Based on IFRS 12, paragraph 19A]
27. For each unconsolidated controlled entity~~subsidiary~~, an investment entity shall disclose:
- (a) The controlled entity'~~ssubsidiary's~~ name;
 - (b) The ~~domicile and legal form of the controlled entity and the jurisdiction in which it operates 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. [Based on IFRS 12, paragraph 19B]
28. If an investment entity is the controlling entity~~parent~~ of another investment entity, the controlling entity~~parent~~ shall also provide the disclosures in 19B(a)–(c) for investments that are controlled by its investment entity controlled entity~~subsidiary~~. The disclosure may be provided by including, in the financial statements of the controlling entity~~parent~~, the financial statements of the controlled entity~~subsidiary~~ (or controlled entities~~subsidiaries~~) that contain the above information. [Based on IFRS 12, paragraph 19C]
29. An investment entity shall disclose:
- (a) The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated controlled entity~~subsidiary~~ to transfer funds to the investment entity in the form of cash dividends, or similar distributions, or to repay loans or advances made to the unconsolidated controlled entity~~subsidiary~~ by the investment entity; and
 - (b) Any current commitments or intentions to provide financial or other support to an unconsolidated ~~subsidiary~~controlled entity, including commitments or intentions to assist the controlled entity~~subsidiary~~ in obtaining financial support. [Based on IFRS 12, paragraph 19D]
30. If, during the reporting period, an investment entity or any of its controlled entities~~subsidiaries~~ has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated controlled entity~~subsidiary~~ (e.g., purchasing assets of, or instruments issued by, the controlled entity~~subsidiary~~ or assisting the controlled entity~~subsidiary~~ in obtaining financial support), the entity shall disclose:
- (a) The type and amount of support provided to each unconsolidated controlled entity~~subsidiary~~; and

- (b) The reasons for providing the support. [Based on IFRS 12, paragraph 19E]
31. An investment entity shall disclose the terms of any contractual arrangements that could require the entity or its unconsolidated ~~controlled entities subsidiaries~~ to provide financial support to an unconsolidated, controlled, 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 to provide financial support). [Based on IFRS 12, paragraph 19F]
32. If during the reporting period an investment entity or any of its unconsolidated ~~controlled entities 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. [Based on IFRS 12, paragraph 19G]
33. A controlling entity that controls an investment entity and is not itself an investment entity, shall disclose in its consolidated financial statements, the information required by paragraphs 26 to 32 in respect of unconsolidated investment entities. [New]

Interests in Joint Arrangements and Associates

34. **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 ~~3524~~ and ~~3722~~); and**
- (b) **The nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph ~~3823~~).**
[Based on IFRS 12, paragraph 20]

Nature, Extent and Financial Effects of an Entity's Interests in Joint Arrangements and Associates

35. 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.
- (iv) The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).
- (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.

- (ii) Summarized financial information about the joint venture or associate as specified in paragraphs AG12 and AG13.
 - (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.
- (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. This aggregated information is to be disclosed separately from the aggregated information on joint ventures.

[Based on IFRS 12, paragraph 21. Point (a)(iii) based on IPSAS 1.1.50(a); (a)(iv) similar, in part, to IPSAS 8.63; (b)(i) similar to IPSAS 7.43 and IPSAS 8.64; (b)(ii) requires information about *each material* joint venture or associate, as opposed to IPSAS 7.43(b) and (i) and IPSAS 8.63 which require only *aggregate* information; and (b)(iii) similar to IPSAS 7.43(a)]

36. An investment entity need not provide the disclosures required by paragraphs ~~3524~~(b)–~~3524~~(c). [Based on IFRS 12, paragraph 21A]]
37. 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. [Based on IFRS 12, paragraph 22]

Risks Associated with an Entity's Interests in Joint Ventures and Associates

38. 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. [Based on IFRS 12, paragraph 23]

Interests in Unconsolidated Structured Entities

39. 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 ~~4226–4428~~); and
 - (b) To evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (paragraphs ~~4529–4731~~). [Based on IFRS 12, paragraph 24]
40. The information required by paragraph ~~3824~~(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 rights from contracts or other legal rights) with the structured entity at the reporting date. [Based on IFRS 12, paragraph 25]
41. An investment entity need not provide the disclosures required by paragraph ~~3924~~ for an unconsolidated structured entity that it controls and for which it presents the disclosures required by paragraphs ~~19A26–3219G~~. [Based on IFRS 12, paragraph 25A]

Nature of Interests

42. 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. [Based on IFRS 12, paragraph 26]
43. If an entity has sponsored an unconsolidated structured entity for which it does not provide information required by paragraph ~~4529~~ (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. [Based on IFRS 12, paragraph 27]
44. An entity shall present the information in paragraph ~~4327~~(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs AG2–AG6). [Based on IFRS 12, paragraph 28]

Nature of Risks

45. 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. [Based on IFRS 12, paragraph 29]
46. If during the reporting period an entity 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 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. [Based on IFRS 12, paragraph 30]
47. 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. Such current intentions include intentions to provide support as a result of obligations under binding arrangements and intentions to provide support where the entity has no obligation under a binding arrangement. [Based on IFRS 12, paragraph 31]

Transitional Provisions

48. An entity is encouraged to provide information required by this [draft] Standard earlier than annual periods beginning on or after [Date]. Providing some of the disclosures required by this [draft] Standard does not compel the entity to comply with all the requirements of this [draft] Standard or to apply [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Joint Arrangements*, [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]) and [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) early. [Based on IFRS 12, paragraph C2]
49. The disclosure requirements of this [draft] Standard need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which [draft] IPSAS XX, *Disclosure of Interests in Other Entities* is applied. [Based on IFRS 12, paragraph C2A]
50. The disclosure requirements of paragraphs ~~3924–4734~~ and the corresponding guidance in paragraphs AG21–AG26 of this Standard need not be applied for any period presented that begins before the first annual period for which [draft] IPSAS XX, *Disclosure of Interests in Other Entities* is applied. [Based on IFRS 12, paragraph C2B]

Effective Date

51. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouragedpermitted.** [Based on IFRS 12, paragraph C1]
- ~~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 [draft] IPSAS XX, Disclosure of Interests in Other Entities. ~~It describes the application of paragraphs 1–31 and has the same authority as the other parts of the Standard.~~

AG1. 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 [draft] Standard. [Based on IFRS 12, paragraph B1]

Aggregation (paragraph 4)

AG2. 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. [Based on IFRS 12, paragraph B2]

AG3. An entity may aggregate the disclosures required by this [draft] Standard 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. [Based on IFRS 12, paragraph B3]

AG4. 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. [Based on IFRS 12, paragraph B4]

AG5. In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and ~~benefit~~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. [Based on IFRS 12, paragraph B5]

AG6. 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.
- (c) Geography (e.g., country or region). [Based on IFRS 12, paragraph B6]

