

Meeting: International Public Sector Accounting Standards Board
Meeting Location: Toronto, Canada
Meeting Date: December 8-11, 2014

**Agenda
Item
3**

For:
 Approval
 Discussion
 Information

Interests in Other Entities

Objective(s) of Agenda Item

1. The objectives of this agenda item are to:
 - (a) **Consider** the issues identified and confirm how those issues are addressed in the draft standards;
 - (b) **Perform** a page-by-page review of the draft standards; and
 - (c) **Approve** the five standards that comprise this project.

Material(s) Presented

Agenda Item 3.1 Issues Paper
 Agenda Item 3.2 Draft IPSAS 34, *Separate Financial Statements*
 Agenda Item 3.3 Draft IPSAS 35, *Consolidated Financial Statements*
 Agenda Item 3.4 Draft IPSAS 36, *Investments in Associates and Joint Ventures*
 Agenda Item 3.5 Draft IPSAS 37, *Joint Arrangements*
 Agenda Item 3.6 Draft IPSAS 38, *Disclosure of Interests in Other Entities*

2. Clean versions of the draft standards are included in the agenda papers. Where staff are seeking feedback on changes to the text of the EDs, marked-up extracts are included in the issues paper. Complete marked-up versions of the draft standards (showing changes from the EDs) are available from staff on request (contact: LeahWeselowski@ifac.org).

Action Requested

3. The IPSASB is asked to consider the issues outlined in agenda item 3.1, and confirm the staff recommendations for dealing with these issues, or provide alternative directions.
4. Approval of the standards is being sought at this meeting.

ISSUES PAPER – INTERESTS IN OTHER ENTITIES

Objectives of Issues Paper

1. This paper seeks feedback from the IPSASB on the remaining issues associated with the draft standards in this project. It also outlines the due process steps in this project and seeks approval of the standards.

Background

2. EDs 48 to 52, collectively referred to as *Interests in Other Entities*, were issued in October 2013 with a response date of February 28, 2014.
3. In June 2014 the IPSASB considered responses on the EDs and provided direction on key issues (being the Specific Matters for Comment in the EDs).
4. At the September 2014 meeting the IPSASB considered constituents' detailed comments on the EDs and provided feedback on the proposed changes to the draft standards in response to those comments. The IPSASB also noted:
 - (a) An updated comparison of concepts of control in ED 49 *Consolidated Financial Statements* and a pre-publication version of the Government Finance Statistics Manual 2014 (GFSM 2014). The IPSASB noted that the use of the concepts is broadly similar in both systems of reporting. The IPSASB agreed to consider whether there are any further opportunities for alignment in the context of its ongoing project on alignment; and
 - (b) An assessment of how the standards in this project would affect the proposed standard on first-time adoption. (First-time adoption is addressed in agenda item 4.)
5. The IPSASB agreed with many of the staff recommendations in the September agenda papers. It did not agree with the proposed disclosures for investments held for sale or temporarily controlled investments. This issues paper seeks feedback on revised disclosure proposals. Staff have liaised with a number of members prior to this meeting to try and ensure that their views are appropriately reflected in the papers.

Structure of this Issues Paper

6. The issues are set out in the following order:
 - (a) Issue 1: Disclosure of Interests Acquired for Sale or Disposal;
 - (b) Issue 2: Illustrative Examples in IPSAS 35, *Consolidated Financial Statements*;
 - (c) Issue 3: Impact of IASB Projects;
 - (d) Issue 4: Use of the term "Binding Arrangements";
 - (e) Issue 5: Location of Definitions; and
 - (f) Issue 6: Due Process.

Issue 1: Disclosure of Interests Acquired for Sale or Disposal

7. In developing the exposure drafts within this project the IPSASB decided not to provide exemptions for temporarily control, temporary joint control or temporary significant influence. Such exemptions are currently provided in IPSASs 6 to 8.
8. Most respondents to the exposure drafts supported the IPSASB's proposals not to provide such exemptions. However, some did suggest that additional disclosures about interests in other entities held for a short time could be useful. For example, R26 suggested additional disclosures as follows:

“We propose that some disclosure requirements should be included for temporarily controlled entities held for sale in the absence of an IPSAS that deals with non-current assets held for sale. We propose that the following disclosures should be considered for material temporarily controlled entities, associates or joint ventures, and in aggregate for immaterial temporarily controlled entities, associates or joint ventures:

 - (a) A description of the temporarily controlled entity, associate or joint venture and the rationale for its acquisition;
 - (b) The carrying value of the assets and liabilities that will be affected by the disposal of the temporarily controlled entity, associate or joint venture; and
 - (c) A description of the intended manner of disposal, including the expected sale or transfer date.”
9. The IPSASB noted respondents' suggestions in June and asked staff to develop proposals for additional disclosures. In the September 2014 agenda papers staff sought feedback on presentation and disclosure proposals for interests in other entities held for sale. These proposals were based on the requirements in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. The IPSASB did not support these proposals, mainly because they were regarded as being too broad. The IPSASB indicated that the disclosure requirement should be in relation to interests in other entities that have recently been acquired and are intended to be held only until they are sold, or otherwise disposed of. It did not want to require disclosure of interests in other entities that had been held for some time and were only now identified as being for disposal.
10. In September the IPSASB indicated that the proposed disclosures were too broad. However, staff were not sure how far the IPSASB wanted to go in narrowing the proposed disclosures. Staff therefore reflected on possible objectives of the proposed disclosures. That is, what is the problem, or need for information, that the IPSASB wants to address? Staff also considered whether this information need might be met by the requirements in other standards or whether it might be voluntarily provided.
11. Staff identified the following possible information needs that the IPSASB might be trying to address. Some of these options overlap. All of these options would provide information that is useful when comparing financial statements for different periods and for making assessments about financial performance and financial position. Some of the options would provide more information about current performance and some would provide more information about expected performance. In all cases an entity could voluntarily provide additional information.
 - (a) *Information about interests in other entities expected to be sold or disposed of in the near future*. This was the focus of the proposals in the September agenda papers (and which the IPSASB considered to be too broad). It is also the type of information addressed by IFRS 5. The IPSASB has previously decided not to develop an IPSAS based on IFRS 5 in conjunction

with this project. IPSAS 1 does require the classification of assets as current and non-current, but there is no indication in IPSAS 1 that assets classified as non-current would be classified as current simply because of management's intention to sell or dispose of an asset. The IPSAS 1 requirements regarding disclosure of key sources of estimation uncertainty might also be relevant for significant interests in other entities.

- (b) *Information about interests in other entities acquired with the expectation that they will be sold or disposed of in the near future*. This is a subset of (a) above and would be of interest to users that are interested in separating out information about how an entity's interests in other entities differ in nature from the usual activities of the entity and impact on risks. In the case of controlling interests in entities with significant levels of financial assets and liabilities, IPSAS 30 would require the disclosure of information about the financial risks associated with those entities. Staff have assumed that this is the type of information that the IPSASB considers should be provided and have developed possible disclosures (see Approaches A and B in Table 1) for consideration by the IPSASB.
 - (c) *Information about interests in other entities sold or disposed of within the past year*. This option focuses more on actual financial performance and financial position. IPSAS 1, paragraphs 102(d) and 107(e), already require disclosures about gains and losses from the disposal of assets and liabilities attributable to discontinuing operations.
 - (d) *Information about interests in other entities acquired during the period*. This would also help users comparing financial statements for different periods and making assessments about both actual and expected financial performance and financial position. IPSASs do not currently require information about the acquisition of controlling interests in other entities. However, the project on public sector combinations might result in disclosure requirements similar to those in IFRS 3, *Business Combinations*. For example, IFRS 3 requires disclosure of information that enables users to assess the nature and financial effect of a business combination that has occurred during the period. Again, IPSAS 30 disclosures might be relevant.
12. Table 1 outlines the approaches that have been developed for consideration by the IPSASB. Approach A has been included in the draft IPSAS 38 (refer agenda item 3.6). Approach B is presented as an alternative (in case this better reflects the views of some members). The option of not adding more disclosures to IPSAS 38 is also included, as Approach C. Staff would appreciate feedback on whether the IPSASB supports Approach A and whether the proposed wording is appropriate.
13. In developing Approaches A and B staff considered:
- (a) Guidance being developed by the Federal Accounting Standards Advisory Board (FASAB) in its reporting entity project. This guidance focuses on disclosure, rather than consolidation, of entities where control has been acquired through intervention actions. Despite the different focus, the FASAB guidance helped in identifying when disclosures might be appropriate;
 - (b) The proposals in IASB ED/2013/9 *Proposed amendments to the IFRS for SMEs*. IASB ED/2013/9 proposed to clarify that all subsidiaries acquired with the intention of sale or disposal within one year should be excluded from consolidation. The ED did not provide guidance on how to determine whether there is an intention to sell or dispose of subsidiaries; and
 - (c) Feedback from some Board members.

Table 1

| Possible disclosure approaches | Comments |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Approach A: Require disclosure of acquisitions of interests in other entities where, from the time of acquisition, there has been an intention to dispose of the interest.</p> <p>This could result in disclosures about (i) acquisitions resulting from government interventions to prevent the failure of an entity; (ii) acquisitions for other policy objectives (such as redistribution of assets); and (iii) acquisitions for short term monetary gain.</p> | <p>Recommended approach. This has been included in draft IPSAS 38.</p> <p>See draft wording below.</p> <p>There is no time limit on when disposal must occur.</p> |
| <p>Approach B: Require disclosure of investments in entities acquired as a result of an intervention to prevent the failure of an entity.</p> | <p>Alternative approach.</p> <p>See draft wording below.</p> <p>Again, there is no time limit on when disposal must occur but the disclosure is limited to interests <i>arising from interventions</i>. This is narrower than Approach B.</p> |
| <p>Approach C Do not include additional disclosures in IPSAS 38.</p> | <p>Entities have the option of voluntary disclosure in the financial statements and also by way of explanation in commentary accompanying the financial statements. The guidance in RPG 2— <i>Financial Statements Discussion and Analysis</i> could lead to useful explanations.</p> |

Approach A: The Recommended Approach (included in draft IPSAS 38)

Controlling Interests Acquired with the Intention of Disposal

51. **An entity shall disclose information regarding its interest in a controlled entity when, at the point at which control arose, the entity had the intention of disposing of that controlling interest.**
52. There are a number of situations in which a public sector entity may obtain control of another entity, but where the entity has the intention of disposing of all or part of the controlling interest in the near future.
53. Because of a government's broad responsibility for the economic well-being of a jurisdiction it may intervene to prevent the failure of an entity, such as a financial institution. Such interventions may lead to a government obtaining control of another entity, although it has no intention of maintaining control over that entity. Rather, its intention may be to sell, or otherwise dispose of, its interest in the controlled entity. If the other entity needs to be restructured to facilitate disposal the restructuring can occur over a period of one or more years and the government may retain some residual assets or liabilities at the end of the process. The consolidation of such controlled entities for the reporting periods in which control is present, can have a significant impact on the consolidated financial statements. The obtaining of control as a result of interventions to prevent failure is most likely to occur in the context of governments, but could also occur in the case of individual public sector entities.
54. A public sector entity may also acquire a controlling interest in another entity, with the intention of disposing of all or part of that interest, in implementing a government's policy objectives. For example, a government may direct an entity to acquire certain interests in other entities for the purpose of redistribution.

55. An entity shall disclose the following information in the notes in respect of each controlled entity referred to in paragraph 51:
- (a) The name of the controlled entity and a description of its key activities;
 - (b) A description of how control arose and the factors considered in determining that control exists;
 - (c) A description of the anticipated method of disposal; and
 - (d) The impact on the consolidated financial statements of accounting for the controlled entity including the impact on assets, liabilities, revenue and expenses.
56. Where other disclosures required by this Standard would provide information relevant to paragraph 55(d) a cross-reference to those other disclosures shall be provided.

Draft BC paras Option A

- BC10 Some respondents to ED 52 proposed that the IPSASB require disclosures about temporary control (either by developing a standard based on IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* or by adding disclosures to this Standard). The IPSASB noted that there can be a number of situations where a government acquires a controlling interest in an entity, but where it has the intention to dispose of that interest. These situations include interventions to prevent the failure of an entity, or acquisitions to achieve policy objectives such as the redistribution of wealth. The existence of such controlling interests can have a significant short-term impact on the consolidated financial statements. The IPSASB agreed to require disclosures to assist users to understand the impact of consolidating such controlling interests on the consolidated financial statements. The IPSASB considered, and rejected, the idea of requiring disclosures of all controlled investments held for sale on the grounds that interests in other entities acquired with the intention of disposal differed in nature from interests previously held and which are subsequently identified as being held for disposal.
- BC11 The IPSASB considered whether to limit the disclosures to situations where control was expected to exist for a specified time period, such as one or two years. The IPSASB decided not to specify a time period. It considered that limiting the disclosures to situations where there was the intention to dispose of the interest at the point at which control arose would lead to informative disclosures without overwhelming readers with too much detail. In addition, the IPSASB considered that limiting the disclosures to situations where control exists would prevent the disclosures from being onerous.
- BC12 The IPSASB noted that the disclosure requirements would not apply to an investment entity obtaining control of another entity as, by definition, the investment entity would have invested funds solely for returns from capital appreciation, investment revenue, or both.

Approach B: The Alternative Approach

Controlling Interests Arising from Interventions

51. **An entity shall disclose information regarding its interest in a controlled entity when control has resulted from an intervention to prevent the failure of the controlled entity and the entity is pursuing a sale or realization objective for this interest.**
52. Because of a government's broad responsibility for the economic well-being of a jurisdiction it may intervene to prevent the failure of an entity, such as a financial institution. Such interventions may lead to a government obtaining control of another entity, although it has no intention of maintaining control over that entity. Rather, its intention may be to sell, or otherwise dispose of, its interest in the controlled entity in an orderly manner and in as short a period of time as possible. If the other entity needs to be restructured to facilitate disposal the restructuring can occur over a period of one or more years and the government may retain some residual assets or liabilities at the end of the process. The consolidation of such controlled entities for the reporting periods in which control is present, can have a significant impact on the consolidated financial statements. This Standard therefore requires the disclosure of information about the impact of consolidating such entities. The obtaining of control as a result of interventions to

prevent failure is most likely to occur in the context of governments, but could also occur in the case of individual public sector entities.

53. An entity shall disclose the following information in the notes in respect of each controlled entity referred to in paragraph 51:
- (a) The name of the entity and a description of its key activities;
 - (b) A description of the intervention and the factors considered in determining that the entity is a controlled entity;
 - (c) A summary of actions taken in pursuit of the sale or realization objective for the interest in the entity; and
 - (d) The impact on the consolidated financial statements of accounting for the controlled entity including the impact on assets, liabilities, revenue and expenses.
54. Where other disclosures required by this Standard would provide information relevant to paragraph 53(d) a cross-reference to those other disclosures shall be provided.

Draft BC paras Option B

BC10 Some respondents to ED 52 proposed that the IPSASB require disclosures about temporary control (either by developing a standard based on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* or by adding disclosures to this Standard). The IPSASB noted that government interventions to prevent the failure of an entity, such as a financial institution, can lead to a government having a controlling interest that has a significant short-term impact on its consolidated financial statements. The IPSASB agreed to require disclosures to assist users to understand the impact of government interventions on the consolidated financial statements. The IPSASB considered, and rejected, the idea of requiring disclosures of all controlled investments held for sale on the grounds that interests in other entities acquired through government interventions differ in nature from other investments held for sale and are likely to have a greater impact on the consolidated financial statements with control being acquired and disposed of in a relatively short time frame.

BC11 The IPSASB considered whether to limit the disclosures to situations where control was expected to exist for a specified time period, such as one or two years. The IPSASB decided not to specify a time period. It considered that limiting the disclosures to situations where control has arisen through an intervention and the government does not intend to maintain control would lead to informative disclosures without overwhelming readers with too much detail. In addition, the IPSASB considered that limiting the disclosures to situations where control exists would prevent the disclosures from being onerous.

BC12 The IPSASB noted that the disclosure requirements would not apply to an investment entity obtaining control of another entity as, by definition, the investment entity would have invested funds solely for returns from capital appreciation, investment revenue, or both.

Matter(s) for Consideration

1. The IPSASB is asked to:
- (a) AGREE to require the disclosures in Approach A in draft IPSAS 38; and
 - (b) CONFIRM the wording of Approach A.

If the IPSASB does not support Approach A, staff would appreciate feedback on Approaches B and C.

Issue 2: Illustrative Examples in IPSAS 35, Consolidated Financial Statements

14. Respondents' comments on the illustrative examples in ED 49, *Consolidated Financial Statements* IPSAS 35 were partially addressed in the September agenda papers. The remaining issues have now been addressed. Respondents' comments and the changes made in response to those comments are set out in Table 2. Staff are seeking feedback on the changes made to the examples and whether the three new examples that have been drafted should be included in IPSAS 35.