Interests in Other Entities

- AG7. 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. [Based on IFRS 12, paragraph B7]
- AG8. 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. [Based on IFRS 12, paragraph B8]
- AG9. 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~~ benefitsreturn 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. [Based on IFRS 12, paragraph B9]

Summarized Financial Information for Controlled EntitiesSubsidiaries, Joint Ventures and Associates (paragraphs 182 and 3521)

- AG10. For each subsidiary-controlled entity that has non-controlling interests that are material to the reporting entity, an entity shall disclose:
- Dividends or similar distributions paid to non-controlling interests.
 - Summarized financial information about the assets, liabilities, surplus or deficitprofit 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'sgroup'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 deficitprofit or loss and total comprehensive income. [Based on IFRS 12, paragraph B10]

- AG11. The summarized financial information required by paragraph AG10(b) shall be the amounts before inter-~~entity~~~~company~~ eliminations. [Based on IFRS 12, paragraph B11]
- AG12. 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.~~
- ~~Total comprehensive income.~~ [Based on IFRS 12, paragraph B12. B12 (ix) not used. Aligned with IPSAS 1.102]
- AG13. 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).
 - (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~~.
- [Based on IFRS 12, paragraph B13. Point (b) has been aligned with IPSAS 1.88(j) to (l)]
- AG14. The summarized financial information presented in accordance with paragraphs AG12 and AG13 shall be the amounts included in the IPSAS 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 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. [Based on IFRS 12, paragraph B14]

AG15. 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 [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]); and
- (b) The joint venture or associate does not prepare IPSAS 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. [Based on IFRS 12, paragraph B15]

AG16. 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.

An entity provides the disclosures separately for joint ventures and associates.

[Based on IFRS 12, paragraph B16. Point (d) has been aligned with IPSAS 1.102. Similar to the aggregate disclosures required by IPSAS 7.43(b) and IPSAS 8.63 in respect of all joint ventures or associates.]

~~When an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is 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 subsidiary, joint venture or associate in accordance with paragraphs AG10–AG16. [IFRS 12, paragraph B16 not used.]~~

Commitments for Joint Ventures (paragraph 3823(a))

AG17. 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. [Based on IFRS 12, paragraph B18. For comparison see IPSAS 8.72]

AG18. 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. [Based on IFRS 12, paragraph B19]

AG19. The requirements and examples in paragraphs AG18 and AG19 illustrate some of the types of disclosure required by paragraph [2748](#) of [IPSAS 20, IAS 24 Related Party Disclosures](#). [Based on IFRS 12, paragraph B20]

Interests in Unconsolidated Structured Entities (paragraphs [3924–4731](#))

Structured Entities

AG20. A structured entity is an entity that has been designed so that the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity. In the case of entities such as departments or ministries where administrative arrangements or legislation are often the dominant factors in deciding who has control of an entity, a structured entity is an entity that has been designed so that administrative arrangements or legislation are not the dominant factor in deciding who controls the entity. In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity (which may be the case for some entities with profit objectives), 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. Although binding arrangements frequently occur between public sector entities, binding arrangements are not normally the dominant factor in determining who controls an entity. Therefore the use of binding arrangements to determine the relevant activities of an entity may indicate the existence of a structured entity. Depending on the context a structured entity could be (i) an entity for which most of the activities are predetermined, with the relevant activities limited in scope but directed through binding arrangements or (ii) an entity for which ~~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~~ binding arrangements. [Based on IFRS 12, paragraph B21]

AG21. 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). [Based on IFRS 12, paragraph B22]

AG22. Examples of entities that are regarded as structured entities include, but are not limited to:

- (a) A partnership between a government and a private sector entity, being a partnership established and directed by binding arrangements.
- ~~(a)~~(b) Securitization vehicles.
- ~~(b)~~(c) Asset-backed financings.
- ~~(c)~~(d) Some investment funds. [Based on IFRS 12, paragraph B23. Public sector example added.]

AG23. The mere fact that a government provides funding to another entity does not make that entity a structured entity. Nor is 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. [Based on IFRS 12, paragraph B24]

Nature of Risks from Interests in Unconsolidated Structured Entities **(paragraphs 4529–4731)**

AG24. In addition to the information required by paragraphs 4529–4731, an entity shall disclose additional information that is necessary to meet the disclosure objective in paragraph 3924(b). [Based on IFRS 12, paragraph B25]

AG25. 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.

ED 50, *Disclosure of Interests in Other Entities*
IPSASB Meeting (September 2013)

- (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. [Based on IFRS 12, paragraph B26]

Amendments to Other IPSASs

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, [draft] IPSAS XX, *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. [Draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Disclosure of Interests in Other Entities*, issued in [Date], amended paragraphs 4, 12, 88(n), 95(d), 97, 103, 118, 134, 135 and 139. An entity shall apply those amendments when it applies [draft] IPSAS XX, *Consolidated Financial Statements* and [draft] IPSAS XX, *Disclosure of Interests in Other Entities*.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, ED 50, Disclosure of Interests in Other Entities.

Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in [draft] IPSAS XX, *Disclosure of Interests in Other Entities*. As this Standard is based on IFRS 12, *Disclosure of Interests in Other Entities* issued by the IASB, the Basis for Conclusions outlines only those areas where [draft] IPSAS XX departs from the main requirements of IFRS 12.

Terminology

- BC2. The IPSASB agreed to change terminology throughout the [draft] Standard to make it more appropriate for application by public sector entities. Changes are consistent with those made in [draft] IPSAS XX, *Consolidated Financial Statements*.

Significant Judgments and Assumptions (paragraphs 11 to 13)

- BC3. The IPSASB noted that IFRS 12 paragraph 7 requires that an entity disclose information about significant judgments and assumptions it has made in determining the nature of its interest in another entity (for example, control, joint control or significant influence). Although the IPSASB agreed that users need information about how an entity has made these judgments, it noted that a public sector entity could be required to make many judgments and assumptions in relation to particular entities and that the disclosure of such judgments and assumptions and changes in such judgments from period to period could result in unnecessary detail. The IPSASB also noted that, in the public sector, decisions about the reporting entity may be made having regard to frameworks developed in conjunction with other parties such as legislative bodies or oversight committees. The assessments made in respect of the classification of certain types of entities as controlled entities, jointly controlled entities or entities subject to significant influence may be recorded in public documents other than the financial statements. The IPSASB therefore agreed to require that an entity disclose the methodology used to decide the existence or absence of control, joint control of an arrangement or significant influence, either in the financial statements themselves or by way of reference to another publicly available document.

Definition of Structured Entity (paragraphs 9 and AG20 to AG23)

- BC4. The IPSASB noted that the definition of 'structured entity' in IFRS 12 focusses on voting or similar rights, which tend to occur less frequently or have less significance in the public sector than in the private sector. However, the IPSASB agreed that it was still appropriate to refer to voting or similar rights in the definition of a structured entity because voting or similar rights may be the predominant way in which a public sector entity establishes control over another entity. The IPSASB decided to modify the definition of a structured entity to highlight that they occur when the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity and encompass the broader range of circumstances that occur in the public sector.
- BC5. The IPSASB identified administrative arrangements and statutory provisions (legislation) as common means by which control may be determined for many public sector entities. Accordingly, the IPSASB took the view that the reference to "similar rights" in the definition of structured entity should encompass administrative arrangements and statutory provisions. Thus, the ED proposes

that entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity would not be structured entities. The IPSASB considers that the disclosures required of structured entities are appropriate, but that in order to be useful they need to be focused on a limited class of entities (consistent with the intention of the IASB's requirements in relation to entities applying IFRS 12).

Investment Entities (paragraphs 26 to 32)

- BC6. The IPSASB considered the investment entity disclosures required by IFRS 12 and concluded that those disclosures were appropriate in the public sector context.
- BC7. The IPSASB considered whether a non-investment controlling entity accounting for investment entities at fair value should be required to make any additional disclosures. The IPSASB considered that the disclosures required in relation to unconsolidated investment entities were appropriate and should also be provided in the consolidated financial statements of a controlling entity with unconsolidated investment entities.

Comparison with IFRS 12

IPSAS XX (ED 50), *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 and October 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 XX (ED 50) and IFRS 12 are as follows:

- IPSAS XX (ED 50) 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 XX (ED 50). The equivalent terms in IFRS 12 are “equity,” “group,” “parent,” “subsidiary” and “income.”
- Commentary additional to that in IFRS 12 has been included in IPSAS XX (ED 50) to clarify the applicability of the Standard to accounting by public sector entities.
- The definition of a structured entity has been changed to acknowledge the differing ways in which control may be obtained in the public sector.
- IPSAS XX (ED 50) requires that a controlling entity that controls an investment entity and is not itself an investment entity disclose information in respect of unconsolidated investment entities. IFRS 12 does not require such disclosures because it would require that the controlling entity consolidate the investment entities.

Exposure Draft 51

[September 2013]

Comments due: [January 31, 2014]

*Proposed International Public Sector Accounting
Standard*

**Separate Financial
Statements**



This Exposure Draft 51, *Separate Financial Statements* was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © [September 2013] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx bookmark "page xx" to copyright page].

REQUEST FOR COMMENTS

This Exposure Draft 51, *Separate Financial Statements*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [January 31, 2014].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matter for Comment requested for the Exposure Draft is provided below.

Specific Matter for Comment 1:

Do you agree with the proposal to continue to permit the use of the equity method in separate financial statements?

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: "*Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback.*"

IPSAS 6 (ED 51) — SEPARATE FINANCIAL STATEMENTS (Amended in [Date])

CONTENTS

	Paragraph
Objective	1
Scope	2–6
Definitions	7–11
Preparation of Separate Financial Statements	12–19
Disclosure	20–30
Effective Date	31–32
Withdrawal of IPSAS 6 (December 2006).....	33
Basis for Conclusions	
Comparison with IAS 27 (Amended in 2011)	

Objective

1. The objective of this [draft] Standard is to prescribe the accounting and disclosure requirements for investments in **controlled entities**~~subsidiaries~~, joint ventures and associates when an entity prepares separate financial statements. [Based on IAS 27, paragraph 1]

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for investments in controlled entities~~subsidiaries~~, joint ventures and associates when an entity prepares separate financial statements. [New. Based on generic scope paragraphs in IPSASs]
3. This [draft] Standard shall be applied in accounting for investments in **controlled entities**~~subsidiaries~~, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements. [Based on IAS 27, paragraph 2]
4. This [draft] Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with International Public Sector Accounting Standards. [Based on IAS 27, paragraph 1]
5. This [draft] Standard applies to all public sector entities other than Government Business Enterprises (GBEs). [Generic GBE paragraph]
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*. [Generic GBE paragraph]

Definitions

7. The following terms are used in this [draft] Standard with the meanings specified:

Consolidated financial statements are the financial statements of an **economic entity**~~group~~ in which the assets, liabilities, **net assets**/equity, **revenue**~~income~~, expenses and cash flows of the **controlling entity**~~parent~~ and its **controlled entities**~~subsidiaries~~ are presented as those of a single economic entity.

Separate financial statements are those presented by a **controlling entity**~~parent~~ (i.e., an **entity**~~investor~~ with control of **another entity**~~subsidiary~~) or an investor with joint control of, or significant influence over, another entity, in which the investments are accounted for at cost or in accordance with **IPSAS 29, IFRS 9-Financial Instruments: Recognition and Measurement**. [Based on IAS 27, paragraph 4. Paragraph 5 not used.]

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.

8. 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 ~~10-118-8A~~. Separate financial statements need not be appended to, or accompany, those statements. [Based on IAS 27, paragraph 6]

9. Financial statements in which the equity method is applied are not separate financial statements. Similarly, the financial statements of an entity that does not have a controlled entity subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements. [Based on IAS 27, paragraph 7]
10. An entity that is exempted in accordance with paragraph 45(a) of [draft] IPSAS XX, *Consolidated Financial Statements* from consolidation or paragraph 2247 of [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) from applying the equity method may present separate financial statements as its only financial statements. [Based on IAS 27, paragraph 8]
11. 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 controlled entities subsidiaries in accordance with paragraph 5834 of [draft] IPSAS XX, *Consolidated Financial Statements* presents separate financial statements as its only financial statements. [Based on IAS 27, paragraph 8A]

Preparation of Separate Financial Statements

12. **Separate financial statements shall be prepared in accordance with all applicable IPSASs, except as provided in paragraph 130.** [Based on IAS 27, paragraph 9]
13. **When an entity prepares separate financial statements, it shall account for investments in controlled entities subsidiaries, joint ventures and associates either:**
 - (a) Using the equity method as described in [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]);
 - (b) **At cost, or**
 - (c) **In accordance with IPSAS 29/IFRS 9.**

The entity shall apply the same accounting for each category of investments. ~~Investments accounted for at cost shall be accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with IFRS 9 is not changed in such circumstances.~~ [Based on IAS 27, paragraph 10. Modified to permit the equity method]

14. If an entity elects, in accordance with paragraph 2348 of [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]), to measure its investments in associates or joint ventures at fair value through surplus or deficit profit or loss in accordance with IPSAS 29/IFRS 9, it shall also account for those investments in the same way in its separate financial statements. [Based on IAS 27, paragraph 11]
15. If a controlling entity parent is required, in accordance with paragraph 55324 of [draft] IPSAS XX, *Consolidated Financial Statements* ~~IFRS 10~~, to measure its investment in a controlled entity subsidiary at fair value through surplus or deficit profit or loss in accordance with ~~IFRS 9~~ IPSAS 29, it shall also account for its investment in a controlled entity subsidiary in the same way in its separate financial statements. [Based on IAS 27, paragraph 11A]
16. When a controlling entity 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 130, either:

- (i) Account for an investment in a controlled entity~~subsidiary~~ at cost. The fair value of the controlled entity~~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 controlled entity~~subsidiary~~ in accordance with IPSAS 29~~IFRS 9~~.
- (b) When an entity becomes an investment entity, it shall account for an investment in a controlled entity~~subsidiary~~ at fair value through surplus or deficit~~profit or loss~~ in accordance with IPSAS 29~~IFRS 9~~. The difference between the previous carrying amount of the controlled entity~~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 surplus or deficit~~profit or loss~~. The cumulative amount of any fair value adjustment previously recognized directly in net assets/equity~~in other comprehensive income~~ in respect of those controlled entities~~subsidiaries~~ shall be treated as if the investment entity had disposed of those controlled entities~~subsidiaries~~ at the date of change in status. [Based on IAS 27, paragraph 11B]
17. **An entity shall recognize a dividend or similar distribution from a controlled entity~~subsidiary~~, a joint venture or an associate in surplus or deficit~~profit or loss~~ in its separate financial statements when its right to receive the dividend or similar distribution is established.** [Based on IAS 27, paragraph 12]
18. When a controlling entity~~parent~~ reorganizes the structure of its economic entity~~group~~ by establishing a new entity as its controlling entity~~parent~~ in a manner that satisfies the following criteria:
- (a) The new controlling entity~~parent~~ obtains control of the original controlling entity~~parent~~ either (i) by issuing equity instruments in exchange for existing equity instruments of the original controlling entity~~parent~~ or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;
 - (b) The assets and liabilities of the new economic entity~~group~~ and the original economic entity~~group~~ are the same immediately before and after the reorganization; and
 - (c) The owners of the original controlling entity~~parent~~ before the reorganization have the same absolute and relative interests in the net assets of the original economic entity~~group~~ and the new economic entity~~group~~ immediately before and after the reorganization,
- and the new controlling entity~~parent~~ accounts for its investment in the original controlling entity~~parent~~ in accordance with paragraph 130(a) in its separate financial statements, the new controlling entity~~parent~~ shall measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity~~parent~~ at the date of the reorganization. [Based on IAS 27, paragraph 13]
19. Similarly, an entity that is not a controlling entity~~parent~~ might establish a new entity as its controlling entity~~parent~~ in a manner that satisfies the criteria in paragraph 183. The requirements in paragraph 183 apply equally to such reorganizations. In such cases, references to “original controlling entity~~parent~~” and “original economic entity~~group~~” are to the “original entity”. [Based on IAS 27, paragraph 14]

Disclosure

20. An entity shall apply all applicable IPSASs when providing disclosures in its separate financial statements, including the requirements in paragraphs [216](#) and [2347](#). [Based on IAS 27, paragraph 15]
21. When a **controlling entityparent**, in accordance with paragraph [54\(a\)](#) of [draft] IPSAS XX, *Consolidated Financial Statements*, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:
- (a) The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name ~~and principal place of business (and country of incorporation, if different)~~ of the entity whose consolidated financial statements that comply with IPSASs have been produced for public use; and the address where those consolidated financial statements are obtainable.
 - (b) A list of significant investments in **controlled entities**~~subsidiaries~~, joint ventures and associates, including:
 - (i) The name of those **controlled entities, joint ventures and associates**~~investees~~.
 - (ii) The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity)~~the principal place of business (and country of incorporation, if different) of those investees.~~
 - (iii) Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined~~(and its proportion of the voting rights, if different) held in those investees.~~
 - (c) A description of the method used to account for the **controlled entities, joint ventures and associates**~~investments~~ listed under (b). [Based on IAS 27, paragraph 16]
22. When an investment entity that is a **controlling entityparent** (other than a **controlling entityparent** covered by paragraph [216](#)) prepares, in accordance with paragraph [118A](#), 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 [draft] IPSAS XX, *Disclosure of Interests in Other Entities*. [Based on IAS 27, paragraph 16A]
23. When a **controlling entityparent** (other than a **controlling entityparent** covered by paragraphs [216](#)–[2216A](#)) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the **controlling entityparent** or investor shall identify the financial statements prepared in accordance with [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Joint Arrangements* or [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) to which they relate. The **controlling entityparent** or investor shall also disclose in its separate financial statements:
- (a) The fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law~~legislation or other authority~~.
 - (b) A list of significant **controlled entities**~~investments in subsidiaries~~, joint ventures and associates, including:

- (i) The name of those controlled entities, joint ventures and associates investees.
- (ii) The jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity) principal place of business (and country of incorporation, if different) of those investees.
- (iii) Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined (and its proportion of the voting rights, if different) held in those investees.

(c) A description of the method used to account for the controlled entities, joint ventures and associates investments listed under (b).

~~The controlling entity parent or investor shall also identify the financial statements prepared in accordance with [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Joint Arrangements* or [draft] IPSAS 7 (Amended in 2011) to which they relate. [Based on IAS 27, paragraph 17 and Editorial Corrections July 2012]~~

~~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. [Based on IAS 27, paragraph 18A]~~

~~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. [Based on IAS 27, paragraph 18B]~~

24. At the date of initial application, an investment entity that previously measured its investment in a controlled entity subsidiary at cost shall instead measure that investment at fair value through surplus or deficit profit or loss as if the requirements of this ~~[draft] Standard~~ IFRS had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust accumulated surplus/deficit 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 controlled entity subsidiary. [Based on IAS 27, paragraph 18C]

25. At the date of initial application, an investment entity that previously measured its investment in a controlled entity subsidiary at fair value directly to net assets/equity ~~through other comprehensive income~~ shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognized in net assets/equity ~~other comprehensive income~~ shall be transferred to accumulated surplus/deficit retained earnings at the beginning of the annual period immediately preceding the date of initial application. [Based on IAS 27, paragraph 18D]

26. At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a controlled entity subsidiary that it had previously elected to measure at fair value through surplus or deficit profit or loss in accordance with IPSAS 29 ~~IFRS 9~~, as permitted in paragraph ~~130~~. [Based on IAS 27, paragraph 18E]

27. ~~Before the date that IFRS 13 Fair Value Measurement is adopted, a~~ 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.~~ [Based on IAS 27, paragraph 18F]
28. If measuring the investment in the controlled entity subsidiary in accordance with paragraphs ~~18G24–2748F~~ is impracticable (as defined in IPSAS 3/IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors), an investment entity shall apply the requirements of this [draft] Standard at the beginning of the earliest period for which application of paragraphs ~~18G24–2748F~~ 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 controlled entity subsidiary is earlier than the beginning of the immediately preceding period, the investor shall adjust net assets/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 controlled entity subsidiary.
- 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 IAS 27, paragraph 18G]
29. If an investment entity has disposed of, or lost control of, an investment in a controlled entity subsidiary before the date of initial application of ~~this [draft] Standard~~ the Investment Entities amendments, the investment entity is not required to make adjustments to the previous accounting for that investment. [Based on IAS 27, paragraph 18H]
30. Notwithstanding the references to the annual period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs ~~18G24–2848G~~, 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 ~~18G24–2848G~~ 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. [Based on IAS 27, paragraph 18I]

Effective Date ~~and transition~~

31. An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this [draft] Standard for a period beginning before [Date], it shall disclose that fact and apply [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Joint Arrangements*, [draft] IPSAS XX, *Disclosure of Interests in Other Entities* and [draft] IPSAS 7 *Investments in Associates and Joint Ventures* (Amended in [Date]) at the same time. [Based on IAS 27, paragraph 18]
32. 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. [Based on standard effective date paragraph in IPSASs]

References to IFRS 9

~~19 If an entity applies this Standard 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*. [Paragraph 19 not used]~~

Withdrawal of IPSAS 6 (December 2006)

33. This Standard is issued concurrently with [draft] IPSAS XX, *Consolidated Financial Statements*. Together, the two [draft] Standards supersede IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006). [Based on IAS 27, paragraph 20]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 6 (Amended in [Date]).