Table 2

| R# | Illustrative Examples in IPSAS 35 | Comment |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 02 | <p>Example 28</p> <p>Example 28 should also include a clear conclusion (with reasoning) that the local government can appoint the majority of the directors and therefore can direct the relevant activities of the leisure trust.</p> | <p>The conclusion has been expanded as suggested by R02. The conclusion now reads:</p> <p>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. <u>In addition, because the majority of the directors of the leisure trust are elected members, officers or employees of the local government, the local government can direct the relevant activities of the leisure trust.</u></p> |
| 02 | <p>Example 34B</p> <p>Example 34B, in reaching the 'no control' conclusion, the final paragraphs should explain that the University does not have power over the incorporated society and outline the reasons why this is the case.</p> | <p>The conclusion has been expanded as suggested by R02. The conclusion now reads:</p> <p>Although the University receives non-financial benefits from having childcare services available on campus it does not control <u>have power to direct the relevant activities of the incorporated society. The members of the incorporated society, being the parents of the children, have the power to direct the relevant activities of the incorporated society. The University does not control the incorporated society.</u></p> |
| 02 | <p>Example 35</p> <p>To help illustrate the concept articulated in paragraph 21, Example 35 should be expanded to include a clear conclusion (with reasoning) that the public sector entity and government department are controlled by the provincial government.</p> | <p>No change. The example is intended to illustrate an agency relationship – not to consider the existence of other control relationships.</p> |
| 02 | <p>Examples 8, 8A, 8B, 37, 38</p> <p>The respondent also noted that some of the examples were based on draft guidance developed by the AASB and might have to be</p> | <p>Done – Refer September 2014 agenda papers 6.3 and 6.4.</p> |

| R# | Illustrative Examples in IPSAS 35 | Comment |
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| | updated following their finalisation by the AASB (eg. Examples 8, 8A, 8B, 37, 38). | |
| 04 | <p>Example 4</p> <p>Although HoTARAC agrees with the conclusion of the example, HoTARAC considers that a government that has the power to impose regulatory control might, arguably, meet the control criteria as such power would significantly influence the returns of the electricity distributor being regulated. This is particularly relevant when the electricity distributor being regulated is a Government Business Enterprise and may, depending on each governmental arrangement, provide dividend payments or dividends-in-kind to the government. More discussions may be needed to better articulate the argument in concluding why the government or the regulator does not control the electricity distributor in the example.</p> | <p>The example has been expanded to address the issues raised by R04. The example now reads:</p> <p>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 <u>such</u> regulatory control and has established price ceilings for entities that distribute electricity. <u>The central government does not have an ownership interest in the electricity distributors and does not receive financial benefits from the electricity distributors.</u> Neither the central government, nor the government agency, has power over the relevant activities of the electricity distributors.</p> |
| 16 | <p>Examples –especially 12, 26, 27, 38</p> <p>52 examples are given in the Illustrative Examples section. We understand that this high volume of examples aims to provide good guidance on how the control and other consolidation concepts should be interpreted in a public sector context. While we welcome this, we believe that where examples are used, the relationship between the fact pattern and the conclusions should be clear in order to limit the risk of misinterpretation. For example:</p> | <p>See comments in the next four rows.</p> |
| 16 | <p>Example 12</p> <p>Example 12 illustrates the operation of a golden share. In our view, the fact pattern and the analysis should be further developed to explain how the conclusion is reached.</p> | <p>Example 12 has been expanded to address the comments by R16 and R21 (having regard to a real-life example). The example now reads:</p> <p>A central government has privatized a <u>company and, in order to protect its number of entities. In the case of certain strategic entities which it has wished to privatize without risking national interests,</u> it has used a “golden share” mechanism <u>to give it veto power for certain of the most important decisions to be taken by the company.</u> The “golden share” does not have any value or <u>give any percentage rights to in the charter capital of the company. The golden share states that control of the company, or a 24 percent stake in the company cannot be sold without the permission of the central government.</u></p> |

| R# | Illustrative Examples in IPSAS 35 | Comment |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | <p>The central government has protective rights, not substantive rights, in respect of these companies.</p> |
| 16 | <p>Example 26</p> <p>We believe that additional guidance should be given about circumstances where powers are substantive and how this should be considered in the context of entities which the government has established (either by legislation or otherwise). In this example, there is no discussion about how substantive the powers of the board in fact are, it just leaps to the conclusion that the entity is not controlled by the government.</p> | <p>Example 26 has been expanded to address the comments by R16 and R21. The example now reads:</p> <p>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. <u>Each board determines its own operating and financial policies and strategy is determined by the board.</u> The activities that have the biggest impact on the achievement of the boards' objectives are the management of property and the distribution of funds to the beneficiaries.</p> <p>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 <u>does not have</u> rights that give it power over the relevant activities of the boards. Despite the fact that their powers are limited by legislation, each board is responsible for determining its own operating and financial policies.</p> |

| R# | Illustrative Examples in IPSAS 35 | Comment |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 16 | <p>Example 27</p> <p>There is no indication in the fact pattern that the shared service company is under joint control (which requires the unanimous agreement of the participants), yet that is the conclusion reached. We agree that none of the participants seem to control. However, we do not believe that the fact pattern supports a conclusion of joint control, nor do we believe it is necessary or desirable to reach such a conclusion in an example illustrating the determination of whether control exists.</p> | <p>The example has been changed to address comments by R16 and R21. The final sentence of the example now reads:</p> <p><u>In deciding how to account for its interest in the company each local authority would also need to consider whether it is a party to a joint arrangement as defined in IPSAS 37, <i>Joint Arrangements</i>.</u></p> |
| 16 | <p>Example 38</p> <p>We are unsure what the term "delegated control from the Minister" means. Does it mean that the Minister has no control, or does it mean that the Health Department has control but because the Minister controls the Health Department he also controls the statutory body? Delegated control is not a term used in the standard and therefore we believe that further explanation is needed.</p> | <p>The example was updated in September to reflect changes made to the AASB example on which this was based. It no longer uses the term "delegated control". Instead it says that the Minister has delegated certain powers. For the avoidance of doubt, the following sentence has also been added:</p> <p><u>The Minister could still exercise the powers that have been delegated to the Health Department's head, but in practice, is unlikely to do so.</u></p> |
| 21 | <p>Examples – especially 8, 8B, 12, 13, 26, 27, 31, 36(a), 38</p> <p>We note that ED 49 has been modified to contain a number of public sector examples and support this approach. However, we consider that some examples do not contain sufficient information to support the conclusions given. We recommend that all examples be reviewed to see if they contain sufficient discussion of substantive and protective powers. Some examples could be omitted. Comments on specific examples follow. [see following comments]</p> | <p>See comments in the next 7 rows.</p> |
| 21 | <p>Example 8</p> <p>This example focuses on certain powers only. It does not provide information about the rights of various parties in accordance with the constitution of the entity being assessed for control. Nor does it discuss the ability of the potential controlling entity to make substantive decisions. In particular, we recommend that the conclusion in Example 8B be amended or supported by additional information.</p> | <p>Examples 8 and 8B were changed in September 2014 (refer September 2014 agenda paper 6.4).</p> |

| R# | Illustrative Examples in IPSAS 35 | Comment |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 21 | <p>Example 12 Omit or expand.</p> | <p>See the changes made to Example 12 above (refer to R16's comment).</p> |
| 21 | <p>Example 13 Omit or expand.</p> | <p>Example 13 has been changed to address the comments by R21. The changes are based on a real life example of a golden share. It now reads:</p> <p><u>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 The golden share granted the Secretary of State (as the holder of the share) a 15 percent shareholding in the company, and consequently the ability to block any potential takeover of the business. It also required that the chairman of the board and the chief executive be citizens of the country allows it to veto foreign control of the board or company. The rationale for the golden share was to protect the company from an overseas acquisition, principally on the grounds of national security.</u></p> <p>The central government has protective rights, not substantive rights, in respect of these companies.</p> |
| 21 | <p>Example 26 Omit or expand.</p> | <p>See the changes made to Example 26 above (refer to R16's comment).</p> |
| 21 | <p>Example 38 Omit or expand.</p> | <p>Example 38 was changed in September (refer September 2014 agenda paper 6.4).</p> |
| 21 | <p>Example 36(a) Example 36(a) refers to trustees controlling a trust. Given the nature of the relationship between a trustee and a trust it would be more appropriate to state that the trustees have <i>power</i> over the trust (rather than control).</p> | <p>Example 36(a) now refers to power.</p> |
| 21 | <p>Trusts – more examples Given the prevalence of trusts to carry out activities in some jurisdictions, we consider that there could be more discussion of, and references to, trusts. We note that paragraph 59(c) refers to trusts but consider that a discussion of trusts could be usefully incorporated elsewhere. We have provided an example of a controlled charitable trust that could form the basis of an additional example.</p> | <p>Staff have drafted two new examples of controlled trusts for consideration by the IPSASB. Example 30A is based on the suggestion from R21. Example 30B is based on a (simplified) actual example. They are shown immediately below this table. If the IPSASB agrees to include these two examples staff will update the example numbering.</p> |

| R# | Illustrative Examples in IPSAS 35 | Comment |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 26 | <p>Examples 7, 51, 52</p> <p>We question the public sector relevance of example 7 of an investment vehicle, example 51 of a real estate entity and example 52 of a master fund.</p> <p>We propose that more relevant public sector specific examples should be included to assist preparers in understanding and in identifying an investment entity.</p> | <p>Examples 7, 51 and 52 have been retained because they can occur in the public sector. For example, feeder funds can occur alongside infrastructure investment funds or superannuation funds.</p> <p>A new example (Example 53) has been drafted for consideration by the IPSASB. It is shown immediately below this table.</p> <p>Staff also identified a sovereign wealth fund that classifies itself as an investment entity but there was not enough publicly available information to develop an example.</p> |

15. The three new examples for IPSASB's consideration are shown below.

Example 30A (Controlled trust)

Trust A promotes, supports and undertakes programmes, actions and initiatives to beautify City A. It receives funding from the local government for various services, including graffiti removal, beautification projects and running environmental events. It reports back to the local government on its performance in delivering these services. If the trust did not exist the local government would need to find some other way to deliver these services. The trust also receives assistance through donations and volunteer work by the local community including local businesses, schools, community groups and individuals.

The trust was originally established by an elected official of the local government.

The governing body of the local government appoints all the trustees (having regard to certain requirements such as balance in gender and location of trustees). There are between five and 12 trustees. The trustees appoint the officers.

Changes to the trust deed must be approved by the trustees and the governing body of the local authority.

If the trust is wound up, surplus assets must be transferred to a similar charitable body in the same geographical area. This transfer of assets is subject to the approval of the local government.

The local government has a mix of rights over the trust including rights to:

- (a) Appoint, reassign or remove members of the trust's key management personnel who have the ability to direct the relevant activities;
- (b) Approve or veto operating and capital budgets relating to the relevant activities of the trust; and
- (c) Veto key changes to the Trust, such as the sale of a major asset or of the trust as a whole.

The local government is able to direct the relevant activities (the services) of the trust through its arrangements in such a way that it is able to affect the costs and quality of the services being provided. The local government is exposed to variable returns (both the economic effects of the service and the quality of the service). As it uses its power to affect these returns, the local government controls the trust.

Example 30B (Controlled trust)

Entity A is a public sector body that promotes the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions. It also facilitates access to housing finance and promotes competition and efficiency in the provision of housing finance.

Entity A established a separate trust which has narrowly defined objectives. The trust's functions are to acquire interests in eligible housing loans and issue mortgage bonds. Entity A guarantees the bonds issued by the trust but does not provide ongoing funding – the trust finances its activities through the revenue from its investments.

If the trust is wound up the trust's assets are to be distributed to one or more charitable organizations. Entity A does not have on-going decision-making rights over the trust's activities.

Entity A has power over the relevant activities of the trust because it determined the relevant activities of the trust when it established the trust.

Example 53 (Investment entity)

Government Corporation A was established with the principal activity of providing equity finance to both existing and new enterprises. Its investment objective is to seek capital appreciation and returns. All acquisitions are made on that basis. The strategy of the Corporation is to increase the fair value of investments in order to realize a gain on disposal. Management assesses and monitors fair value of the investments on a regular basis. The Corporation regularly disposes of investments when they reach a certain stage of maturity so as to provide funds for ongoing investment opportunities. Any surplus is distributed to the government in the form of dividends.

The Corporation also provides investment related services to the government regarding the government's policies for assisting entities in financial distress. It acts as an agent in managing and implementing some of the government's business inventive schemes. The Corporation is not exposed to any losses or risks as a result of its involvement with these schemes.

The Fund is an investment entity. It meets all three aspects of the definition of an investment entity.

Matter(s) for Consideration

2. The IPSASB is asked to:
 - (a) PROVIDE FEEDBACK on the changes made to the illustrative examples, in response to constituents' comments, as set out in Table 2;
 - (b) PROVIDE FEEDBACK on whether to include the new examples 30A, 30B and 53; and
 - (c) PROVIDE FEEDBACK on whether to delete any examples.

Issue 3: Impact of IASB Projects

16. Throughout the development of IPSASs 34 to 38 staff have been monitoring a number of IASB projects proposing amendments to the IFRSs on which these IPSASs are based. A summary of all relevant IASB projects and their impact on the IPSASB's EDs and on IPSASs 34 to 38 is set out in Appendix A of this paper. There is one IASB project that needs to be considered by the IPSASB at this meeting.
17. IASB ED/2014/2 *Investment Entities—Applying the Consolidation Exception* (Proposed amendments to IFRS 10 and IAS 28) was issued in June 2014. It responded to issues raised by the IASB's constituents who sought clarification about the application of the IASB's standards by investment entities, and to investment entities. At its September 2014 meeting the IPSASB indicated that it did not support including the IASB's proposed changes in IPSASs 34 to 38, prior to the finalization of the IASB's amendments. The IPSASB asked staff to monitor this IASB project and update the IPSASB in December.
18. The IASB has now considered respondents' comments on IASB ED/2014/2 and tentatively decided to proceed to amend IFRS 10 and IAS 28. The amendments are expected to be issued in December 2014. The IASB's tentative decisions (as at October 2014) are set out in Table 3A. More detail on what IASB respondents said is included in Appendix A of this issues paper. A verbal update on the expected issue date of the IASB amendments will be provided at the IPSASB's meeting.

Table 3A

| Issues in IASB ED/2014/2 ¹ | IASB Tentative Decisions (October 2014) ² |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>Exemption from preparing consolidated financial statements</i></p> <p>Proposed to clarify that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 is also available to an intermediate parent entity that is a subsidiary of an investment entity, even when the investment entity measures its subsidiaries at fair value.</p> | <p>The IASB has decided to amend IFRS 10 to clarify this matter.</p> |
| <p><i>Accounting for an investment entity subsidiary that also provides investment-related services</i></p> <p>Proposed to clarify that an investment entity should measure at fair value all of its subsidiaries that are themselves investment entities.</p> | <p>The IASB has decided to amend IFRS 10 to clarify this matter.</p> |
| <p><i>Application of the equity method by a non-investment entity investor to an investment entity investee</i></p> <p>Proposed to amend IAS 28 to:</p> <p>(a) provide relief to a non-investment entity investor by <i>requiring</i> it to retain, when applying the equity method, the fair value measurement applied by an investment entity associate to its interests in subsidiaries; and</p> <p>(b) clarify that a non-investment entity investor that is a joint venturer in a joint venture that is an investment entity cannot, when applying the equity method, retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries.</p> | <p>IASB constituents supported (a) but not (b).</p> <p>The IASB has decided to amend IAS 28 to <i>permit</i> the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate <i>or joint venture</i>. That is, entities applying IAS 28 (2011) will have a choice as to whether they unwind the fair value treatment or not.</p> <p>This differs from the IPSASB's decision to <i>require</i> the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture.</p> |

19. Staff consider that the forthcoming IPSASs should be aligned as much as possible with the IFRSs on which they are based, including these forthcoming clarifications. That is, staff propose to include the clarifications in the first two rows of Table 3A, but not the one in the third row (because the IPSASB has already made a decision on this issue).
20. Most of the issues noted in ED/2014/2 could also arise when public sector entities have interests in investment entities. Staff acknowledge that there are pros and cons to incorporating these clarifications, but, on balance, consider that it would be more helpful for constituents to address these matters now. Table 3B sets out some reasons to clarify the issues raised in ED 2014/2 now and reasons for waiting.

¹ The description of these issues uses IFRS terminology.

² Source: IASB daily staff Update—24 October 2014. Any decisions taken by the IASB in its meetings are tentative until it has formally balloted on a consultation document or an IFRS.

Table 3B

| Reasons to clarify the issues raised in IASB ED 2014/2 now | Reasons to wait |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The IASB agreed that these issues are unclear and should be clarified. | |
| Some IPSASB constituents raised similar issues and are likely to encounter similar issues. To the extent that IPSASB constituents raised similar issues, due process has occurred. | Due process could be more clearly addressed. |
| In the context of the standards as a whole, the proposed changes are not significant. | |
| IASB constituents supported most of the proposed changes. The majority did not support the proposal that an entity unwind the fair value measurement used by an investment entity joint venture. The IASB considered the comments and tentatively decided to require the retention of the fair value measurement for investment entity associates and investment entity joint ventures. This is consistent with the IPSASB's decision in September 2014. | |
| If the matters are not addressed now, the standards will need to be amended shortly after they are issued. | The final wording of the IASB's amendments may not be available at the time of the IPSASB's December 2014 meeting. There could be minor differences in wording that would need to be considered at a later date. |

21. The draft IPSASs in agenda papers 3.2 to 3.6 include the proposed clarifications in the first two rows of Table 3A. If the IPSASB disagrees with the staff recommendation to include these clarifications, the changes made will be removed from the standards. The impact of these clarifications on each draft IPSAS is shown in Table 3C below.

Table 3C

| Changes made to draft IPSASs to clarify issues raised in IASB ED 2014/2 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Exemption from preparing consolidated financial statements</p> <p>IPSAS 35, <i>Consolidated Financial Statements</i> paragraph 5 includes the following changes.</p> <p>5. An entity that is a controlling entity shall present consolidated financial statements. This Standard applies to all entities, except as follows:</p> <p>(a) A controlling entity need not present consolidated financial statements if it meets all the following conditions:</p> <p>(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 controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;</p> |

Changes made to draft IPSASs to clarify issues raised in IASB ED 2014/2

- (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 International Public Sector Accounting Standards (IPSASs), including the requirements of this Standard to consolidate controlled entities or measure them at fair value, in accordance with paragraph 54 of this Standard.**
- ~~(b) Post-employment benefit plans or other long-term employee benefit plans to which IPSAS 25, *Employee Benefits*, applies.³~~
- (b) **A controlling entity that is an investment entity reporting in accordance with IPSASs need not present consolidated financial statements if it is required and, in accordance with paragraph 54 of this Standard, is required to measure all of its controlled entities at fair value through surplus or deficit.**

This IPSAS applies to all entities, except post-employment benefit plans or other long-term employee benefit plans to which IPSAS 25, *Employee Benefits* applies.

IPSAS 36, *Investments in Associates and Joint Ventures* paragraph 23 includes the following changes.

23. 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 IPSAS 35, *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, including the requirements to consolidate controlled entities in accordance with paragraph 36 of IPSAS 35 or measure them at fair value in accordance with paragraph 54 of IPSAS 35.

³ Amended to clarify that an entity is exempt from consolidating these plans - i.e. the plans as investees. A respondent to ED 2014/2 considered that (b) could be read as addressing the accounting in the financial statements of the plan itself i.e. the plan as parent – rather than in the financial statements of the investor.

Changes made to draft IPSASs to clarify issues raised in IASB ED 2014/2

IPSAS 38, *Disclosure of Interests in Other Entities* paragraph 4(b) incorporates the following changes.

4. This Standard does not apply to:

....

- (b) An entity's separate financial statements to which IPSAS 34, *Separate Financial Statements* applies. However, if an entity is an investment entity and prepares separate financial statements as its only financial statements, it shall apply the requirements of this Standard when preparing those separate financial statements. In addition, if an entity has interests in structured entities that are not consolidated and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraphs 40–48 when preparing those separate financial statements.

...

A controlled entity that provides services that relate to the controlling entity's investment activities

IPSAS 35, *Consolidated Financial Statements*, includes the following changes.

55. Notwithstanding the requirement in paragraph 54, if an investment entity has a controlled entity that provides is not itself an investment entity and which acts as an extension of the investment entity by providing services that support relate to the investment entity's investment activities (see paragraphs AG98–AG100), it shall consolidate that controlled entity in accordance with paragraphs 36–53 of this Standard.

...

AG98. 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, if these activities are undertaken as an extension of, and in support of, the investment activities of the investment entity even if those activities are substantial to the entity.

...

AG100. If an investment entity has a controlled entity that provides is not itself an investment entity and which acts as an extension of the investment entity by providing investment-related services or activities that support the investment entity's investment activities, such as those described in paragraphs AG98–AG99, to the entity or other parties, it shall consolidate that controlled entity in accordance with paragraph 55. If the controlled entity that provides the investment-related services or activities is itself an investment entity, the controlling investment entity shall measure the subsidiary at fair value through surplus or deficit in accordance with paragraph 54.

The Basis for Conclusions on IPSAS 35 notes that the IPSASB incorporated those aspects of the IASB's clarifications regarding the investment entity exception that were relevant to this Standard.

Matter(s) for Consideration

3. The IPSASB is asked to:
- (a) NOTE that Appendix A to this issues paper summarises relevant IASB projects and their impact on EDs 48 to 52 and IPSASs 34 to 38;
 - (b) AGREE, for the reasons set out in Table 3B, to clarify two of the issues raised in IASB ED/2014/2; and
 - (c) CONFIRM the marked-up changes to IPSASs 35, 36 and 38 shown in Table 3C above

If the IPSASB disagrees with the recommendation (c), the changes shown in Table 3C will be removed from the standards.

Issue 4: Use of the Term “Binding Arrangements”

22. This section considers respondents’ comments on how the term “binding arrangements” was used throughout the EDs and proposes a few changes to improve the consistent usage of this term. The term “binding arrangements” is used most in IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements*. Relevant extracts from existing IPSASs and the draft IPSASs are shown below.
23. Some background on the IPSASB’s previous discussions might be helpful before considering the specific comments by respondents.
- (a) In December 2012 the IPSASB requested that, in response to comments made by members, staff review the use of the term “binding arrangements” to ensure that the intended meaning is clear and that usage is consistent. This was in response to a comment from a member that the term had been used in different contexts in different IPSASs.
 - (b) In March 2013 agenda item 7.1 discussed the use of the term “binding arrangements” in various IPSASs and analysed the use of the term in the draft EDs. Staff expressed the view that the appropriateness of the term (and its definition) depended on the context and provided examples, together with proposed clarifications for consideration by the IPSASB. This agenda paper noted that the narrowest use of the term is found in standards dealing with financial instruments where it is used in relation to rights that are (i) similar to contracts and (ii) in respect of willing parties. The definition in this project was based on the definition in IPSAS 32, *Service Concession Arrangements: Grantor*. The IPSASB was asked whether it wanted to limit the term to arrangements where there are willing parties or whether the term is also intended to encompass other types of rights, such as those created through legislation. The IPSASB agreed to modify the definition to incorporate arrangements that establish enforceable rights and obligations on the parties to the arrangement.
 - (c) The minutes for March 2013 state that “The IPSASB was generally supportive of the proposed changes to the discussion of binding arrangements and other rights arising from legislative or executive authority in ED X, *Consolidated Financial Statements* and ED X, *Joint Arrangements* as set out in agenda item 7.1 (paragraphs 119 to 125) and with the proposal that this approach be carried through to the other EDs in the project. The IPSASB agreed to modify the definition of binding arrangements to incorporate arrangements that establish enforceable rights and obligations on the parties.”

- (d) In September 2013 (when the EDs were approved) the IPSASB agreed that each ED referring to binding arrangements should include a definition of the term binding arrangements. One of the changes agreed during the meeting was to limit paragraph AG20(a) and (b) to “contractual rights”.

Table 4A

| Binding Arrangements – Relevant Extracts |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>IPSAS 28, <i>Financial Instruments: Presentation</i></p> <p><i>Contractual Arrangements</i></p> <p>BC15. The IPSASB noted that, in certain jurisdictions, public sector entities are precluded from entering into formal contracts, but do enter into arrangements that have the substance of contracts. These arrangements may be known by another term, e.g., a “government order.” To assist entities in identifying contracts, which either have the substance or legal form of a contract, the IPSASB considered it appropriate to issue additional Application Guidance explaining the factors an entity should consider in assessing whether an arrangement is contractual or non-contractual.</p> <p>BC16. Consideration was given as to whether the term “binding arrangement” should be used to describe the arrangements highlighted in paragraph BC15. The term “binding arrangement” has not been defined, but has been used in IPSASs to describe arrangements that are binding on the parties, but do not take the form of a documented contract, such as an arrangement between two government departments that do not have the power to contract. The IPSASB concluded that the term “binding arrangements,” as used in IPSASs, embraces a wider set of arrangements than those identified in paragraph BC15 and therefore concluded that it should not be used in this IPSAS 28.</p> |
| <p>IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i></p> <p>20. For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.</p> |
| <p>IPSAS 32, <i>Service Concession Arrangements: Grantor</i></p> <p>Definitions</p> <p>Binding arrangement: For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.</p> |
| <p>IPSAS 35, <i>Consolidated Financial Statements</i></p> <p>Definitions</p> <p>Binding arrangement: For the purposes of this Standard, a binding arrangement is 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.</p> <p>[<i>This definition is also included in IPSAS 36, IPSAS 37 and IPSAS 38</i>]</p> <p>Binding Arrangement</p> <p>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 contractual arrangements, either on their own or in conjunction with contracts between the parties.</p> |

27. Respondent 04 made the most comments about binding arrangements. Respondent 04’s comments and the staff response are set out in Table 4B below.

Table 4B

| Respondent 04 on “Binding Arrangements” | Staff Response |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>ED 49 introduces the concept of ‘binding arrangements’ to cover situations in which entities applying IPSASs do not have the power to enter contractual arrangements. The definition of paragraph 10 suggests that this is intended to apply to contract-like arrangements and BC43 [now BC47] states that references to ‘contractual arrangements’ in IFRS should be replaced with ‘binding arrangements’. However, paragraph AG20 of ED 49 refers to contractual arrangements and rights in considering whether an entity’s appointment rights for key personnel are sufficient to give it control.</p> | <p>During its September 2013 meeting the IPSASB decided that paragraph AG20(a) and (b) should be limited to “contractual rights”. This is because it is referring to those rights that the entity has <i>in addition to</i> its contractual rights.</p> <p><u>Action taken</u></p> <p>The first sentence in ED 49, paragraph BC47 has been changed to read “The IPSASB agreed to replace <u>most</u> references to “contractual arrangements” with reference to the term “binding arrangements”.</p> |
| <p>The IPSASB have also added paragraph AG38, which refers to the power to appoint a governing body arising from ‘binding arrangements (including existing legislation, regulation, contractual, or other arrangements)’.</p> <p>Example 15 suggests that the power to appoint trustees to a museum satisfies this criterion. In this instance, the term ‘binding arrangement’ seems to be applied more broadly than contract-like arrangements.</p> | <p>The IPSASB specifically wanted to include this guidance as the power to appoint the governing body is regarded as one of the most common ways in which a public sector entity is assessed as having control over another entity. The guidance in paragraph AG38 is not inconsistent with paragraph AG20.</p> <p>Example 15 is consistent with both paragraphs AG20 and AG38.</p> <p><u>Action taken</u></p> <p>No changes have been made.</p> |
| <p>The definition of binding arrangements is also included in EDs 50, 51 and 52, but without the explanation in the basis of conclusions, so it is unclear in what context the term is used in these exposure drafts.</p> | <p><u>Action taken</u></p> <p>In the Basis for Conclusions on IPSAS 35, under the heading “Terminology” the following sentence has been added: “Unless noted otherwise in an IPSAS, this discussion of terminology is relevant to IPSASs 34 to 38.”</p> <p>In the Basis for Conclusions on IPSAS 38, the single paragraph on “Terminology” has been deleted (it merely said that the IPSASB had agreed to make changes to terminology to make it appropriate for application by public sector entities, and that changes were consistent with IPSAS 35).</p> |

| Respondent 04 on “Binding Arrangements” | Staff Response |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>For example, paragraph 35 of ED 52 refers to a contractual relationship, while binding arrangements are referred to in the rest of the ED.</p> | <p><u>Action taken</u></p> <p>The word “contractual” in IPSAS 38 paragraph 35(a), has been deleted. Staff consider that the introduction to the requirement makes it clear that the disclosure is limited to the effect of the interest in the other entity.</p> <p>35. An entity shall disclose information that enables users of its financial statements to evaluate:</p> <p>(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 36 and 38); and</p> |
| <p>The term ‘contractually’ is applied in the definition of joint control in ED 50, but joint arrangements in ED 51 is defined in terms of ‘binding arrangements’ in paragraph 10.</p> | <p><u>Action taken</u></p> <p>Use the same definition of “joint control” in IPSAS 36 and IPSAS 37 (using the definition that was in ED 51 and which refers to agreed sharing of control and binding arrangements).</p> |
| <p>ED 52 paragraph 30 requires that an investment entity disclose restrictions arising from binding arrangements, while paragraph 32 requires disclosure of contractual arrangements for the provision of financial support.</p> | <p><u>Action taken</u></p> <p>IPSAS 52 paragraph 32 has been changed to refer to “binding arrangements” as shown below.</p> <p>32. An investment entity shall disclose the terms of any bindingcontractual 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).</p> |
| <p>If the terminology used in these cases is deliberate, additional explanation in the basis for conclusions would be useful to prevent confusion in the application of the requirements and the distinction between ‘contractual’ and ‘binding’ arrangements.</p> | <p><u>Action taken</u></p> <p>Other actions (as discussed elsewhere in this Table) should collectively address this comment.</p> |

| Respondent 04 on “Binding Arrangements” | Staff Response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Additionally, given the rationale stated (i.e. that this applies where entities are unable to enter formal contractual relationships), the IPSASB may wish to consider the consistency of this approach with the references to contractual rights and arrangements in other IPSASs, for example, those related to financial instruments.</p> | <p>The IPSASB deliberately used a broader definition of binding arrangements in this project than that used in the standards on financial instruments.</p> <p><u>Action taken</u></p> <p>No action taken.</p> |

28. Comments from other respondents regarding the use of the term binding arrangements in the EDs are shown in Table 4C.

Table 4C

| Other comments on “Binding Arrangements” | Staff Response |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>In commenting on ED 51, Respondent 10 considered that the rationale for using the term “binding arrangements” had not been sufficiently explained and that the implications of using this term were not clear.</p> | <p>The IPSASB considered this comment in June 2014 and agreed to retain the term “binding arrangement” in ED 51 (now IPSAS 37).</p> |
| <p>In commenting on ED 52, Respondent 26 questioned how a binding arrangement, would impact the definition and identification of a structured entity. R26 commented “In the explanation in AG20, reference is made to both administrative arrangements and binding arrangements, yet the definition of a structured entity only refers to administrative arrangements. Clarification on how or whether binding arrangements are considered in identifying structured entities should be provided in this Exposure Draft.”</p> | <p>In June staff suggested that examples could be helpful and proposed to try and identify examples for consideration by the IPSASB. The proposed new example 30B describes a controlled structured entity. The example is silent as to whether the arrangements have been established via legislation, legal mechanisms such as deeds or binding arrangements. In practice the mechanisms that are used will depend upon the legal arrangements in a jurisdiction.</p> |

Matter(s) for Consideration

4. The IPSASB is asked to:
- (a) NOTE the comments from respondents on the use of the term binding arrangements in EDs 48 to 52 and the proposed staff response, as set out in Tables 4B and 4C;
 - (b) CONFIRM that it agrees with the action taken in response to those comments.

Issue 5: Location of Definitions

29. In September the IPSASB agreed to issue the standards in the same order as the EDs and requested that staff exercise judgment in applying the policy on definitions to the new standards. The IPSASB was of the view that key definitions should be included in relevant standards.

The Definitions Policy in IPSASs

30. The first time a definition is used in an IPSAS it is included in the definitions section of that IPSAS. It is also included in the glossary. The glossary includes a cross reference to where the definition is first used and defined. When a defined term is used in subsequent IPSASs the definition is not repeated in the definitions section of the other IPSASs. This avoids repetition and redundancy.
31. There has been some discretion in the application of the definitions policy. For example, there are many defined terms that are used in IPSAS 1, *Presentation of Financial Statements*, but not all of those definitions are provided in IPSAS 1.

Proposed Definitions Policy for this Project

32. Application of the definitions policy to this group of standards has raised a few issues. A number of defined terms are used in more than one standard, but the first use of a term is not necessarily in the standard where readers would expect to find the definition. For example, if the policy were applied strictly, IPSAS 34 *Separate Financial Statements* would include definitions for the majority of the defined terms.
33. Staff considered whether these terms should be defined in both IPSAS 34 and the other standard(s) where readers might expect to find the definitions, but felt that this would lead to unnecessary repetition. Instead, staff has:
- (a) Defined key terms in the standard where readers would expect to find them. Generally a term has been defined in only one standard, but in a few cases a term is defined in two standards. The term “binding arrangement” has been included in four standards because the definition states that it is for “the purpose of this Standard”; and
 - (b) Added a sentence at the end of the definitions section in each standard noting the terms defined in other standards within this project. This is similar to the approach taken by the IASB in the underlying IFRSs. For example, draft IPSAS 34 *Separate Financial Statements* now includes the sentence: “The following terms are defined in IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures* and IPSAS 37, *Joint Arrangements*: associate, control, controlled entity, controlling entity, economic entity, equity method, investment entity, joint control, joint operation, joint venture, joint venturer and significant influence.”

Defined Terms in this Project

34. Table 5 lists the defined terms used in the five standards within this project. For each defined term it indicates where the term is defined and where the use of the term is noted.

Table 5

| Term | IPSAS 34 Separate Financial Statements | IPSAS 35 Consolidated Financial Statements | IPSAS 36 Investments in Associates and Joint Ventures | IPSAS 37 Joint Arrangements | IPSAS 38 Disclosure of Interests in Other Entities |
|-----------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------------------------|
| Associate | Used – Noted | Used – Noted | Defined | Used (Not noted because used only in a title) | Used – Noted |
| Benefits | – | Defined | Used – Noted | Used – Note | Used – Noted |
| Binding arrangement | – | Defined | Defined | Defined | Defined |
| Consolidated financial statements | Defined | Defined | Defined | Used (Not noted because used only in a title) | Used – Noted |
| Control | Used – Noted | Defined | Used – Noted | Used – Noted | Used – Noted |
| Controlled entity | Used – Noted | Defined | Used – Noted | – | Used – Noted |
| Controlling entity | Used – Noted | Defined | Used – Noted | – | Used – Noted |
| Decision-maker | – | Defined | – | – | – |
| Economic entity | Used – Noted | Defined | Used – Noted | – | Used – Noted |
| Equity method | Used – Noted | Defined (not defined or noted in IFRS 10) | Defined | Used – Noted | Used – Noted |
| Interest in another entity | – | Used – Noted | – | – | Defined |
| Investment entity | Used – Noted | Defined | Used – Noted | – | Used – Noted |
| Joint arrangement | Used (not noted because used only in a title) | Used (not noted because used only in the title of a standard and in non-integral IE) | Defined | Defined | Used – Noted |
| Joint control | Used – Noted | – | Defined | Defined | Used – Noted |
| Joint operation | Used – Noted | – | Used – Noted | Defined | Used – Noted |
| Joint operator | – | – | – | Defined | – |
| Joint venture | Used – Noted | Used – Noted | Defined | Defined | Used – Noted |
| Joint venturer | Used – Noted | – | Defined | Defined | – |

| Term | IPSAS 34 Separate Financial Statements | IPSAS 35 Consolidated Financial Statements | IPSAS 36 Investments in Associates and Joint Ventures | IPSAS 37 Joint Arrangements | IPSAS 38 Disclosure of Interests in Other Entities |
|----------------------------------|-------------------------------------------------|-----------------------------------------------------|-------------------------------------------------------------------|-----------------------------------|-------------------------------------------------------------|
| Non-controlling interest | – | Defined | – | – | Used – Noted |
| Party to a joint arrangement | – | – | Used (Not noted because used only in another definition) | Defined | – |
| Power | – | Defined | Used – Noted | Used – Noted | – |
| Protective rights | – | Defined | – | Used – Noted | – |
| Relevant activities | – | Defined | Used (Not noted because used only in another definition) | Used – Noted | Used – Noted |
| Removal rights | – | Defined | – | – | – |
| Revenue from a structured entity | – | – | – | – | Defined |
| Separate financial statements | Defined | – | Used – Noted | Used – Noted | Used – Noted |
| Separate vehicle | – | – | – | Defined | Used – Noted |
| Significant influence | Used – Noted | Used – Noted | Defined | Used – Noted | Used – Noted |
| Structured entity | – | – | – | – | Defined |

Matter(s) for Consideration

5. The IPSASB is asked to:

- (a) CONFIRM that it agrees with the proposed location of definitions (as set out in Table 5); and
- (b) AGREE that the definitions section in each of these IPSASs should include a sentence noting other key terms used in that IPSAS, but which are defined in another IPSAS.