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 6, *Separate Financial Statements* (Amended in [Date]). As this [draft] Standard is based on IAS 27, *Separate Financial Statements* (Amended in 2011) issued by the IASB, the Basis for Conclusions outlines only those areas where [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]) departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.

Use of the Equity Method in Separate Statements

BC2. IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006) permitted an entity, in its separate financial statements, to measure investments in controlled entities, jointly controlled entities and associates:

- (a) Using the equity method;
- (b) At cost; or
- (c) As a financial instrument in accordance with IPSAS 29.

BC3. The IPSASB noted that in 2003 the IASB limited the measurement options for investments presented in an entity's separate financial statements by removing the option to use the equity method. The IPSASB noted that the reasons given by the IASB for making this change included the following:

- (a) The focus in separate financial statements is on the performance of the assets as investments. Cost and fair value can provide relevant information for this; and
- (b) To the extent that the equity method provides information about the profit and loss of a subsidiary or an associate, that information would be available in the consolidated financial statements.

BC4. The IPSASB also noted that, at the time it issued this ED, the IASB had signaled its intention to reconsider the use of the equity method in separate financial statements. In deciding to reconsider this issue the IASB acknowledged that corporate law in some countries requires that the equity method of accounting be used to measure certain investments when presenting separate financial statements.

BC5. The IPSASB decided to continue to permit the use of the equity method in separate financial statements for the following reasons:

- (a) The equity method is a well-established method of accounting for certain investments in the public sector. In many circumstances where investments are held by public sector entities, the equity method can provide information that is reliable and useful, and possibly at a lower cost than either the cost method or the fair value method. In the public sector, investment entities are often used more as "instruments" to enable service provision, rather than as a holding for investment purposes, as might generally be the case in the private sector. The equity method may therefore, in some circumstances, be better suited to meeting user needs

in the public sector, as it allows the financial statements to portray the fluctuations in the equity of, and performance by, an investment over time, in a cost effective and easily understood manner.

- (b) Although application of the cost method is often relatively straightforward, where investments have been held for some time, using the cost method may result in outdated and less relevant information, in which case, it would not meet user needs.
- (c) In the public sector there are likely to be a higher proportion of investments for which there are no active markets and in respect of which fair values are not readily observable. Although the guidance in IPSAS 29 can be used to derive a value for such investments, the IPSASB considered that this approach would generally result in information that did not faithfully represent the underlying circumstances.

Separate Financial Statements of Investment Entities

- BC6. In developing [draft] IPSAS XX, *Consolidated Financial Statements* the IPSASB decided to introduce the concept of investment entities and require that a controlling entity that is an investment entity shall measure its investments in particular controlled entities at fair value through surplus or deficit in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*.
- BC7. Consequently, the IPSASB decided to require that an investment entity measure its investments in controlled entities at fair value through surplus or deficit in its separate financial statements. The IPSASB also adjusted the disclosure requirements for an investment entity's separate financial statements, noting that if an investment entity prepares separate financial statements as its only financial statements, it is still appropriate for the investment entity to make the disclosures otherwise required in [draft] IPSAS XX, *Disclosure of Interests in Other Entities* about its interests in controlled entities.

Comparison with IAS 27 (Amended in 2011)

IPSAS 6, *Separate Financial Statements (Amended in [Date])* is drawn primarily from IAS 27, *Separate Financial Statements (Amended in 2011)*. IPSAS 6 (Amended in [Date]) is based on IAS 27, *Separate Financial Statements (Amended in 2011)*, including the amendments to that Standard as a result of *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* issued by the IASB in October 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 the underlying IASB standard have therefore been replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 6 (Amended in [Date]) and IAS 27 (Amended in 2011) are as follows:

- IPSAS 6 (Amended in [Date]) uses different terminology, in certain instances, from IAS 27 (Amended in 2011). The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity”, “revenue” in IPSAS 6. The equivalent terms in IAS 27 are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS 6 (Amended in [Date]) permits investments in controlled entities, joint ventures and associates to be accounted for in separate financial statements using the equity method, at cost or as financial instruments in accordance with IPSAS 29. [At the time of issue of ED 51] IAS 27 (Amended in 2011) does not permit the use of the equity method.

Exposure Draft 52

[September 2013]

Comments due: [January 31, 2014]

*Proposed International Public Sector Accounting
Standard*

**Investments in Associates
and Joint Ventures**



This Exposure Draft 52, *Investments in Associates and Joint Ventures* was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © [September 2013] by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [xx bookmark "page xx" to copyright page].

REQUEST FOR COMMENTS

This Exposure Draft 52, *Investments in Associates and Joint Ventures*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [January 31, 2014].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matter for Comment requested for the Exposure Draft is provided below.

Specific Matter for Comment 1:

Do you agree with the proposal to require the use of the equity method to account for investments in joint ventures? If not, please provide reasons and indicate your preferred treatment.

International Public Sector Accounting Standards, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: "*Copyright © [September 2013] by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback.*"

IPSAS 7 (ED 52) — INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Amended in [Date])

CONTENTS

	Paragraph
Objective	1
Scope	2–7
Definitions	8
Significant Influence	9–14
Equity Method	15–20
Application of the Equity Method	21–46
Exemptions from Applying the Equity Method	22–24
Discontinuing the Use of the Equity Method	25–26
Changes in Ownership Interests	27
Equity Method Procedures	28–41
Impairment Losses	42–45
Separate Financial Statements	46
Effective Date	47–48
Withdrawal of IPSAS 7 (December 2006)	49
Basis for Conclusions	
Comparison with IAS 28, <i>Investments in Associates and Joint Ventures</i> (Amended in 2011)	

Objective

1. The objective of this [draft] Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. [Based on IAS 28 (Amended in 2011), paragraph 1]

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for investments in associates and joint ventures. [New. Based on generic scope paragraph in IPSASs]
3. This [draft] Standard shall be applied by all entities that are investors with significant influence over, or joint control of, or significant influence over, an investee, where the investment leads to the holding of a quantifiable ownership interest. [Based on IAS 28 (Amended in 2011), paragraph 1]
4. This [draft] Standard provides the basis for accounting for ownership interests in associates and joint ventures. That is, the investment in the other entity confers on the entity the risks and rewards incidental to an ownership interest. This Standard applies only to quantifiable ownership interests, including ownership interests arising from investments in the formal equity structure (or its equivalent) of another entity. A formal equity structure means share capital or an equivalent form of ~~unitized~~ capital, such as units in a property trust, but may also include other equity structures in which the entity's interest can be measured reliably. Where the equity structure is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest. [Based on IPSAS 7 (2006), paragraph 3]
5. Some contributions made by public sector entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are non-exchange in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest. [Based on IPSAS 7 (2006), paragraph 4]
6. This [draft] Standard applies to all public sector entities other than Government Business Enterprises (GBEs). [Generic GBE paragraph]
7. 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*. [Generic GBE paragraph]

Definitions

8. The following terms are used in this [draft] Standard with the meanings specified:

An associate is an entity over which the investor has significant influence.