Issue 6: Due Process

35. Key due process steps for this project are as follows:
- (a) October 2013: EDs issued;
 - (b) February 2014: Responses due;
 - (c) June 2014: IPSASB considered responses on key issues and provided direction. All responses were included in the IPSASB's agenda papers.;
 - (d) September 2014: IPSASB considered more detailed issues and provided direction; and
 - (e) December 2014: IPSASB considers remaining issues.
36. All of the key proposals in the EDs have been retained in the draft standards. The main changes made to the EDs are outlined in Table 6 below. Most of these changes are clarifications. The most substantive changes are the two additional disclosures in IPSAS 38. Both of these disclosures were prompted by comments from respondents.
37. The proposed effective date in all five IPSASs is for annual financial statements covering periods beginning on or after January 1, 2017. The IPSASB discussed the effective date in September and agreed that a 2 year period between date of issue and the effective date would be appropriate.

Table 6

| Changes to EDs | |
|-------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IPSAS 34, <i>Separate Financial Statements</i> | |
| <i>Paragraph</i> | |
| 14 | Clarification of how a controlling entity that is not itself an investment entity accounts for its interest in an investment entity. |
| 15 | Clarification of the point at which a controlling entity ceases to be an investment entity. |
| 16 | Clarification of the treatment of dividends received when the equity method has been used. |
| 22 | Clarification that a controlling entity, that is not itself an investment entity, is required to make certain disclosures about its controlled investment entities. |
| 31-32 | Clarification of transitional provisions. |
| BC2 | Additional paragraph to give an overview of the project. |
| BC7 | Additional paragraph to note responses to ED 48 (use of the equity method). |
| BC8 | Additional paragraph to note the IPSASB's decision to require that a controlling entity, that is not itself an investment entity, account for an investment entity in the same way in its consolidated and separate financial statements. |
| Comparison with IAS 27: | |
| 2 nd bullet | Notes that IPSAS 34 contains specific requirements for a controlling entity that is not itself an investment entity. |
| Deleted | A bullet point about IAS 27 not permitting the use of the equity method has been deleted as this is no longer a difference. |

IPSAS 35, Consolidated Financial Statements

- 5 Includes the clarifications discussed in issue 3 above.
- 7 New paragraph which explains that the exemption from preparing consolidated financial statements in paragraph 5 does not apply where the information needs of a controlled entity's users would not be met by the consolidated financial statements of the controlling entity. Based on IPSAS 6 paragraph 17.
- 8 Notes that there may be legislative requirements to prepare aggregated financial statements for other economic entities.
- 10 Definition of benefits: Expanded to clarify that the *actual impact* of an entity's involvement with another entity can have positive or negative aspects.
Definition of power: the reference to directing the operating and financing policies of an entity (which was added by the IPSASB to ED 49) has been removed. See also paragraph 21.
- 21 Notes that directing the operating and financing policies of an entity is frequently the way in which power is demonstrated in the public sector.
- 25 The final sentence is new. This gives guidance about an entity established with predetermined activities.
- 28 Notes that benefits are generally expected to be positive but actual benefits may be negative.
- 29 New example of congruent activities in 4th sentence.
- 55 Includes the clarifications discussed in issue 3 above.
- AG37 New 3rd sentence which states that voting rights under golden shares may give rise to power.
- AG53 More discussion of predetermined activities at the end of the paragraph.
- AG59 New paragraph stating that a liquidator would not normally have rights to variable benefits from its involvement with the entity being liquidated.
- AG98 Includes the clarifications discussed in issue 3 above
- AG100 Includes the clarifications discussed in issue 3 above.

IPSAS 35 – Amendments to Other IPSASs

- IPSAS 2 Replace the definition of control in IPSAS 2 with the new definition.
- IPSAS 2 Paragraphs 50A, 52A, 52B explain how certain requirements apply to investment entities. These paragraphs have been extended to explain how certain requirements apply to investments held through a controlled investment entity.
- BC2: Additional paragraph to give an overview of the project.
- BC4-5 New discussion of the IPSASB's efforts to align with GFSM 2014.
- BC15 Expanded to discuss respondents' feedback on the removal of the temporary control exemption.
- BC16 Two sentences have been added to more fully document IPSASB's deliberations about the treatment of temporarily controlled entities.
- BC18 New final sentence discussing statistical sectors.
- BC19 Expanded to include feedback from respondents.
- BC30 Refers to investment entity clarifications. Refer issue 3 above. This paragraph will need to be updated if the IASB issues the amendments before December 31, 2014.
- BC47 Now refers to "most" references to contractual arrangements. Refer issue 4.

Changes to EDs

| | |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BC52 | New paragraph to explain why the IPSASB agreed not to impose a three month limit on the difference in reporting dates. |
| BC53-54 | New paragraphs discussing feedback about implementation issues. This is shorter than the draft text included in the September 2014 agenda papers. |
| BC55 | New paragraph explaining why the IPSASB decided not to incorporate the amendments in <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (Amendments to IFRS 10 and IAS 28), issued in September 2014. |
| IG2 | Flowchart 2 on assessing control was deleted following comments from respondents. |
| Examples | The changes to examples are outlined in issue 2. |

IPSAS 36, *Investments in Associates and Joint Ventures*

| | |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4 | Clarified that quantifiable ownership interests can include an interest in a partnership. Also paragraphs 10 and 11 have been clarified. |
| 8 | Definition of joint control is now the same as that in IPSAS 37. There was an error in the ED. |
| 23(b)(iv) | Includes the clarifications discussed in issue 3 above. |
| 24-25 | Clarified how these elections would be used by an investment entity or interests held indirectly through an investment entity. |
| 26(b) | The use of carrying amount as the initial cost of a retained interest in a former associate or joint venture is now linked back to IPSAS 29 (rather than published price quotations). |
| 39 | Clarified how the requirements apply to an interest in an investment entity that is an associate or a joint venture. |
| 50 | New paragraph to refer to the transitional provisions in IPSAS 37, <i>Joint Arrangements</i> . |
| BC2 | Additional paragraph to give an overview of the project. |
| BC6 | Notes that respondents asked for disclosure of non-quantifiable ownership interests. |
| BC10 | New paragraph to explain why the IPSASB agreed not to impose a three month limit on the difference in reporting dates. |
| BC11-12 | Note that respondents sought clarification of the requirements regarding investment entities. |
| BC12 | Two BC paragraphs have been deleted because they are no longer relevant. They discussed IASB ED/2012/3 <i>Equity Method: Share of Other Net Asset Changes</i> (Proposed Amendments to IAS 28). The IASB decided not to proceed with this project. |
| Comparison with IAS 28: | |
| 4 th bullet | Updated to reflect the change to paragraph 26(b). |
| 5 th bullet | New point to acknowledge the requirements for an interest in an associate or a joint venture that is an investment entity (as set out in paragraph 39). This comparison will need to be updated if the IASB amends these requirements before December 31, 2014. |

Changes to EDs

IPSAS 37, *Joint Arrangements*

- 41 Now refers to IPSAS 6 (rather than IPSAS 34) because it deals with the standard that an entity was *previously* applying.
- BC2 Additional paragraph to give an overview of the project.
- BC5 Additional paragraph to explain the rationale for the removal of proportionate consolidation. This explanation is shorter than that included in the September 2014 agenda papers.
- IE2, 5, 7 Clarified that there is no service concession arrangement involved.
- IE18 Clarified the allocation basis in the joint arrangement.

IPSAS 38, *Disclosure of Interests in Other Entities*

- 4(b) Includes the clarifications discussed in issue 3 above.
- 13 Notes that the use of cross-referencing may be subject to jurisdictional restrictions.
- 23 Reverted to the wording in IFRS 12, paragraph 16, as recommended by a respondent.
- 32 Refers to “binding arrangements” rather than “contractual arrangements”. Refer issue 4 above.
- 35 Refers to a “relationship” rather than a “contractual relationship”. Refer issue 4 above.
- 49-50 New disclosure regarding non-quantifiable ownership interests.
- 51-56 New disclosure regarding controlling interests acquired with the intention of disposal. Refer issue 1 above.
- Consequential amendments: IPSAS 30.AG6 Notes that the use of cross-referencing may be subject to jurisdictional restrictions. For consistency with paragraph 13 of IPSAS 38.
- BC2 Additional paragraph to give an overview of the project. Previous BC2 which discussed terminology has been deleted because terminology is discussed in IPSAS 35.
- BC9 Explains the IPSASB’s decision to require information about non-quantifiable ownership interests.
- BC10-12 Explains the IPSASB’s decision to require information about controlling interests acquired with the intention of disposal. Refer issue 1 above.

Matter(s) for Consideration

6. The IPSASB is asked to:
- (a) CONFIRM that it has carried out appropriate due process in developing these standards; and
 - (b) APPROVE for issue:
 - (i) IPSAS 34, *Separate Financial Statements*;
 - (ii) IPSAS 35, *Consolidated Financial Statements*;
 - (iii) IPSAS 36, *Investments in Associates and Joint Ventures*;
 - (iv) IPSAS 37, *Joint Arrangements*; and
 - (v) IPSAS 38, *Disclosure of Interests in Other Entities*.

APPENDIX A IASB Projects

Table 7 documents relevant IASB projects and explains whether those projects have had any impact on the EDs and IPSASs within this project.

Table 8 documents recent IFRS Interpretations Committee agenda items.

Tables 7 and 8 are based on information available as at 11 November 2014.

Table 7 IASB Amendments and Ongoing Projects

| IASB Project | Explanation and Impact on IPSASs |
|---------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>ED/2011/4 <i>Investment Entities</i></p> | <p>Explanation</p> <p>August 2011: ED/2011/4 was issued. It proposed an exception to the consolidation requirements in IFRS 10 for investment entities.</p> <p>October 2012: The IASB published <i>Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)</i>, providing an exception to the consolidation requirements in IFRS 10 for investment entities.</p> <p>Impact on IPSASB's EDs</p> <p>June 2013: The IPSASB considered arguments for and against the investment entity exception and decided to include an exception (in ED 49) from consolidation for investment entities based on the exception in IFRS 10.</p> <p>September 2013: The IPSASB decided that the investment entity exception should also be available to a controlling entity that is not itself an investment entity.</p> <p>Impact on IPSASs</p> <p>An investment entity exception (for both the investment entity and the entity controlling an investment entity) is included in IPSAS 35. Other standards refer to this exception.</p> |
| <p>ED/2011/7 <i>Transition Guidance</i> (Proposed amendments to IFRS 10)</p> | <p>Explanation</p> <p>December 2011: IASB ED/2011/7 was issued. The IFRS Interpretations Committee received requests to clarify the transition guidance in IFRS 10. This ED proposed to clarify the transition guidance in IFRS 10.</p> <p>June 2012: The IASB issued <i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)</i>.</p> <p>Impact on IPSASB's EDs</p> <p>The amendments were included in the IPSASB's EDs, to the extent appropriate.</p> <p>Impact on IPSASs</p> <p>Included in IPSAS 35, <i>Consolidated Financial Statements</i>, IPSAS 36, <i>Investments in Associates and Joint Ventures</i> and IPSAS 38, <i>Disclosure of Interests in Other Entities</i> to the extent appropriate.</p> |
| <p>ED/2012/3 <i>Equity Method: Share of Other Net Asset Changes</i> (Proposed amendments to IAS 28)</p> | <p>Explanation</p> <p>November 2012: IASB ED/2012/3 was issued. The ED proposed to clarify how an investor should account for other net asset changes of the investee (that is, changes other than profit or loss or other comprehensive income and distributions received). 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>A number of respondents disagreed with the IASB's proposals. The IFRS Interpretations Committee also disagreed with the IASB's proposals.</p> |

| IASB Project | Explanation and Impact on IPSASs |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>May 2014: the IASB decided not to proceed with these proposals.</p> <p>Impact on IPSASB's EDs</p> <p>ED 50 did not seek feedback on the proposals in IASB ED 2012/3 because of uncertainty about the outcome of the IASB's project. The Basis for Conclusions on ED 50 explained this and noted that the IPSASB proposed to retain the requirements that were in IPSAS 7.</p> <p>Impact on IPSASs</p> <p>No impact on the requirements in IPSAS 36, <i>Investments in Associates and Joint Ventures</i>. Some wording was aligned (for example, the order in which the three options are referred to) to avoid unnecessary differences.</p> <p>The Basis for Conclusions on IPSAS 36 does not mention the IASB's ED.</p> |
| <p>ED/2012/6 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (Proposed amendments to IFRS 10 and IAS 28)</p> | <p>Explanation</p> <p>December 2012: IASB ED/2012/6 was issued. The ED addressed an inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. IFRS 10 required recognition of a <i>full gain or loss</i> on the loss of control of a subsidiary, whereas IAS 28 (2011) required recognition of a <i>partial gain or loss</i> in transactions between an investor and its associate or joint venture.</p> <p>September 2014: <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (Amendments to IFRS 10 and IAS 28) was issued.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p> <p>Impact on IPSASB's EDs</p> <p>The Basis for Conclusions on ED 50, <i>Investments in Associates and Joint Ventures</i> noted that the IPSASB decided not to address the IASB's proposals in ED 50 on the grounds that it would be more appropriate to consider this issue in the context of drafting standards-level requirements for public sector combinations.</p> <p>Impact on IPSASs</p> <p>The Basis for Conclusions on both IPSAS 35, <i>Consolidated Financial Statements</i> and IPSAS 36, <i>Investments in Associates and Joint Ventures</i> note that the IPSASB decided not to address the IASB's proposals in these standards on the grounds that it would be more appropriate to consider this issue 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>Explanation</p> <p>December 2012: IASB ED/2012/7 was issued.</p> <p>The ED proposed that an entity that acquires an interest in a joint operation in which the activity constitutes a business should apply the relevant principles of business combination accounting and related disclosure requirements in IFRS 3, <i>Business Combinations</i> and other Standards.</p> <p>May 2014: <i>Accounting for Acquisitions of Interests in Joint Operations</i> (Amendments to IFRS 11) was issued.</p> <p>Impact on IPSASB's EDs</p> <p>The Basis for Conclusions on ED 51 noted that the IPSASB did not address the IASB's amendments in ED 51 on the grounds that it would be more appropriate to consider this issue in the context of drafting standards-level requirements for public sector</p> |

| IASB Project | Explanation and Impact on IPSASs |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>combinations.</p> <p>Impact on IPSASs</p> <p>The Basis for Conclusions on IPSAS 37 notes that the IPSASB did not address the IASB's amendments in IPSAS 37 on the grounds that it would be more appropriate to consider this issue in the context of drafting standards-level requirements for public sector combinations.</p> |
| <p>ED/2013/10 <i>Equity Method in Separate Financial Statements</i> (Proposed amendments to IAS 27)</p> | <p>Explanation</p> <p>December 2013: IASB ED/2013/10 was issued. The ED proposed to amend paragraph 10 of IAS 27, <i>Separate Financial Statements</i> (2011) to allow an entity to account for investments in subsidiaries, associates and joint ventures using the equity method in its separate financial statements. The use of the equity method had previously been permitted by IAS 27.</p> <p>August 2014: <i>Equity Method in Separate Financial Statements</i> (Amendments to IAS 27) was issued.</p> <p>Impact on IPSASB's EDs</p> <p>IPSAS 6 permitted the use of the equity method in separate financial statements and the IPSASB decided to retain the equity method as an option in ED 48, <i>Separate Financial Statements</i>. The Basis for Conclusions on ED 48 documented the IPSASB's rationale for this decision. It also noted that, at the time the IPSASB issued ED 48, the IASB had signalled its intention to reinstate the equity method as an option in IAS 27 (2011).</p> <p>Impact on IPSASs</p> <p>Some minor changes were made to align the wording in IPSAS 34, <i>Separate Financial Statements</i> with the revised wording in IAS 27 (to avoid unnecessary differences between the standards).</p> <p>The Basis for Conclusions on IPSAS 34 contains the same discussion as the Basis for Conclusions on ED 48, together with an additional paragraph noting that the IPSASB received support for its proposal and that the IASB had subsequently reinstated the equity method as an option in separate financial statements.</p> |
| <p>ED/2014/2 <i>Investment Entities: Applying the Consolidation Exception</i> (Proposed amendments to IFRS 10 and IAS 28)</p> | <p>Overview (of three proposals)</p> <p>June 2014: IASB ED/2014/2 was issued. Comments were due by 15 September 2014.</p> <p>The ED proposed to clarify three issues, being:</p> <ul style="list-style-type: none"> • Exemption from preparing consolidated financial statements; • A subsidiary that provides services that relate to the parent's investment activities; and • Application of the equity method by a non-investment entity investor to an investment entity investee. <p>The IASB considered responses to the ED in October 2014. IASB October 2014 agenda papers 4A-D are relevant. The following discussion is based on these agenda papers and the IASB daily staff update—24 October 2014. The IASB is intending to issue these amendments by the end of 2014.</p> |
| <p>ED/2014/2 continued: First proposal</p> | <p>Explanation: Exemption from preparing consolidated financial statements</p> <p>The ED proposed to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 continues to be available to an intermediate parent entity that is a subsidiary of an investment entity, even when the investment entity measures its subsidiaries at fair value in accordance with paragraph 31 of IFRS 10.</p> |

| IASB Project | Explanation and Impact on IPSASs |
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| | <p>Approximately four-fifths of the respondents fully agreed with the proposal, although some suggested changes in wording. IFRS Foundation staff recommended that the IASB proceed with the amendments and clarify the wording of paragraph 4(a)(iv) of IFRS 10 and IAS 28 paragraph 17(d). The IASB tentatively decided to amend IFRS 10.</p> <p>Impact on IPSASB’s EDs: Exemption from preparing consolidated financial statements</p> <p>No impact – the IASB’s proposals were issued after EDs 48 to 50.</p> <p>Impact on IPSASs: Exemption from preparing consolidated financial statements</p> <p>Staff have included the IASB’s proposals (including the clarifications recommended by IFRS Foundation staff to the IASB), in IPSAS 35 and IPSAS 36 and are seeking feedback from the IPSASB on whether it agrees with this. The changes made to the draft standards are set out in Table 3C in the body of this issues paper.</p> |
| <p>ED/2014/2 continued: Second proposal</p> | <p>Explanation: A subsidiary that provides services that relate to the parent’s investment activities</p> <p>IASB ED/2014/2 proposed to amend IFRS 10 to clarify the limited situations in which paragraph 32 applies. Paragraph 32 requires an investment entity to consolidate a subsidiary that provides services that relate to the investment entity’s investment activities. IASB ED/2014/2 proposed that the requirement for an investment entity to consolidate a subsidiary, instead of measuring it at fair value, applies only to those subsidiaries that act as an extension of the operations of the investment entity parent, and do not themselves qualify as investment entities. The main purpose of such a subsidiary is to provide support services that relate to the investment entity’s investment activities (which may include providing investment-related services to third parties).</p> <p>Approximately three quarters of respondents agreed with the IASB’s proposal. Some respondents noted that application issues may need more detailed consideration in due course.</p> <p>The IASB tentatively decided to amend IFRS 10 to confirm that an investment entity should measure at fair value all of its subsidiaries that are themselves investment entities.</p> <p>Impact on IPSASB’s EDs: A subsidiary that provides services that relate to the parent’s investment activities</p> <p>No impact – the IASB’s proposals were issued after EDs 48 to 50.</p> <p>Impact on IPSASs: A subsidiary that provides services that relate to the parent’s investment activities</p> <p>Staff have included the IASB’s proposals (including the clarifications recommended by IFRS Foundation staff to the IASB), in IPSAS 35 and are seeking feedback from the IPSASB on whether it agrees with this. The changes made to draft IPSAS 35 are set out in Table 3C in the body of this issues paper.</p> |
| <p>ED/2014/2 continued: Third proposal</p> | <p>Explanation: Application of the equity method by a non-investment entity investor to an investment entity investee</p> <p>Paragraph 33 of IFRS 10 states that a non-investment entity parent of an investment entity cannot retain the fair value measurement applied by the investment entity to its interests in subsidiaries. That non-investment entity parent shall instead consolidate all subsidiaries in the group. However, IAS 28 does not contain an equivalent explicit statement related to the application of the equity method by a non-investment entity investor for its investments in joint ventures or associates that are investment entities. IASB ED 2014/2 proposed to amend IAS 28 to:</p> |

| IASB Project | Explanation and Impact on IPSASs |
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| | <p>(a) Provide relief to a non-investment entity investor by requiring it to retain, when applying the equity method, the fair value measurement applied by an investment entity associate to its interests in subsidiaries; and</p> <p>(b) Clarify that a non-investment entity investor that is a joint venturer in a joint venture that is an investment entity cannot, when applying the equity method, retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries.</p> <p>IASB respondents supported the proposal regarding associates in (a) but approximately three-quarters of respondents disagreed with the proposal regarding joint ventures in (b). More than a fifth of those who disagreed with (b) also disagreed with the IFRS 10 requirements for non-investment entity parents that control an investment entity (paragraph 33 of IFRS 10).</p> <p>The IASB tentatively decided to amend IAS 28 in relation to the accounting by a non-investment entity investor in an investment entity associate or joint venture. That amendment will permit the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture.</p> <p>Impact on IPSASB's EDs: Application of the equity method by a non-investment entity investor to an investment entity investee</p> <p>No impact – the IASB's proposals were issued after EDs 48 to 50. Some respondents to EDs 48 to 52 asked for guidance on these issues.</p> <p>Impact on IPSASs: Application of the equity method by a non-investment entity investor to an investment entity investee</p> <p>ED 49 <i>Consolidated Financial Statements</i> differed from IFRS 10 in that the IPSASB proposed that a non-investment controlling entity of an investment entity would retain the fair value measurement applied by the investment entity to its interests in controlled entities. ED 50 was silent about how a non-investment entity would account for its investments in joint ventures or associates that are investment entities.</p> <p>Some respondents asked the IPSASB to clarify, in ED 50, how a non-investment entity investor should account for its investments in joint ventures or associates that are investment entities.</p> <p>The IPSASB agreed (September 2014) that, in accounting for its investments in joint ventures or associates that are investment entities, a non-investment entity investor should retain the fair value measurement applied by the investment entity associate or the investment entity joint venture.</p> <p>The Basis for Conclusions on IPSAS 36, <i>Investments in Associates and Joint Ventures</i> (paragraphs BC11 and BC12) outlines the IPSASB's rationale for this decision.</p> <p>The difference between IPSAS 36 and IAS 28 (2011) will be noted in the comparison that accompanies the standard.</p> |
| <p><i>Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value</i> (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13)</p> | <p>Explanation</p> <p>September 2014: IASB ED/2014/4 was issued. Comments due to the IASB by 16 January 2015.</p> <p>This Exposure Draft addresses questions received on the unit of account for investments in subsidiaries, joint ventures and associates and on their fair value measurement when those investments are quoted in an active market (quoted investments).</p> <p>The proposed amendments clarify that an entity should measure the fair value of quoted investments as the product of the quoted price for the individual financial instruments that make up the investments held by the entity and the quantity of financial instruments.</p> |

| IASB Project | Explanation and Impact on IPSASs |
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| | <p>The Exposure Draft also sets out proposed amendments to the Illustrative Examples for IFRS 13 <i>Fair Value Measurement</i>.</p> <p>Impact on IPSASB's EDs No impact. IASB ED/2014/4 was issued after ED 48 to 52.</p> <p>Impact on IPSASs No impact on IPSASs 34 to 38. Once the IASB has completed this project the IPSASB could consider whether it wishes to provide additional guidance on the determination of fair value by an investment entity. However, there is no IPSAS equivalent to IFRS 13 so the amendments would differ from those proposed by the IASB.</p> |
| <p><i>Elimination of gains or losses arising from transactions between an entity and its associate or joint venture</i> (Proposed amendments to IAS 28)</p> | <p>No due process documents as at time of writing (11 November 2014).</p> <p>Explanation The objective of this project is to clarify the accounting for a 'downstream' transaction between an entity and its associate or joint venture when the gain from the transaction exceeds the carrying amount of the entity's interest in the associate or joint venture. Specifically, the issues are whether:</p> <ul style="list-style-type: none"> (a) The gain from the transaction should be eliminated only to the extent that it does not exceed the carrying amount of the entity's investment in the joint venture, or (b) The remaining gain in excess of the carrying amount of the entity's investment in the joint venture should also be eliminated and if so, what it should be eliminated against. <p>March 2014: The IASB decided to:</p> <ul style="list-style-type: none"> (a) Propose to amend paragraph 31 of IAS 28 so that the portion of the gain or loss relating to the assets received in exchange for the contribution of an asset should be recognized only to the extent of unrelated investors' interests in the associate or joint venture; and (b) Include this amendment in a forthcoming Exposure Draft <i>Elimination of gains from 'downstream' transactions</i>. <p>Impact on IPSASs No impact on IPSAS 36, <i>Investments in Associates and Joint Ventures</i>. If the IASB subsequently amends IAS 28, the IPSASB could consider whether to propose similar amendments to IPSAS 36 (possibly through the biennial improvements project).</p> |
| <p>Equity method research project</p> | <p>Explanation The IASB has tentatively decided to review the circumstances in which the equity method is applied in current IFRS, with the objective of identifying the financial reporting problem or problems in the application of the equity method.</p> <p>Impact on IPSASs The IPSASB has previously agreed that it will monitor this project.</p> |

APPENDIX A continued

Table 8 IFRS Interpretations Committee

| Work in progress | |
|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IFRS 11 <i>Joint Arrangements</i> | <p>November 2013 – July 2014: The Interpretations Committee has discussed various implementation issues relating to IFRS 11, including:</p> <ul style="list-style-type: none"> (a) Whether an assessment of ‘other facts and circumstances’ should take into account facts and circumstances that do not involve contractual and (legal) enforceable terms; (b) The accounting by a joint operation that is a separate vehicle; (c) How the parties to a joint operation should recognize assets, liabilities, revenues and expenses, especially if the parties’ interests in the assets and liabilities differ from their ownership interest in the joint operation; and (d) The classification of a common joint arrangement structure (the so-called ‘project entity’). <p>The Committee intends to issue a series of agenda decisions describing its discussions on these topics.</p> <p>IFRIC Update: September 2014</p> |
| Agenda decisions– items not taken onto the agenda⁴ | |
| IFRS 10 <i>Consolidated Financial Statements</i> | November 2013: Effect of protective rights on an assessment of control |
| IFRS 10 <i>Consolidated Financial Statements</i> | November 2013: Classification of puttable instruments that are non-controlling interests |
| IFRS 10 <i>Consolidated Financial Statements</i> | September 2013: Transitional provisions in respect of impairment, foreign exchange and borrowing costs rate |
| IFRS 10 <i>Consolidated Financial Statements</i> | March 2014: Investment Entities Amendments—The definition of investment-related services or activities |
| IFRS 11 <i>Classification of joint arrangements</i> | May 2014: Classification of joint arrangements |
| IFRS 12 <i>Disclosure of Interests in Other Entities</i> | Comment period ended 29 September 2014: Disclosure of summarized financial information about material joint ventures and associates |
| IFRS 12 <i>Disclosure of Interests in Other Entities</i> | Comment period ends 25 November 2014: Disclosures for a subsidiary with a material non-controlling interest and for a material joint venture or associate |

⁴ The IFRS 12 decisions are tentative until the Committee has considered any comments on its decisions.

**Final Pronouncement
January 2015**

International Public Sector Accounting Standard

Separate Financial Statements



International Public
Sector Accounting
Standards Board®

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IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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IPSAS 34—SEPARATE FINANCIAL STATEMENTS

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International Public Sector Accounting Standard 34, *Separate Financial Statements*, is set out in paragraphs 1–35. All the paragraphs have equal authority. IPSAS 34 should be read in the context of its objective, the Basis for Conclusions, and the *Preface to International Public Sector Accounting Standards*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this 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 Standard in accounting for investments in controlled entities, joint ventures and associates when it elects, or is required by regulations, to present separate financial statements.**
3. This 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 (IPSASs).
4. **This 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 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 an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement* or using the equity method as described in IPSAS 36, *Investments in Associates and Joint Ventures*.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures* and IPSAS 37, *Joint Arrangements*: associate, control, controlled entity, controlling entity, economic entity, equity method, investment entity, joint control, joint operation, joint venture, joint venturer and significant influence.

7. Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have controlled entities but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by IPSAS 36 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 9–10.

8. 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.
9. An entity that is exempted in accordance with paragraph 5(a) of IPSAS 35, from consolidation or paragraph 23 of IPSAS 36, from applying the equity method may present separate financial statements as its only financial statements.
10. An investment entity that is required, throughout the current period and all comparative periods presented, to measure its investment in all its controlled entities at fair value through surplus or deficit in accordance with paragraph 54 of IPSAS 35, presents separate financial statements as its only financial statements.

Preparation of Separate Financial Statements

11. **Separate financial statements shall be prepared in accordance with all applicable IPSASs, except as provided in paragraph 12.**
12. **When an entity prepares separate financial statements, it shall account for investments in controlled entities, joint ventures and associates either:**
 - (a) **At cost;**
 - (b) **In accordance with IPSAS 29; or**
 - (c) **Using the equity method as described in IPSAS 36.**

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

13. If an entity elects, in accordance with paragraph 24 of IPSAS 36, 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.
14. If a controlling entity is required, in accordance with paragraph 54 of IPSAS 35, 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 that investment in the same way in its separate financial statements. If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 56 of IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall also account for that investment in the controlled investment entity in the same way in its separate financial statements.
15. 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 account for an investment in a controlled entity in accordance with paragraph 12. 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 accounting for the investment in accordance with paragraph 12.
 - (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 recognized as a gain or loss in surplus or deficit.

The cumulative amount of any gain or loss 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.

16. **Dividends or similar distributions from a controlled entity, a joint venture or an associate are recognized in the separate financial statements of an entity when the entity's right to receive the dividend or similar distribution is established. The dividend or similar distribution is recognized in surplus or deficit unless the entity elects to use the equity method, in which case the dividend or similar distribution is recognized as a reduction from the carrying amount of the investment.**
17. 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 12(b) 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.
18. 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 17. The requirements in paragraph 17 apply equally to such reorganizations. In such cases, references to "original controlling entity" and "original economic entity" are to the "original entity".

Disclosure

19. **An entity shall apply all applicable IPSASs when providing disclosures in its separate financial statements, including the requirements in paragraphs 20–22.**
20. **When a controlling entity, in accordance with paragraph 5(a) of IPSAS 35, 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).**
21. **When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph 20) prepares, in accordance with paragraph 10, 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 IPSAS 38, *Disclosure of Interests in Other Entities*.**
22. **If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 56 of IPSAS 35, to measure all or part of its investment in the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, it shall disclose that fact. The entity shall also present the disclosures relating to investment entities required by IPSAS 38, *Disclosure of Interests in Other Entities*.**
23. **When a controlling entity (other than a controlling entity covered by paragraphs 20–21) 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 IPSAS 35, IPSAS 37 or IPSAS 36, 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); and**
 - (iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**
- and**
- (c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**

Transitional Provisions

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 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 12.
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 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 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.
31. At the date of initial application, a controlling entity that is not itself an investment entity but which is required, in accordance with paragraph 56 of IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, shall use the transitional provisions in paragraphs 24–30 in accounting for its investment in the controlled investment entity in its separate financial statements.

32. The transitional provisions for changes in the accounting, in an entity's separate financial statements, for its interest in a joint operation are set out in IPSAS 37, *Joint Arrangements*.

Effective Date

33. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 35, IPSAS 36, IPSAS 37, and IPSAS 38 at the same time.**
34. 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)

35. This Standard is issued concurrently with IPSAS 35. Together, the two 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 34, Separate Financial Statements.

Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 34. As this 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 IPSAS 34 departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.

Overview

- BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 48 *Separate Financial Statements* was based on IAS 27 *Separate Financial Statements* (2011), having regard to the relevant public sector modifications in IPSAS 6, *Consolidated and Separate Financial Statements*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 34. These new IPSASs supersede IPSAS 6, IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures*.

Use of the Equity Method in Separate Statements

- BC3. IPSAS 6 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.
- BC4. 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.
- BC5. The IPSASB also noted that, at the time it issued ED 48, 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.
- BC6. 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 is 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.

BC7. A majority of the respondents on ED 48 supported the proposal to permit the use of the equity method in separate financial statements. A further group of respondents also supported this proposal, subject to the IASB reinstating the use of the equity method in separate financial statements. In August 2014 the IASB issued the *Equity Method in Separate Financial Statements* (Amendments to IAS 27) which reinstated the equity method as an option in separate financial statements. The IPSASB noted the support it had received for this proposal and the reinstatement of the equity method in IAS 27, and agreed to continue to permit the use of the equity method in separate financial statements.

Separate Financial Statements of Investment Entities

BC8. In developing IPSAS 34 the IPSASB decided to introduce the concept of investment entities and to require that a controlling entity that is an investment entity measure its investments in most controlled entities at fair value through surplus or deficit in accordance with IPSAS 29. 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 decided that an investment entity preparing separate financial statements as its only financial statements, should also make the disclosures required in IPSAS 38 about its interests in controlled entities.

BC9. In developing IPSAS 35 the IPSASB also decided to require a controlling entity of an investment entity that is not itself an investment entity to present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity. Consequently, the IPSASB decided to require that a non-investment controlling entity should measure its investment in a controlled investment entity in the same way in its separate financial statements.

Comparison with IAS 27 (Amended in 2011)

IPSAS 34, *Separate Financial Statements*, is drawn primarily from IAS 27, *Separate Financial Statements* (Amended in 2011, including amendments up to December 31, 2014). 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 34 and IAS 27 (Amended in 2011) are as follows:

- IPSAS 34 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 34. The equivalent terms in IAS 27 (Amended in 2011) are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS 34 contains specific requirements for a controlling entity that is not itself an investment entity but which has an investment in a controlled investment entity. IAS 27 (Amended in 2011) does not specify different requirements for such controlling entities because it would require that such investments be consolidated.

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**Final Pronouncement
January 2015**

International Public Sector Accounting Standard

Consolidated Financial Statements



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IPSAS 35—CONSOLIDATED FINANCIAL STATEMENTS

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Comparison with IFRS 10

International Public Sector Accounting Standard 35, *Consolidated Financial Statements*, is set out in paragraphs 1–81. All the paragraphs have equal authority. IPSAS 35 should be read in the context of its objective, the Basis for Conclusions, and the *Preface to International Public Sector Accounting Standards*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this 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 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 Standard in the preparation and presentation of consolidated financial statements for the economic entity.**

Public Sector Combinations

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

Presentation of Consolidated Financial Statements

5. **An entity that is a controlling entity shall present consolidated financial statements 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 controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the 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 financial statements that are available for public use and comply with International Public Sector Accounting Standards (IPSASs), including the requirements of this Standard to consolidate controlled entities or measure them at fair value, in accordance with paragraph 54 of this Standard.**
- (b) **A controlling entity that is an investment entity and, in accordance with paragraph 54 of this Standard, is required to measure all of its controlled entities at fair value through surplus or deficit.**

This IPSAS applies to all entities, except post-employment benefit plans or other long-term employee benefit plans to which IPSAS 25, *Employee Benefits* applies.

- 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.
- 7. The exemption from preparing consolidated financial statements in paragraph 5 does not apply where the information needs of a controlled entity's users would not be met by the consolidated financial statements of the controlling entity. For example, consolidated financial statements at a whole-of-government level may not meet the information needs of users in respect of key sectors or activities of a government. In many jurisdictions there are legislated financial reporting requirements intended to address the information needs of such users.
- 8. An entity may be required, (for example, by legislation, or by external users) to prepare aggregated financial statements which are for a different economic entity than that required by this Standard. Although such financial statements fall outside the scope of this Standard and would not comply with the requirements in this Standard, an entity could use the guidance in this Standard in the preparation of such aggregated financial statements.

Government Business Enterprises

- 9. **This Standard applies to all public sector entities other than GBEs.**
- 10. 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*.
- 11. Although GBEs are not required to comply with this Standard in their own financial statements, the provisions of this Standard will apply where a public sector entity that is not a GBE has one or more controlled entities that are GBEs. In these circumstances, this Standard shall be applied in consolidating GBEs into the financial statements of the economic entity.

Definitions

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

Benefits are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.

Binding arrangement: For the purposes of this Standard, a binding arrangement is 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.

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) Has the purpose of investing 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.

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 Standard, relevant activities 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 Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The

following terms are defined in IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements* and IPSAS 38, *Disclosure of Interests in Other Entities*: associate, investment in another entity, joint venture and significant influence.

Binding Arrangement

13. 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 contractual arrangements, either on their own or in conjunction with contracts between the parties.