Consolidated financial statements are the financial statements of an economic entity group in which assets, liabilities, net assets/equity, revenue/income, expenses and cash flows of the controlling entity parent and its controlled entities subsidiaries are presented as those of a single economic entity.

The **equity method** is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit~~profit or loss~~ includes its share of the investee's surplus or deficit~~profit or loss~~ and the investor's net assets/equity~~other comprehensive income~~ includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit~~other comprehensive income~~.

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, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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.

Significant influence is the power to participate in the financial and operating policy decisions of another entity~~the investee~~ but is not control or joint control of those policies.

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

[Definitions based on IAS 28 (Amended in 2011), paragraph 3.]

[IAS 28, paragraph 4 not used]

Significant Influence

9. Whether an investor has significant influence over the investee is a matter of judgment based on the nature of the relationship between the investor and the investee, and on the definition of significant influence in this [draft] Standard. This [draft] Standard applies only to those associates in which an entity holds an ownership interest in the form of a shareholding or other formal equity structure. [Based on IPSAS 7 (2006), paragraph 11]
10. If an entity holds an ownership interest in the form of a shareholding or other formal equity structure and it holds, directly or indirectly (e.g., through controlled entities~~subsidiaries~~), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g., through controlled entities~~subsidiaries~~), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence. [Based on IAS 28 (Amended in 2011), paragraph 5]
11. The existence of significant influence by an entity is usually evidenced in one or more of the following ways:
 - (a) Representation on the board of directors or equivalent governing body of the investee;
 - (b) Participation in policy-making processes, including participation in decisions about dividends or similar~~other~~ distributions;
 - (c) Material transactions between the entity and its investee;

- (d) Interchange of managerial personnel; or
 - (e) Provision of essential technical information. [Based on IAS 28 (Amended in 2011), paragraph 6]
12. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (i.e., potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event. [Based on IAS 28 (Amended in 2011), paragraph 7]
13. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other ~~binding contractual~~ arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights. [Based on IAS 28 (Amended in 2011), paragraph 8]
14. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of ~~another~~ government, ~~a court,~~ ~~or an~~ administrator ~~or regulator~~. It could also occur as a result of a ~~binding contractual~~ arrangement. [Based on IAS 28 (Amended in 2011), paragraph 9]

Equity Method

15. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the ~~surplus or deficit~~ ~~profit or loss~~ of the investee after the date of acquisition. The investor's share of the investee's ~~surplus or deficit~~ ~~profit or loss~~ is recognized in the investor's ~~surplus or deficit~~ ~~profit or loss~~. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's ~~equity that have not been recognized in the investee's surplus or deficit~~ ~~other comprehensive income~~. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in ~~net assets/equity of the investor~~ ~~the investor's other comprehensive income (see IAS 1 Presentation of Financial Statements)~~.
[Based on IAS 28 (Amended in 2011), paragraph 10. This does not include the proposed amendments set out in IASB ED 2012/3 which were under consideration when this ED was prepared. Instead, it reflects the current requirements in IPSAS 7 paragraph 17.]
16. The recognition of ~~revenue~~ ~~income~~ on the basis of distributions received may not be an adequate measure of the ~~revenue~~ ~~income~~ earned by an investor on an investment in an associate or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the ~~surplus or deficit~~ ~~profit or loss~~ of such an investee. As a result, application of the

equity method provides more informative reporting of the investor's net assets/equity and surplus or deficit/profit or loss. [Based on IAS 28 (Amended in 2011), paragraph 11]

17. When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture 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 derivative instruments, unless paragraph 18~~3~~ applies. [Based on IAS 28 (Amended in 2011), paragraph 12]
18. In some circumstances, an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives it access to the benefits/returns associated with an ownership interest. In such circumstances, the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the benefits/returns. [Based on IAS 28 (Amended in 2011), paragraph 13]
19. IPSAS 29, IFRS-9 Financial Instruments: Recognition and Measurement does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the benefits/returns associated with an ownership interest in an associate or a joint venture, the instruments are not subject to IPSAS 29/IFRS-9. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with IPSAS 29/IFRS-9. [Based on IAS 28 (Amended in 2011), paragraph 14]
20. An investment in an associate or a joint venture accounted for using the equity method shall be classified as a non-current asset. Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset. [IAS 28 (Amended in 2011), paragraph 15 replaced by requirement in IPSAS 7 (December 2006), paragraph 44]

Application of the Equity Method

21. An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs ~~4722-2419~~. [Based on IAS 28 (Amended in 2011), paragraph 16]

Exemptions from Applying the Equity Method

22. An entity need not apply the equity method to its investment in an associate or a joint venture if:
 - (a) the entity is a controlling entity/parent that is exempt from preparing consolidated financial statements by the scope exception in paragraph 45(a) of [draft] IPSAS XX, *Consolidated Financial Statements*; or ~~if-~~
 - (b) all the following apply:
 - (i) The entity itself is a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

- (ii) The entity's 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) The entity 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.
 - (iv) The ultimate or any intermediate controlling entityparent of the entity produces consolidated financial statements available for public use that comply with IPSASs. [Based on IAS 28 (Amended in 2011), paragraph 17]
23. 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 surplus or deficit profit or loss in accordance with IPSAS 29IFRS-9. [Based on IAS 28 (Amended in 2011), paragraph 18]
24. When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through surplus or deficit profit or loss in accordance with IPSAS 29IFRS-9 regardless of whether the venture capital organisation, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. [Based on IAS 28 (Amended in 2011), paragraph 19]

Classification as held for sale

- ~~25. An entity shall apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with IFRS 9 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.~~

~~When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.~~

[Paragraphs 20-21 of IAS 28 (Amended in 2011) omitted – there is no IPSAS equivalent to IFRS 5]

Discontinuing the Use of the Equity Method

25. **An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:**
- (a) **If the investment becomes a controlled entitysubsidiary, the entity shall account for its investment in accordance with the relevant national or international pronouncement dealing**

~~with public sector combinations~~ **IFRS 3 Business Combinations** and [draft] IPSAS XX, **Consolidated Financial Statements**.