Economic Entity

14. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group. An economic entity may include entities with both social policy and commercial objectives.
15. The determination of the economic entity will need to be made having regard to user needs, the definition of an economic entity and the constitutional arrangements in a jurisdiction, in particular the ways in which government power is limited and allocated, and how the government system is set up and operates. For example, in jurisdictions with an executive, legislature and judiciary, these may collectively form an economic entity in respect of which there is a user need for consolidated financial statements. Such consolidated financial statements are commonly referred to as whole-of-government financial statements.

Control (see paragraphs AG2–AG87)

16. **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.**
17. **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.**
18. **Thus, an entity controls another entity if and only if the entity has all the following:**
 - (a) **Power over the other entity (see paragraphs 21–27);**
 - (b) **Exposure, or rights, to variable benefits from its involvement with the other entity (see paragraphs 28–32); 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 33–35).**
19. 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 18 (see paragraphs AG82–AG87).

20. 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 IPSAS 37, IPSAS 36, 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

21. 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 direct the financial and operating policies of another entity indicates that an entity has the ability to direct the relevant activities of another entity and is frequently the way in which power is demonstrated in the public sector.
22. 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 binding arrangements. 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.
23. An entity can have power over another entity 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 and the judiciary often has special powers to give effect to the concept of judicial independence. 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 having the ability to direct the operating and financial policies of another entity with statutory powers so as to obtain benefits. For example, independence of a central bank in relation to monetary policy does not preclude the possibility of the central bank being controlled. All facts and circumstances would still need to be considered.
24. The existence of rights over another entity does not necessarily give rise to power for the purposes of this Standard. An entity does not have power over another entity solely due to the existence of:
- (a) Regulatory control (see paragraph AG12); or
 - (b) Economic dependence (see paragraphs AG41–AG42).
25. 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

entity being assessed for control can help determine whether the entity has power, but such evidence is not, in itself, conclusive in determining whether the entity has power over the entity being assessed for control. In the case of an entity established with predetermined activities, the right to direct the relevant activities may have been exercised at the time that the entity was established.

26. 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.
27. An entity can have power over an entity being assessed for control 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

28. An entity is exposed, or has rights, to variable benefits from its involvement with an entity being assessed for control when the benefits that it seeks from its involvement have the potential to vary as a result of the other entity's performance. Entities become involved with other entities with the expectation of positive financial or non-financial benefits over time. However, in a particular reporting period, the actual impact of an entity's involvement with the entity being assessed for control can be only positive, only negative or a mix of both positive and negative.
29. The entity's benefits from its involvement with the entity being assessed for control can be only financial, only non-financial or both financial and non-financial. Financial benefits include returns on investment such as dividends or similar distributions and are sometimes referred to as returns. 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. 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. For example, an entity may obtain benefits when another entity with congruent activities provides services that the first entity would have otherwise been obliged to provide. 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).
30. The following examples illustrate financial 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) Residual interests in the other entity's assets and liabilities on liquidation of that other entity; and
 - (f) Other exposures to variable benefits that are not available to other entities.
31. Examples of non-financial benefits include:
- (a) The ability to benefit from the specialized knowledge of another entity;
 - (b) The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives;
 - (c) Improved outcomes;
 - (d) More efficient delivery of outcomes;
 - (e) More efficient or effective production and delivery of goods and services;
 - (f) Having an asset and related services available earlier than otherwise would be the case; and
 - (g) Having a higher level of service quality than would otherwise be the case.
32. 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

33. An entity controls another entity if the entity not only has power over the entity being assessed for control 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 entity being assessed for control.
34. 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 entity being assessed for control to direct that other entity to work with it to further its objectives.
35. An entity with decision-making rights 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. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal.

Accounting Requirements

36. **A controlling entity shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.**
37. 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

38. 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 net assets/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.

Uniform Accounting Policies

39. 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

40. 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

41. 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 42 applies.

42. 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.

43. IPSAS 28 and IPSAS 29 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

44. 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 controlling 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

45. 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.
46. 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.
47. 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.
48. 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

49. 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

50. 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; and
 - (c) Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.
51. 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.
52. 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 53.
 - (d) Recognize any resulting difference as a gain or loss in surplus or deficit attributable to the controlling entity.
53. 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.

Investment Entities: Fair Value Requirement

54. **Except as described in paragraph 55, an investment entity shall not consolidate its controlled entities. Instead, an investment entity shall measure an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29.**
55. Notwithstanding the requirement in paragraph 54, if an investment entity has a controlled entity that is not itself an investment entity and which acts as an extension of the investment entity by provide services that support the investment entity's investment activities (see paragraphs AG98–AG100), it shall consolidate that controlled entity in accordance with paragraphs 36–53 of this Standard.
56. **A controlling entity of an investment entity that is not itself an investment entity shall present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with paragraphs 36–53 of this Standard.**

Determining Whether an Entity is an Investment Entity

57. An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Paragraphs AG89–AG106 describe aspects of the definition of an investment entity in more detail. 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, a controlling entity shall reassess whether it is an investment entity.
58. 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 61–62).

Judgments and Assumptions

59. An investment entity shall disclose the information required by paragraph 15 of IPSAS 38 about significant judgments and assumptions made in determining that it is an investment entity unless it has all of the following characteristics:
- (a) It has obtained funds from more than one investor (see paragraphs AG89–AG90);
 - (b) It has ownership interests in the form of equity or similar interests (see paragraphs AG91–AG92); and
 - (c) It has more than one investment (see paragraphs AG96–AG97).
60. The absence of any of these characteristics does not necessarily disqualify an entity from being classified as an investment entity. However, the absence of any of these characteristics means that an entity is required to disclose information about the significant judgments and assumptions made in determining that it is an investment entity.

Accounting for a Change in Investment Entity Status

61. **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 54. 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 36–49 of this Standard from the date of change of status.**
62. 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 55. The investment entity shall apply the requirements of paragraphs 50 and 51 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

63. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 64–78.**
64. Notwithstanding the requirements of paragraph 33 of IPSAS 3, when this 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 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.
65. For the purposes of this Standard, the date of initial application is the beginning of the annual reporting period for which this Standard is applied for the first time.

66. 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 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 Standard.
67. 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 68–71 instead of paragraphs 75–76.
68. Except for any controlled entity that is consolidated in accordance with paragraph 55 (to which paragraph 66 or paragraphs 75–76, 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 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.
69. An investment entity shall use the fair value amounts that were previously reported to investors or to management.
70. If measuring an investment in a controlled entity in accordance with paragraph 68 is impracticable (as defined in IPSAS 3), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraph 68 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.
71. 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 Standard, the investment entity is not required to make adjustments to the previous accounting for that controlled entity.
72. 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 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.

73. If measuring a controlled entity's assets, liabilities and non-controlling interests in accordance with paragraph 72(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.

74. 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.

75. 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.

76. If measuring the interest in the other entity in accordance with paragraph 75 is impracticable (as defined in IPSAS 3), an entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraph 75 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 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”

77. Notwithstanding the references to the annual period immediately preceding the date of initial application (the “immediately preceding period”) in paragraphs 72–76, 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 72–76 shall be read as the “earliest adjusted comparative period presented.”
78. 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

79. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, *Separate Financial Statements*, IPSAS 36, IPSAS 37, and IPSAS 38 at the same time.**
80. 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)

81. **This Standard is issued concurrently with IPSAS 34. Together, the two Standards supersede IPSAS 6 (December 2006).**

Application Guidance

This Appendix is an integral part of IPSAS 35, 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 IPSAS 35, *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–AG56);
- (d) Whether the entity is exposed, or has rights, to variable benefits from its involvement with the other entity (see paragraph AG57–AG58); 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 AG60–AG74).

AG4. When assessing whether it controls another entity, an entity shall consider the nature of its relationship with other parties (see paragraphs AG75–AG77).

Purpose and Design of another Entity

AG5. An entity shall consider the purpose and design of the entity being assessed for control 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 the purpose and design of the entity being assessed for control are considered, it may be clear that the entity being assessed for control is controlled by means of equity instruments that give the holder proportionate voting rights, such as ordinary shares. 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 operating and financing policies of the entity being assessed for control (see paragraphs AG32–AG52). 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 entity being assessed for control. If there are voting rights they may be limited in scope. The relevant activities of the entity being assessed for control may be directed by means of binding arrangements (including statutory arrangements, 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 entity being assessed for control 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 usually give rise to power over an entity for the purposes of this Standard. Governments and other public sector bodies, including supranational bodies, may have wide ranging powers to establish the regulatory framework within which entities operate, to impose conditions or sanctions on their operations and to enforce those conditions or sanctions. For example, governments and other public sector bodies may enact regulations to protect the health and safety of the community, restrict the sale or use of dangerous goods or specify the pricing policies of monopolies. However, when regulation is so tight as to effectively dictate how the entity performs its business, then it may be necessary to consider whether the purpose and design of the entity is such that it is controlled by the regulating entity.

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 24). 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–AG52);

- (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) Contractual arrangements;
- (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 AG53–AG56 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 contractual right 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 contractual right 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); or
- (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) 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.
- (b) A significant portion of the other entity's activities either involve or are conducted on behalf of the entity.
- (c) 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 AG41 to AG42.

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 AG49–AG52) 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 entity from controlling the entity being assessed for control 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 entity from controlling the entity being assessed for control 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 AG55).

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 27).

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–AG52) 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 AG38);
 - (b) A binding arrangement between the entity and other vote holders (see paragraph AG39);
 - (c) Rights arising from other binding arrangements 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 AG49–AG52); 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”. Such special voting rights may give rise to power. 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 the sale of the other entity as a whole.

Control of the Board or Other Governing Body

- AG38. An entity 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 binding arrangements (including existing legislation, regulation, contractual, or other arrangements).

Binding Arrangement with Other Vote Holders

- AG39. A binding arrangement 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 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, alone, does not give rise to power over an entity for the purposes of this Standard. Economic dependence may occur when:
- (a) An entity has a single major client and the loss of that client could affect the existence of the entity's operations; or
 - (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. For example, a private school that accepts funding from a government but whose governing body has retained discretion with respect to accepting funds or the manner in which those funds are to be used, would still have the ultimate power to govern its own financial or operating policies. This may be so even if government grants provided to such an entity requires it to comply with specified conditions. Although the entity might receive government grants for the construction of capital assets and operating costs subject to specified service standards or restrictions on user fees, its governing bodies may have ultimate discretion about how assets are used; the entity would therefore control its financial and 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.

The Entity's Voting Rights

- AG43. 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.
- AG44. 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 AG49–AG52);
 - (c) Rights arising from other binding arrangements (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.
- AG45. 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 AG44(a)–(c) alone, that the entity has power over the other entity.
- AG46. In other situations, it may be clear after considering the factors listed in paragraph AG44(a)–(c) alone that an entity does not have power.
- AG47. However, the factors listed in paragraph AG44(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–AG23. 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–AG23.
- AG48. If it is not clear, having considered the factors listed in paragraph AG44(a)–(d), that the entity has power, the entity does not control the other entity.

Potential Voting Rights

- AG49. 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).
- AG50. 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.
- AG51. 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.

AG52. 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

AG53. 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 and hence the ability to determine the purpose and design of an entity may give rise to power. In the case of an entity established with most (or all) of its relevant activities predetermined at inception, having the ability to determine the purpose and design of an entity may be more relevant to the control assessment than any on-going decision-making rights.

AG54. In addition, an entity shall consider rights arising from binding arrangements 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.

AG55. 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.

AG56. 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

- AG57. 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.
- AG58. 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 28). 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. The benefits may be variable benefits for the purpose of this Standard because they may expose the entity to the performance risk of the other entity. If the other entity were unable to perform those activities then the entity might 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 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.
- AG59. A liquidator would not normally have rights to variable benefits from its involvement with the entity being liquidated.

Link between Power and Benefits

Delegated Power

- AG60. 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 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.

AG61. 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–AG56. Paragraphs AG62–AG74 provide guidance on determining whether a decision maker is an agent or a principal.

AG62. 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 AG64 and AG65);
- (b) The rights held by other parties (paragraphs AG66–AG69);
- (c) The remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs AG70–AG72); and
- (d) The decision maker’s exposure to variability of benefits from other interests that it holds in the other entity (paragraphs AG73 and AG74).

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

AG63. Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph AG62 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph AG67).

The Scope of the Decision-Making Authority

AG64. 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.

AG65. 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

- AG66. 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.
- AG67. 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.
- AG68. 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).
- AG69. 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

- AG70. 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.
- AG71. In determining whether it is a principal or an agent the decision maker shall also consider whether 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.
- AG72. 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

- AG73. 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.

AG74. 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 entities that receive benefits from the entity being assessed for control 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

AG75. 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.

AG76. Such a relationship need not involve a binding arrangement. 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.

AG77. 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

- AG78. 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.
- AG79. 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”.
- AG80. When the condition in paragraph AG79 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.
- AG81. 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

- AG82. 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 18.
- AG83. 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.
- AG84. 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.
- AG85. 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 or have the ability to receive benefits or to be exposed to obligations, because the entity would fail to satisfy paragraph 16(b) (e.g., if a contract to receive performance-related fees is terminated).

- AG86. 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.
- AG87. 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 18 or changes the overall relationship between a principal and an agent.

Determining Whether an Entity is an Investment Entity

- AG88. An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Paragraphs AG89–AG106 describe aspects of the definition of an investment entity in more detail.

Number of Investors

- AG89. The definition of an investment entity requires that the entity have one or more investors. An investment entity may 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.
- AG90. However, in the public sector it is also common for an investment entity to 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).

Ownership Interests

- AG91. An investment entity is typically, but is not required to be, a separate legal entity. The investors in an investment entity will often, but not always, have ownership interests 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. The definition of an investment entity does not specify that all investors must have the same rights. 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.
- AG92. The definition of an investment entity does not specify that the investors must have an ownership interest that meets the definition of net assets/equity in accordance with other applicable IPSASs. An entity that has significant ownership interests in the form of debt that 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.

Purpose

- AG93. The definition of an investment entity requires that the purpose of the entity is to invest solely for returns from 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.
- AG94. An entity that has additional objectives that are inconsistent with the purpose of an investment entity would not meet the definition of an investment entity. Examples of when this may occur are as follows:
- (a) An investor whose objective is to jointly develop, produce or market products with its investees. The entity will earn returns from the development, production or marketing activity as well as from its investments;
 - (b) An investor whose objectives require it to be aligned with the economic, social or environmental policies of another entity. For example, if an entity is required to align its investment policies with other objectives such as owning certain businesses or improving employment outcomes in a jurisdiction; and
 - (c) An investor whose individual investment decisions have to be ratified or approved by a controlling entity or which is required to follow the direction of a controlling entity. Such ratifications, approvals or decisions are likely to be inconsistent with the purpose of an investment entity.
- AG95. 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.

Demonstrating Purpose through Holding More than One Investment

- AG96. An investment entity may have a number of ways in which it can demonstrate that its purpose is to invest funds from capital appreciation, investment revenue or both. One way is by holding several investments to diversify its risk and maximize 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.
- AG97. 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 being disestablished.

Investment-Related Services and Activities

- AG98. 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, if these activities are undertaken as an extension of, and in support of, the investment activities of the investment entity even if those activities are substantial to the entity.
- AG99. 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.
- AG100. If an investment entity has a controlled entity that is not itself an investment entity and which acts as an extension of the investment entity by providing investment-related services or activities that support the investment entity's investment activities, such as those described in paragraphs AG98–AG99, to the entity or other parties, it shall consolidate that controlled entity in accordance with paragraph 55. If the controlled entity that provides the investment-related services or activities is itself an investment entity, the controlling investment entity shall measure the subsidiary at fair value through surplus or deficit in accordance with paragraph 54.

Exit Strategies

- AG101. 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 realize 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.

- AG102. 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 specialized property dealers or the open market.
- AG103. 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.

Fair Value Measurement

- AG104. 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, *Related Party Disclosures*), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.
- AG105. In order to meet the requirement in AG103(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 IPSAS 36 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.
- AG106. 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 applies to an investment entity's investments. Accordingly, an investment entity need not measure its non-investment assets or its liabilities at fair value.

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 IPSAS 35, *Consolidated Financial Statements* and those that present ~~whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in accordance with IPSAS 346, *Consolidated and Separate Financial Statements*.~~
12. GBEs include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. IPSAS 35, IPSAS 6 provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.
88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**
 - (a) ...
 - (n) **Minority-Non-controlling interest, presented within net assets/equity; and**
95. **When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately:**
 - (a) ...
 - (d) **Minority-Non-controlling interests.**
97. In some cases, there may be a minority non-controlling interest in the net assets/equity of the entity. For example, at the whole-of-government level, the economic entity may include a GBE that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.
103. The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:
 - (a) Surplus or deficit attributable to minority non-controlling interest; and
 - (b) Surplus or deficit attributable to owners of the controlling entity.

118. **An entity shall present a statement of changes in net assets/equity showing on the face of the statement:**
- (a) ...
 - (c) **Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to ~~minority~~ non-controlling interest; and**
135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When entity combinations have occurred, the policies used for measuring goodwill and ~~minority~~ non-controlling interest are disclosed.

153E. IPSAS 35 and IPSAS 38, *Disclosure of Interests in Other Entities*, issued in January 2015, amended paragraphs 4, 12, 88(n), 95(d), 97, 103, 118, 134, 135 and 139. An entity shall apply those amendments when it applies IPSAS 35, and IPSAS 38.

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

IPSAS 2, *Cash Flow Statements*

Paragraphs 8 and 30(b) are amended and paragraphs 50A, 52A, 52B and 63C are added as follows:

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

...

~~**Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.**~~

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.

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 IPSAS 35, *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. A controlling entity that is not itself an investment entity need not apply paragraphs 50(c) or 50(d) to an investment in a controlled investment entity to the extent that investment is 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 IPSAS 35, or through a controlled investment entity, 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 IPSAS 35), unless the controlled entity is held by an investment entity, or through a controlled 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. IPSAS 35 and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraph 30(b) and added paragraphs 52A and 52B. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.