- (b) If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with **IPSAS 29** ~~IFRS 9~~. **If there are no published price quotations, the entity shall measure the retained interest at the carrying amount of the investment at the date that it ceases to be an associate or joint venture and that carrying amount shall be regarded as its cost on initial recognition as a financial asset in accordance with IPSAS 29.** The entity shall recognize in ~~surplus or deficit~~ **profit or loss** any difference between:
- (i) the fair value **(or, where relevant, the carrying amount)** of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
 - (ii) the carrying amount of the investment at the date the equity method was discontinued.
- (c) When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognized **directly** in the entity's **net assets/equity** ~~other comprehensive income~~ in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

[Based on IAS 28 (Amended in 2011), paragraph 22. Paragraph 25(b) amended to permit the use of the carrying amount as the cost on initial recognition as permitted by IPSAS 7 (December 2006) paragraph 25]

~~Therefore, if a gain or loss previously recognized in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued. For example, if an associate or a joint venture has cumulative exchange differences relating to a foreign operation and the entity discontinues the use of the equity method, the entity shall reclassify to profit or loss the gain or loss that had previously been recognized in other comprehensive income in relation to the foreign operation. [IAS 28 (Amended in 2011), paragraph 22 not used]~~

26. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest. [Based on IAS 28 (Amended in 2011), paragraph 24]

Changes in Ownership Interest

27. If an entity's ownership interest in an associate or a joint venture is reduced, but the entity continues to apply the equity method, the entity shall **transfer directly to accumulated surpluses or deficits** ~~reclassify to profit or loss~~ the proportion of the gain or loss that had previously been recognized in **net assets/equity** ~~other comprehensive income~~ relating to that reduction in ownership interest if that gain or loss would be required to be **transferred directly to accumulated surpluses or deficits** ~~reclassified to profit or loss~~ on the disposal of the related assets or liabilities. [Based on IAS 28 (Amended in 2011), paragraph 25. Does not incorporate proposals in IASB ED 2012/3. Modified to be consistent with IPSAS 17, paragraph 57 which permits some or all of a revaluation surplus to be transferred directly to accumulated surpluses or deficits when the assets are derecognized.]

Equity Method Procedures

28. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in [draft] IPSAS XX, *Consolidated Financial Statements*. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a controlled entity subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture. [Based on IAS 28 (Amended in 2011), paragraph 26]
29. An economic entity's group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the controlling entity parent and its controlled entities subsidiaries. The holdings of the economic entity's group's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has controlled entities subsidiaries, associates or joint ventures, the surplus or deficit profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognized in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the surpluses or deficits profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 3735 and 3836). [Based on IAS 28 (Amended in 2011), paragraph 27]
30. Gains and losses resulting from "upstream" and "downstream" transactions between an entity (including its consolidated controlled entities subsidiaries) and its associate or joint venture are recognized in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. "Upstream" transactions are, for example, sales of assets from an associate or a joint venture to the investor. "Downstream" transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated. [Based on IAS 28 (Amended in 2011), paragraph 28]
31. When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognized in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognize its share in those losses. [Based on IAS 28 (Amended in 2011), paragraph 29]
32. The contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 3028, except when the contribution lacks commercial substance, as that term is described in IPSAS 17 ~~IAS 16~~, *Property, Plant and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 334 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method. [Based on IAS 28 (Amended in 2011), paragraph 30]
33. If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognizes in full in surplus or deficit profit or loss the portion of the gain or loss on the ~~non-monetary~~ contribution relating to the monetary or non-monetary assets received. [Based on IAS 28 (Amended in 2011), paragraph 31]

34. An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- (a) When an entity has included goodwill relating to an associate or a joint venture ~~is included~~ in the carrying amount of the investment, amortization of that goodwill is not permitted.
- (b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as revenue/income in the determination of the entity's share of the associate or joint venture's surplus or deficit/profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit/profit or loss after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit/profit or loss after acquisition are made for impairment losses such as for goodwill or property, plant and equipment or, where relevant, goodwill. [Based on IAS 28 (Amended in 2011), paragraph 32. Modified to reflect that an entity may not have recognized goodwill]

35. **The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity or the entity uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the financial statements of the entity unless it is impracticable to do so.** [Based on IAS 28 (Amended in 2011), paragraph 33]

36. ~~When, in accordance with paragraph 33, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period. The financial statements of the entity and the financial statements of an associate or a joint venture used in applying the equity method shall be prepared as at the same reporting date. When the end of the reporting period of the entity is different from that of an associate or a joint venture the entity either:~~

- (a) Obtains, for the purpose of applying the equity method, additional financial information as of the same date as the financial statements of the entity; or
- (b) Uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the entity's financial statements.

[Replaces IAS 28 (Amended in 2011), paragraph 34. Modified for consistency with the reporting date requirements in ED 48 *Consolidated Financial Statements*]

37. **The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.** [Based on IAS 28 (Amended in 2011), paragraph 35]
38. If an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method. [Based on IAS 28 (Amended in 2011), paragraph 36]
39. If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of ~~surplus or deficit~~~~profit or loss~~ after adjusting for the dividends on such shares, whether or not the dividends have been declared. [Based on IAS 28 (Amended in 2011), paragraph 37]
40. If an entity's share of ~~the deficit losses~~ of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further ~~deficits~~~~losses~~. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. ~~Deficits~~~~Losses~~ recognized using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (ie priority in liquidation). [Based on IAS 28 (Amended in 2011), paragraph 38]
41. After the entity's interest is reduced to zero, additional ~~deficits~~~~losses~~ are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports ~~surpluses~~~~profits~~, the entity resumes recognising its share of those ~~surpluses~~~~profits~~ only after its share of the ~~surpluses~~~~profits~~ equals the share of ~~deficits~~~~losses~~ not recognized. [Based on IAS 28 (Amended in 2011), paragraph 39]

Impairment Losses

42. After application of the equity method, including recognising the associate's or joint venture's ~~deficits~~~~losses~~ in accordance with paragraph ~~40~~~~38~~, the entity applies ~~IPSAS 29~~~~IAS 39—Financial Instruments: Recognition and Measurement~~ to determine whether it is necessary to recognize any additional impairment loss with respect to its net investment in the associate or joint venture. [Based on IAS 28 (Amended in 2011), paragraph 40]
43. The entity also applies ~~IPSAS 29~~~~IAS 39~~ to determine whether any additional impairment loss is recognized with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss. [Based on IAS 28 (Amended in 2011), paragraph 41]
44. Whenever application of IPSAS 29 indicates that the investment in an associate or a joint venture may be impaired, an entity applies IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26,

~~*Impairment of Cash-Generating Assets.* IPSAS 26 directs an entity to determine the value in use of the cash-generating investment. Because goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of IAS 39 indicates that the investment may be impaired. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the cash-generating investment in accordance with IPSAS 26, an entity estimates:~~

- ~~(a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or~~
- ~~(b) The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment, and from its ultimate disposal.~~

Using appropriate assumptions, both methods give the same result.