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

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

22. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IPSAS 346, *Consolidated and Separate Financial Statements*, to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its financial performance and financial position are also translated into the presentation currency in accordance with paragraphs 43–59.
47. The exchange differences referred to in paragraph 44(c) result from:
...
These exchange differences are not recognized in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but is not wholly owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognized as part of, ~~minority~~ non-controlling interests in the consolidated statement of financial position.
51. The incorporation of the financial performance and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS 356, *Consolidated Financial Statements* and IPSAS 8, *Interests in Joint Ventures*.)
53. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. ~~When this is not done, IPSAS 356 specifies requirements for when the reporting period of the controlling entity is different from that of a controlled entity allows the use of a different reporting date, provided that (a) the difference is no greater than three months, and (b) adjustments are made for the effects of any significant transactions or other events that occur between the different dates.~~
55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS 356

71A. IPSAS 35 and IPSAS 37, Joint Arrangements, issued in January 2015, amended paragraphs 22, 47, 51, 53 and 55. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.

IPSAS 18, Segment Reporting

Paragraph 41 is amended as follows:

41. The financial statements for the whole-of-government, and certain other controlling entities, will require the consolidation of a number of separate entities such as departments, agencies, and GBEs. In preparing these consolidated financial statements, transactions and balances between controlled entities will be eliminated in accordance with ~~IPSAS 356, 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. IPSAS 38, 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 IPSAS 35, 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. IPSAS 35, IPSAS 37, Joint Arrangements and IPSAS 38 issued in January 2015, amended paragraphs 24 and 33. An entity shall apply those amendments when it applies IPSAS 35, IPSAS 37, and IPSAS 38.

Implementation Guidance

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

...

(Note: ~~IPSAS 356, Consolidated and Separate Financial Statements~~, requires that certain disclosures be made about significant controlled entities.)

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

Paragraph 13 is amended as follows:

13. Investments in:
- (a) Controlled entities, as defined in IPSAS 356, *Consolidated and ~~Separate~~ Financial Statements*;

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

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

24. **In presenting financial information about the GGS, entities shall not apply the requirements of IPSAS 356, *Consolidated and ~~Separate~~ Financial Statements*, in respect of entities in the PFCs and public NFCS sectors.**
26. This Standard reflects the view that the consolidated financial statements of a government that elects to disclose information about the GGS are to be disaggregated to present the GGS as one sector of the government reporting entity. Consistent with this view, this Standard requires that the same definitions and the same recognition, measurement, and presentation requirements that are applied when preparing the consolidated financial statements are also applied to the GGS disclosures, with one exception. That exception is that the requirements of IPSAS 356 are not applied in respect of the relationship of the GGS sector with entities in the PFC and PNFC sectors.
27. IPSAS 356 requires controlling entities to prepare financial statements that consolidate controlled entities on a line-by-line basis. IPSAS 356 also contains (a) a detailed discussion of the concept of control as it applies in the public sector, and (b) guidance on determining whether control exists for financial reporting purposes. Consistent with the requirements of IPSAS 356, entities in the PFC and PNFC sectors, as defined in statistical bases of financial reporting, that are controlled entities of the government will be consolidated in the government's financial statements.
29. To apply the IPSAS 356 requirements for consolidation to the GGS would result in the re-representation of the consolidated financial statements of a government, rather than the GGS financial statements.
30. Therefore, in disclosing financial information about the GGS, balances and transactions between entities within the GGS are eliminated in accordance with IPSAS 356. However, balances and transactions between entities in the GGS and entities in other sectors are not eliminated.
41. This Standard requires entities electing to disclose information about the GGS to disclose a list of the significant controlled entities that are included in the GGS. IPSAS 356 requires entities preparing consolidated financial statements to disclose a list of the significant controlled entities that are included in the consolidated financial statements. Disclosure of which of the entities consolidated in the financial statements in accordance with IPSAS 356 are included in the GGS will assist users in developing an understanding of the relationship between information about the government and its GGS, and in better understanding the GGS information itself.
- 47A. IPSAS 35 issued in January 2015, amended paragraphs 24, 26, 27, 29, 30, and 41. An entity shall apply those amendments when it applies IPSAS 35.**

Basis for Conclusions

BC9. When GGS disclosures are made in financial statements, the requirements of IPSAS 356 should not be applied in respect of PFCs and PNFCs. This is because the application of IPSAS 356 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 IPSAS 356, ~~Consolidated and Separate Financial Statements~~).

IPSAS 26, *Impairment of Cash-Generating Assets*

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

12. Investments in:
 - (a) Controlled entities, as defined in IPSAS 356, ~~Consolidated and Separate Financial Statements~~;

47A. IPSAS 35 issued in January 2015, amended paragraph 12. An entity shall apply that amendment when it applies IPSAS 35.

IPSAS 28, *Financial Instruments: Presentation*

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

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to all types of financial instruments except:
 - (a) Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with IPSAS 35, Consolidated Financial Statements, ~~IPSAS 346, Consolidated and Separate Financial Statements, or IPSAS 367, Investments in Associates and Joint Ventures, or IPSAS 8, Interests in Joint Ventures~~. However, in some cases, IPSAS 34, IPSAS 356, or IPSAS 367, 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. IPSAS 35, and IPSAS 37, Joint Arrangements issued in January 2015, amended paragraph 3. An entity shall apply those amendments when it applies IPSAS 35, and IPSAS 37.

In the Appendix, paragraph AG53 is amended as follows:

AG53. In consolidated financial statements, an entity presents non-controlling interests i.e., the interests of other parties in the net assets/equity and revenue of its controlled entities in accordance with IPSAS 1 and IPSAS ~~356~~. 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 IPSAS 34, Separate Financial Statements, IPSAS 356, Consolidated and Separate Financial Statements, or IPSAS 367, Investments in Associates and Joint Ventures, or IPSAS 8, Interests in Joint Ventures.~~ However, in some cases, IPSAS 34, IPSAS 35 or IPSAS 36, 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 IPSAS ~~356 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 IPSAS 35, 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. IPSAS 35 and IPSAS 37, Joint Arrangements, issued in January 2015, amended paragraphs 2(a), 17, 89, AG2, AG14, AG51–53 and C2. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.

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~~ IPSAS 35 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. IPSAS ~~356~~, ~~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 January 2015 the IPSASB introduced the concept of investment entities in IPSAS 35 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 IPSAS 34, *Separate Financial Statements*, IPSAS 356, *Consolidated and Separate Financial Statements*, or IPSAS 367, *Investments in Associates and Joint Ventures*, or IPSAS 8, *Interests in Joint Ventures*. However, in**

some cases, IPSAS 34, IPSAS 356, or IPSAS 377, 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. IPSAS 35 and IPSAS 37, Joint Arrangements, issued in January 2015, amended paragraph 3(a). An entity shall apply that amendment when it applies IPSAS 35, and IPSAS 37.

IPSAS 31, Intangible Assets

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

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:
- (a) ...
 - (d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS 34, Separate Financial Statements, IPSAS 356, Consolidated and Separate Financial Statements, and IPSAS 367, Investments in Associates and Joint Ventures, and IPSAS 8, Interests in Joint Ventures; and....

132A. IPSAS 35 and IPSAS 37, Joint Arrangements issued in January 2015, amended paragraph 6(d). An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.

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, IPSAS 35, Consolidated Financial Statements.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 35. As this Standard is based on IFRS 10, *Consolidated Financial Statements* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 35 departs from the main requirements of IFRS 10, or where the IPSASB considered such departures.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 49 *Consolidated Financial Statements* was based on IFRS 10 *Consolidated Financial Statements*, having regard to the relevant public sector modifications in IPSAS 6, *Consolidated and Separate Financial Statements*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 35. These new IPSASs supersede IPSAS 6, IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures*.

Process

BC3. In developing the Standard the IPSASB had regard to those aspects of IPSAS 6 that had been developed specially to address public sector issues or circumstances that are more prevalent in the public sector than in other sectors. The IPSASB focused on addressing these issues in the Standard. The IPSASB also had regard to the guidance on assessing whether an entity is controlled for the purposes of the *Government Finance Statistics Manual 2014* (GFSM 2014) with the aim of avoiding unnecessary differences. In developing additional examples that illustrated the public sector environment the IPSASB also considered guidance developed by national standard setters or by bodies with oversight responsibilities for sectors of government.

Alignment with Government Finance Statistics

BC4. Both at the time of developing ED 49, and as part of the process of finalizing the Standard, the IPSASB considered analysis of similarities and differences between the definition of control, together with the associated indicators and guidance in GFSM 2014 (and the 2008 System of National Accounts (2008 SNA) with which the GFSM 2014 is harmonized) and the proposed Standard. The IPSASB noted that some of the differences between GFSM and financial reporting are due to their nature and differing objectives. For example, the classification of institutional units into sectors based on their economic nature of being government units will continue to be a significant difference between macroeconomic statistical reporting and accounting and financial reporting. Furthermore, the distinction between market producers and nonmarket producers in macroeconomic statistics would continue to result in a difference even if there was exactly the same principle and conceptual guidance on the notion of control.

- BC5. During the development of the Standard the IPSASB made a number of efforts to align more closely with guidance in GFSM 2014 or to explain more clearly the nature of differences. Issues in respect of which the IPSASB specifically considered GFSM requirements included:
- (a) Whether to require the consolidation of all controlled entities, as opposed to reporting by sectors of government;
 - (b) The similarity between the concept of control in the Standard and the approach taken in GFSM 2014, including consideration of the indicators of control of nonprofit institutions and corporations in 2008 SNA);
 - (c) The differences between regulatory control and control for financial reporting purposes; and;
 - (d) The rights associated with golden shares.

Some of these matters are discussed in more detail in later sections of this Basis for Conclusions.

Scope (paragraphs 3–9)

Wholly-Owned and Partly-Owned Controlling Entities

- BC6. The IPSASB agreed that, consistent with the requirements in IPSAS 6 (December 2006) and IFRS 10, wholly-owned 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

- BC7. The IPSASB noted the general principle in both IFRS 10 and IPSAS 6 (December 2006) 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 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 that 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.
- BC8. 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.

BC9. 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.

BC10. 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.

BC11. 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 the consolidation process are high and may be perceived to outweigh the benefits of consolidating those entities on a line by line basis.

BC12. 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 (Conceptual Framework)*;
- (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.

- BC13. 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 not be standardized and comparable financial reporting by governments in an international context.
- BC14. 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.
- BC15. The IPSASB therefore decided not to require a different accounting treatment for temporarily controlled entities. Respondents to ED 49 generally agreed with this proposal, for similar reasons to the IPSASB. In discussing respondents' comments the IPSASB acknowledged

the arguments made by those that considered there should be an exemption from consolidation for temporarily controlled entities, particularly those acquired by a government to protect the interests of citizens. However, the IPSASB also noted the experience of various jurisdictions in accounting for such situations and that consolidation of such entities had occurred in some jurisdictions. The IPSASB also considered the weight of the support for the removal of the exemption. Respondents noted that such investments can ultimately be held for longer periods than originally envisaged. Some respondents encouraged the IPSASB to consider requiring additional disclosures in respect of entities acquired with a view to disposal. The IPSASB agreed to require disclosure of interests in other entities held for sale in IPSAS 38, *Disclosure of Interests in Other Entities*.

- BC16. 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. As part of its deliberations the IPSASB did consider alternative ways of accounting for and presenting information on subsets of controlled entities such as temporarily controlled entities. The IPSASB noted the difficulties of consistently identifying categories of controlled entities that might be accounted for differently or subject to additional disclosures.
- BC17. 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.
- BC18. The IPSASB noted that many governments prepared statistical reports which present consolidated financial information in a sectoral approach, breaking down between the general government sectors and public corporation sectors (Non-Financial and Financial). This information is compiled in accordance with statistical guidance in the 2008 SNA, which, in turn, is consistent with guidance in the GFSM 2014 and the European System of Accounts (ESA 2010). The IPSASB considered whether such a statistical approach could be considered as an alternative to the compilation of whole of government accounts based on the IPSAS approach. 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 fulfill 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. Although the IPSASB decided not to provide guidance in this Standard on the presentation of information on statistical sectors, it noted that governments may present consolidated financial statements that are disaggregated by statistical sector.

- BC19. ED 49 therefore proposed 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 sought 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. Respondents were generally supportive of this proposal, although a number of respondents highlighted implementation difficulties (for example, the costs associated with consolidating a large number of controlled entities). Some respondents also commented on the existence of reporting entities established through legal or administrative means and noted that they may differ from the reporting entity identified in accordance with the proposed Standard. The IPSASB agreed to acknowledge, in the Standard, the existence of reporting entities established through legal or administrative means.

Investment Entities

- BC20. 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 requires 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).

- BC21. 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.
- BC22. The IPSASB considered whether the definition of an investment entity in IFRS 10 was appropriate in the public sector. The IPSASB agreed that the definition was largely appropriate although it noted that an investment entity will frequently have an external mandate that establishes its purpose (as opposed to the entity asserting its purpose to investors) and amended the definition accordingly. The IPSASB considered that it would be helpful to give additional public sector examples of scenarios in which an entity would not be an investment entity by virtue of having additional objectives.
- BC23. The IPSASB considered whether the typical characteristics of an investment entity were 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 considered that the typical characteristics identified in IFRS 10 were not likely to be typical characteristics 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). The fund could argue that it is investing funds on behalf of, or for the benefit of, citizens. 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 nevertheless be 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."

- BC24. Because of the differences between the private and public sector, the IPSASB decided not to identify typical characteristics separately from the definition of an investment entity. The IPSASB noted that much of the discussion in IFRS 10 regarding the typical characteristics of investment entities described ways in which an entity could demonstrate that it met the definition of an investment entity. The IPSASB therefore decided to retain such guidance, but to locate it together with other guidance on the definition of an investment entity. The IPSASB agreed that the characteristic in IFRS 10 that “The individuals or entities that have provided funds to the entity are not related parties of the entity” did not reflect the public sector context and agreed to omit the guidance on that characteristic.
- BC25. Although the IPSASB decided not to identify typical characteristics separately from the definition of an investment entity, the IPSASB considered that most public sector entities classifying themselves as investment entities should be required to disclose information about the judgments and assumptions made. The IPSASB considered that disclosure of these judgments and assumptions would be important for transparency and encourage appropriate use of the investment entity accounting requirements.
- BC26. 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.
- BC27. 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.
- BC28. 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 considered that this issue was of less concern 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 ownership investment in the ultimate controlling entity and less likely that they would have ownership investments in other entities within the economic entity.
- BC29. The IPSASB considered what type of information users would find most useful about a controlled investment entity. The IPSASB considered that users would find it most useful if the accounting for investments applied in a controlled investment entity’s financial statements were extended to its controlling entity’s financial statements. The IPSASB therefore proposed that a controlling entity with a controlled investment entity should be required to present consolidated financial statements in which it (i) measures the investments of the controlled

investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with the usual consolidation accounting policies required by the Standard. The IPSASB considered that its proposals reflect the fact that a controlling entity does not manage an investment entity itself on a fair value basis. Rather, it manages the investments of the investment entity on a fair value basis. This approach is also consistent with the accounting by an investment entity for its investments in other entities.

- BC30. In June 2014 the IASB issued ED 2014/2 *Investment Entities—Applying the Consolidation Exception* (Proposed amendments to IFRS 10 and IAS 28) which proposed to clarify aspects of the application of the investment entity requirements. In October 2014 the IASB tentatively decided to proceed to amend IFRS 10 and IAS 28. The IPSASB considered that these clarifications were helpful in addressing implementation issues identified by early adopters of the IASB's investment entity requirements and incorporated those aspects of the amendments that were relevant to this Standard.

Control (paragraphs 16–35)

- BC31. 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).
- BC32. The IPSASB took note of the approach taken in Government Finance Statistics in relation to control over an entity. The 2008 SNA, paragraph 4.80, includes eight indicators of control of corporations and five indicators of control of nonprofit institutions and explains that “Although a single indicator could be sufficient to establish control, in other cases a number of indicators may collectively indicate control”. Overall, the direction of the statistical indicators is on the same lines as the approach in this Standard and therefore the practical results of the respective analyses will likely largely coincide. Some of the indicators in GFS are mentioned in the following paragraphs.

Power (paragraphs 21–27)

- BC33. The IPSASB decided to modify IFRS 10 to:
- (a) Highlight the range of relevant activities that could occur in the public sector and stress that control of financial and operating policies can demonstrate power over relevant activities;
 - (b) Clarify that regulatory control and economic dependence do not give rise to power for the purposes of the Standard; and
 - (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

- BC34. The IPSASB agreed that the previous guidance on regulatory control in IPSAS 6 (December 2006) should be incorporated in the Standard. The IPSASB noted that IFRS 10 had been developed for application by profit-oriented entities, few of whom have powers to create or enforce legislation or regulations. By contrast, the nature of government means that regulatory power occurs frequently in the public sector.
- BC35. In considering how to incorporate guidance on regulatory control in the Standard the IPSASB noted that (i) the discussion of power in IFRS 10 focuses on the ability to influence the “relevant activities” of the investee, and (ii) power is only one of the three elements that are required for control to exist. The IPSASB decided to place the discussion of regulatory control alongside the discussion of power and relevant activities.
- BC36. The IPSASB noted that the discussion of regulation and control in the 2008 SNA is similar to that previously in IPSAS 6. The 2008 SNA 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.

- BC37. The IPSASB noted that the 2008 SNA discusses control by a dominant customer. It states:
- "In general, if there is clear evidence that the corporation could not choose to deal with non-public sector clients because of public sector influence, then public control is implied."

Economic Dependence

- BC38. 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.
- BC39. 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.

Special Voting Rights Attaching to Ownership Interests (Golden Shares)

- BC40. The IPSASB agreed that the Standard should acknowledge that special voting rights attaching to ownership interests (often referred to as “golden shares”) will influence assessments of control. The IPSASB noted that such rights are also acknowledged in the GFSM 2014.

Substantive Rights

- BC41. 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 entity from being controlled by another entity (paragraph 21).

Terminology

- BC42. 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. Unless noted otherwise in an IPSAS, this discussion of terminology is relevant to IPSASs 34 to 38.