[Based on IAS 28 (Amended in 2011), paragraph 42, modified for consistency with IPSAS 7 (2006) paragraph 39]

45. The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity. [Based on IAS 28 (Amended in 2011), paragraph 43]

Separate Financial Statements

46. An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 130 of [draft] IPSAS 6, *Separate Financial Statements* (Amended [Date]). [Based on IAS 28 (Amended in 2011), paragraph 44]

Effective Date and Transition

47. An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this [draft] Standard for a period beginning before [Date], it shall disclose that fact and apply [draft] IPSAS XX, *Consolidated Financial Statements*, [draft] IPSAS XX, *Joint Arrangements*, [draft] IPSAS XX, *Disclosure of Interests in Other Entities* and [draft] IPSAS 6, *Separate Financial Statements* (Amended in [Date]) at the same time. [Based on IAS 28 (Amended in 2011), paragraph 45]
48. 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. [Based on generic IPSAS effective date paragraph]

- ~~45A *Equity Method: Share of Other Net Asset Changes* (Amendments to IAS 28), issued in [date to be inserted after exposure], amended paragraphs 10, 22, 23 and 25. An entity shall apply those paragraphs~~

~~for annual periods beginning on or after [date to be inserted after exposure] retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. [Paragraph 45A of IAS 28 not used]~~

References to IFRS 9

~~49.~~ If an entity applies this Standard but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39. [Paragraph 46 of IAS 28 not used]

Withdrawal of IPSAS 7 (December 2006) ~~IAS 28 (2003)~~

~~50-49.~~ This Standard supersedes IPSAS 7, *Investments in Associates* (December 2006). [Based on IAS 28 (Amended in 2011), paragraph 47]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 7 (Amended in [Date]).

Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching its conclusions on IPSAS 7, *Investments in Associates and Joint Ventures (Amended in [Date])*. As this [draft] Standard is based on IAS 28, *Investments in Associates and Joint Ventures (Amended in 2011)* issued by the IASB, the Basis for Conclusions outlines only those areas where [draft] IPSAS 7, departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.
- BC2. The amendment of IPSAS 7 results from the Board's project to update IPSASs 6–8. As a result of incorporating the accounting for joint ventures into IPSAS 7, the title of IPSAS 7 was changed from *Investments in Associates* to *Investments in Associates and Joint Ventures*.
- BC3. In amending IPSAS 7, the Board did not reconsider all the Standard's requirements. The most significant changes resulted from the decision to require the use of the equity method to account for investments in joint ventures and therefore to combine the accounting for investments in associates and joint ventures in one standard. The Board's views on the use of the equity method to account for investments in joint ventures are discussed in the Basis for Conclusions on [draft] IPSAS XX, *Joint Arrangements*.

Scope

Quantifiable Ownership Interests

- BC4. The IPSASB noted that the scope of IPSAS 7 (December 2006) had been limited to investments in associates “where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure”. In developing IPSAS 7 (December 2006) the IPSASB noted that it is unlikely equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure. The IPSASB reflected on the intention of this modification and concluded that it was intended to prevent the inappropriate application of that Standard to interests other than ownership interests.
- BC5. In contrast with IPSAS 7 (December 2006) this [draft] Standard applies to both associates and joint ventures. Because joint ventures can take many forms, including partnership arrangements which do not have formal equity structures, the scope limitation in IPSAS 7 (December 2006) was not appropriate. The IPSASB decided that the scope of this [draft] Standard should be limited to “quantifiable ownership interests”.

Temporary Joint Control and Significant Influence

- BC6. IPSAS 7, *Investments in Associates* (December 2006) and IPSAS 8, *Interests in Joint Ventures* (December 2006) did not require application of the equity method or proportionate consolidation when joint control of, or significant influence over, another entity was intended to be temporary. The IPSASB noted that the IASB had removed these exemptions from the equivalent IFRSs in 2003, as a consequence of issuing IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

- BC7. The IPSASB noted that in developing [draft] IPSAS XX, *Consolidated Financial Statements* it had considered the related issue of whether to incorporate a temporary control exemption in that [draft] Standard, and had agreed not to do so. Accordingly the IPSASB decided not to provide exemptions based on temporary joint control or temporary significant influence in [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]).

Share of Other Net Asset Changes

- BC8. The IPSASB noted that at the time [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) was being developed, the IASB was in the process of considering proposals to clarify how an investor should account for other net asset changes of the investee. The IASB's proposals were set out in IASB ED/2012/3 *Equity Method: Share of Other Net Asset Changes* (Proposed Amendments to IAS 28). The IPSASB noted that the IASB had indicated its intention to finalize the proposed amendments by the end of 2013.
- BC9. At the time that this ED was issued, the outcome of the IASB's deliberations on these proposals were uncertain. The IPSASB therefore decided not to incorporate the proposals from IASB ED/2012/3 in this ED, but to retain the existing requirements in IPSAS 7.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- BC10. The IPSASB noted that at the time [draft] IPSAS 7, *Investments in Associates and Joint Ventures* (Amended in [Date]) was being developed, the IASB was deliberating on proposals to amend IAS 28 so that the requirements for the recognition of a partial gain or loss for transactions between an investor and its associate or joint venture apply only to the gain or loss resulting from the sale or contribution of assets *that do not constitute a business*, as defined in IFRS 3, *Business Combinations*. These proposals were set out in IASB ED 2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Proposed amendments to IFRS 10 and IAS 28). The IPSASB agreed not to incorporate the amendments in ED/2012/6 in [draft] IPSAS 7, *Investments in Associates and Joint Ventures* on the grounds that it would be more appropriate to consider the recognition of full or partial gains and losses in the context of drafting standards level requirements for public sector combinations.

Comparison with IAS 28 (Amended in 2011)

IPSAS 7 (ED 52), *Investments in Associates and Joint Ventures* (Amended in [Date]) is drawn primarily from IAS 28, *Investments in Associates and Joint Ventures* (Amended in 2011). At the time of issuing this [draft] Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IAS 28 have therefore been replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 7 (Amended in [Date]) and IAS 28 (Amended in 2011) are as follows:

- Commentary additional to that in IAS 28 (Amended in 2011) has been included in IPSAS 7 (Amended in [Date]) to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 7 (Amended in [Date]) uses different terminology, in certain instances, from IAS 28 (Amended in 2011). The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity,” “revenue” in IPSAS 7 (Amended [Date]). The equivalent terms in IAS 28 (Amended in 2011) are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS 7 (Amended in [Date]) applies to all investments where the investor has a quantifiable ownership interest. IAS 28 (Amended in 2011) does not contain a similar requirement. However, it is unlikely that equity accounting could be applied unless there was a quantifiable ownership interest.
- Where there are no published quotations available IPSAS 7 (Amended in [Date]) permits an entity with a retained interest in a former associate or joint venture to use carrying amount as the cost on initial recognition of the financial asset. IAS 28 (Amended in 2011) requires that the financial asset be recognized at fair value.