Investor/Investee

- BC43. 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.
- BC44. The IPSASB considered other terms that could be used to describe investors and investees, in the context of the Standard. One option was to refer to an investor as a "potential controlling entity" and an investee as a "potential controlled entity". The IPSASB considered that these phrases, whilst clear in meaning, would be cumbersome to use throughout the Standard. The IPSASB noted that IPSASs generally refer to the entity applying the Standard as "the entity". In the case of this Standard, the entity applying the Standard is the entity that is assessing whether or not it controls another entity (referred to as the investor in IFRS 10). The entity applying the Standard is doing so in order to determine whether it controls another entity. The IPSASB therefore decided that, depending on the context, it would refer to the investor as "the entity" and the investee as "another entity", "other entity", or "entity being assessed for control".
- BC45. The IPSASB agreed to retain use of the term "investors" where the Standard is referring to a specific investment and the term is used in accordance with its usual meaning. This was particularly relevant in the parts of the Standard dealing with investment entities.
- BC46. The IPSASB also agreed that the terms "investor" and "investee" are appropriate when referring to interests in joint ventures and associates.

Binding Arrangements

- BC47. The IPSASB agreed to replace most references to "contractual arrangements" in IFRS 10 with references 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 binding arrangements, for the purpose of this Standard, should encompass rights that arise from legislative or executive authority.

Benefits

- BC48. 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.
- BC49. 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.
- BC50. The IPSASB agreed to locate the examples of benefits in the body of the Standard as it considered that the examples would be particularly useful for an entity making an initial assessment of whether it might control other entities.
- BC51. The definition of control in IPSAS 35 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 provided examples to show that benefits that appear to be fixed 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.

Uniform Reporting Dates

- BC52. The IPSASB considered whether to impose a time limit on the difference between the end of the reporting period of the controlling entity and its controlled entities. The IPSASB noted that IFRS 10 requires that the financial statements used in preparing consolidated financial statements have the same reporting date, or where this is impracticable, requires that adjustments be made to the most recent financial statements of the controlled entities. In addition, IFRS 10 limits the difference in dates to three months. The IPSASB noted that there may be instances in the public sector where entities have different reporting dates and it may not be possible to change those dates. The IPSASB agreed not to impose a three month limit on the difference in dates.

Implementation Issues

- BC53. A number of respondents commented on the difficulty of preparing consolidated financial statements, particularly when there are a large number of controlled entities, as in the case of whole of government financial statements. The IPSASB acknowledged these practical difficulties, whilst noting that most jurisdictions presenting consolidated financial statements have faced similar difficulties. Such strategies include:
- (a) Assessing the existence of control for various categories of entities in phases, with an initial focus on entities that are likely to be material.
 - (b) Not consolidating (or deferring the consolidation of) controlled entities that are likely to be immaterial.
 - (c) Identifying the cost-effective ways of obtaining information about inter-entity balances and transactions.
 - (d) Not eliminating immaterial inter-entity transactions and balances.
 - (e) Considering whether all disclosures must be made in respect of all entities.
- BC54. The IPSASB considered whether to provide specific guidance on the application of materiality when preparing consolidated financial statements but concluded that this would not be appropriate in a financial reporting standard.

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

- BC55. At the time that IPSAS 35 was being developed, the IASB was in the process of seeking feedback on proposals to amend IFRS 10 and 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 would 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*. The IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)* in September 2014. The IPSASB agreed not to incorporate the requirements introduced by these amendments in IPSAS 35 and IPSAS 36 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.

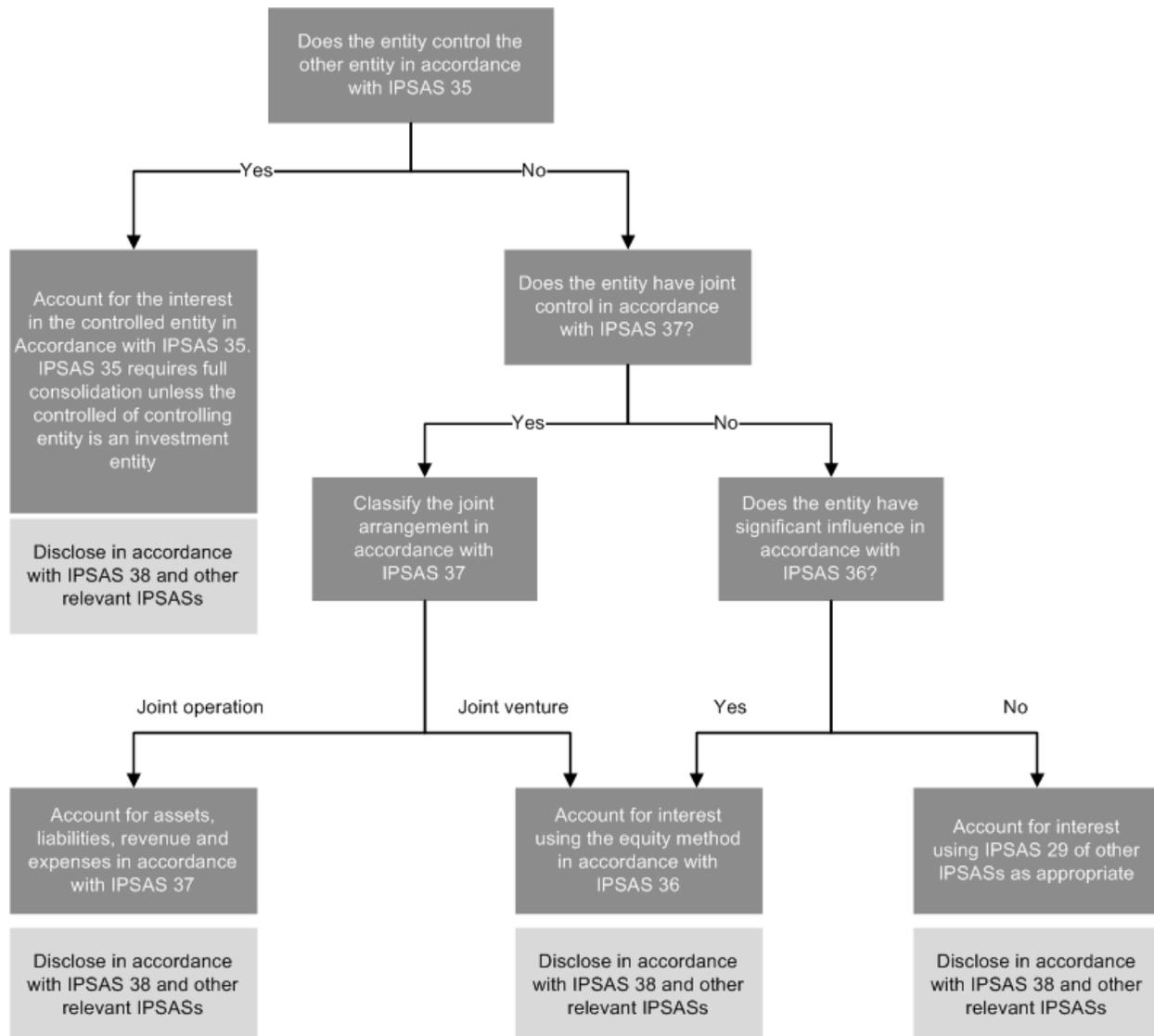
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 35, 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
 [The ED references in this diagram will be updated to refer to the IPSASs]



Illustrative Examples

These examples accompany, but are not part of, IPSAS 35, Consolidated Financial Statements.

Refer Agenda paper 3.1, issue 2 for a discussion of changes to the examples and new examples 30A-C.

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 IPSAS 35.

Power (paragraphs AG9–AG56)

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 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 such regulatory control and has established price ceilings for entities that distribute electricity. The central government does not have an ownership interest in the electricity distributors and does not receive financial benefits from the electricity distributors. 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 enforces 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 relevant activities of the association comprise:

- Reviewing and selecting applicants for housing;
- The day-to-day operation of the housing program;
- Maintaining the houses and common facilities; and
- Improving and extending the housing facilities.

The board of governors of the association has 16 members, with eight appointed by (and subject to removal by) the government housing agency. The chair is appointed by the board from amongst the appointees of the government housing agency, and has a casting vote that is rarely exercised. The board meets regularly and reviews reports received from the association's management. Based on these reports, the board may confirm or override management decisions. In addition, the board makes decisions on major issues such as significant maintenance and investing further capital to build additional housing, after reviewing vacancy levels and the demand for housing.

The government housing agency owns the land on which the housing facilities stand and has contributed capital and operating funds to the association since it was established. 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 direct 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

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

The government housing agency has rights that give it the current ability to direct the relevant activities of the association, regardless of whether it chooses to exercise those rights.

The government housing agency appoints eight members of the board of governors, one of whom will become the chair, who has a casting vote. As a result, the government housing agency has power over the association through substantive rights that give it the current ability to direct the relevant activities of the association, regardless of whether the government housing agency chooses to exercise those substantive rights.

The government housing agency also has exposure or rights to variable benefits from its involvement with the association. The government housing agency obtains non-financial benefits through the association furthering its social objective of meeting the need for low-cost community housing. Although not able to receive direct financial benefits, the government housing agency obtains indirect benefits through its ability to direct how the financial returns are to be employed in the community housing program.

The government housing agency also satisfies the final control criterion. Through its appointees on the board, the government housing agency has the ability to use its power to affect the nature and amount of its benefits from the association.

The government housing agency satisfies all three criteria for control and therefore 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 that does not give rights to the government housing agency to appoint board members; and
- (b) Decisions made by the association's board are reviewed by the government housing agency, which may offer advice to the association.

Based on the revised facts and circumstances outlined above, the government housing agency does not have substantive rights relating to the association and therefore does not have power over the association.

The government housing agency's social objectives in relation to low-cost community housing are still being achieved and therefore it will still obtain direct non-financial benefits. However, congruence of objectives alone is insufficient to conclude that one entity controls another entity (refer paragraph 32).

The government housing agency does not have power and consequently does not have the

ability to use power to affect the amount of the agency's benefits. The government housing agency is unable to satisfy two of the three control criteria and therefore the government housing agency 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 32). 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 and Special Voting Rights Attaching to Ownership Interests (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 company and, in order to protect its national interests, it has used a “golden share” mechanism. The “golden share” does not have any value or give any percentage rights to the capital of the company. The golden share states that control of the company, or a 24 percent stake in the company cannot be sold without the permission of the central government.

The central government has protective rights, not substantive rights.

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). The golden share granted the Secretary of State (as the holder of the share) a 15 percent shareholding in the company, and consequently the ability to block any potential takeover of the business. It also required that the chairman of the board and the chief executive be citizens of the country. The rationale for the golden share was to protect the company from an overseas acquisition, principally on the grounds of national security.

The central government has protective rights, not substantive rights.

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:

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

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

Control of the Board or Other Governing Body (paragraph 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–AG42)

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

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 AG43–AG48)

- 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 AG49–AG52)

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 AG53–AG56)*

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. Each board determines its own operating and financial policies and strategy. The activities that have the

biggest impact on the achievement of the boards' objectives are the management of property and the distribution of funds to the beneficiaries.

The central government does not control the boards. The government was involved in establishing the legislation that governs the activities of the boards, but does not have rights over the relevant activities of the boards.

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. In deciding how to account for its interest in the company each local authority would also need to consider whether it is a party to a joint arrangement as defined in IPSAS 37, *Joint Arrangements*.

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. In addition, because the majority of the directors of the leisure trust are elected members, officers or employees of the local government, the local government can direct the relevant activities of the leisure trust.

Example 29

A local government transfers its leisure centers, 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 councilors 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 30A

Trust A promotes, supports and undertakes programmes, actions and initiatives to beautify City A. It receives funding from the local government for various services, including graffiti removal, beautification projects and running environmental events. It reports back to the local government on its performance in delivering these services. If the trust did not exist the local government would need to find some other way to deliver these services. The trust also receives assistance through donations and volunteer work by the local community including local businesses, schools, community groups and individuals.

The trust was originally established by an elected official of the local government.

The governing body of the local government appoints all the trustees (having regard to certain requirements such as balance in gender and location of trustees). There are between five and 12 trustees. The trustees appoint the officers.

Changes to the trust deed must be approved by the trustees and the governing body of the local authority.

If the trust is wound up, surplus assets must be transferred to a similar charitable body in the same geographical area. This transfer of assets is subject to the approval of the local government.

The local government has a mix of rights over the trust including rights to:

- (a) Appoint, reassign or remove members of the trust's key management personnel who have the ability to direct the relevant activities;
- (b) Approve or veto operating and capital budgets relating to the relevant activities of the trust; and
- (c) Veto key changes to the Trust, such as the sale of a major asset or of the trust as a whole.

The local government is able to direct the relevant activities (the services) of the trust through its arrangements in such a way that it is able to affect the costs and quality of the services being provided. The local government is exposed to variable returns (both the economic effects of the service and the quality of the service). As it uses its power to affect these returns, the local government controls the trust.

Example 30B

Entity A is a public sector body that promotes the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions. It also facilitates access to housing finance and promotes competition and efficiency in the provision of housing finance.

Entity A established a separate trust which has narrowly defined objectives. The trust's functions are to acquire interests in eligible housing loans and issue mortgage bonds. Entity A guarantees the bonds issued by the trust but does not provide ongoing funding – the trust finances its activities through the revenue from its investments. If the trust is wound up the trust's assets are to be distributed to one or more charitable organizations. Entity A does not have on-going decision-making rights over the trust's activities.

Entity A has power over the relevant activities of the trust because it determined the relevant activities of the trust when it established 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 the 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.

Neither the central government nor the participating local authorities control the funding agency. In deciding how to account for their interest in the funding agency the central government and participating local authorities would also need to consider whether they are parties to a joint arrangement as defined in IPSAS 37.

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 (paragraph AG57)

- 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 centers (although University A receives government funding for its educational programs, the childcare centers have been established by the university, not by the government). The centers operate in University owned buildings. Each center has its own manager, staff and budget. The centers 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 centers or relocate them to other properties. Because the childcare center is on university property the staff and parents are required to comply with University health and safety policies. The management team of the childcare center 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 centers, it has the ability to close the centers or change their hours of operation.

University A controls the childcare centers.

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 center are members of the society. The members appoint the Board of the incorporated society and are in charge of the childcare center's operating and financial policies. The childcare center is able to be used by staff, students and the general public, with students having priority. Because the childcare center 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 organization. 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 have power to direct the relevant activities of the incorporated society. The members of the incorporated society, being the parents of the children, have the power to direct the relevant activities of the incorporated society. The University does not control the incorporated society.

Link between Power and Benefits

Delegated Power (paragraphs AG60–AG63)

- 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 have power over 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 has a governing council that oversees the body's operations and is responsible for its day-to-day 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 public health system. This role includes:

- (a) Strategic leadership, such as the development of provincial-wide health service plans;
- (b) Directions for the delivery of health services, such as entering into service agreements, capital works approval and management of provincial-wide 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.

The Minister's approval is specifically required for the following major decisions:

- (a) Entering into service agreements with the body;
- (b) Issuing binding health service directives;
- (c) Finalization of health service plans and capital works planning; and
- (d) Employment and remuneration of the statutory body's executive 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 generally acts as an agent of the Minister in relation to the statutory body. This is evident from the restricted decision-making authority held by the Department. The Health Department does not control the statutory body.

As the Minister appoints the statutory body's governing council and approves the major decisions affecting the body's activities, the Minister has the power to direct the relevant activities of the body. Assuming that the other control criteria (variable returns and link between power and benefits) are satisfied, as would be expected, then the Minister would control the statutory body. As a result, the statutory body would be consolidated in the provincial government's whole of government general purpose financial statements.

Example 38

The facts are the same as in Example 37 except that:

- (a) The Minister has delegated the power to appoint members of the statutory body's governing council to the Health Department's head;
- (b) The appointment of the statutory body's chief executive by the governing council does not require the Minister's approval;
- (c) The Minister has delegated the power to approve the major decisions to the Health Department's head; and
- (d) Assessments of the Health Department's performance encompass the performance of the statutory body.

The Minister could still exercise the powers that have been delegated to the Health Department's head, but in practice, is unlikely to do so.

In this example, the scope of the decision-making authority held by the Health Department has increased significantly as a result of the delegations by the Minister to the Health Department head. As the Health Department acts as a principal under the delegations, the 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. As the Health Department also has the ability to use its power over the authority to affect the nature and amount of the Department's benefits, the Department controls the statutory body.

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-collateralization 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 AG88–AG106)

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 realizing 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.

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 realizing 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 characteristics that are relevant in assessing whether it meets the definition of an investment entity:

- (a) Limited Partnership is funded by many investors; and
- (b) 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 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.

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.

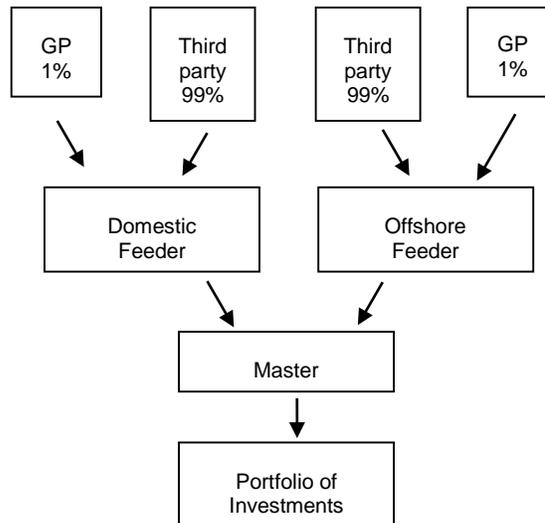
Real Estate Entity undertakes extensive property and asset management activities, including property maintenance, capital expenditure, redevelopment, marketing and tenant selection, some of which it outsources to third parties. This includes the selection of properties for refurbishment, development 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.

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 capitalized 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.

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 characteristics:

- (a) The feeder funds indirectly hold more than one investment because Master Fund holds a portfolio of investments;
- (b) Although Master Fund is wholly capitalized 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.

Example 53

Government Corporation A was established with the principal activity of providing equity finance to both existing and new enterprises. Its investment objective is to seek capital appreciation and returns. All acquisitions are made on that basis. The strategy of the Corporation is to increase the fair value of investments in order to realize a gain on disposal. Management assesses and monitors fair value of the investments on a regular basis. The Corporation regularly disposes of investments when they reach a certain stage of maturity so as to provide funds for ongoing investment opportunities. Any surplus is distributed to the government in the form of dividends.

The Corporation also provides investment related services to the government regarding the government's policies for assisting entities in financial distress. It acts as an agent in managing and implementing some of the government's business incentive schemes. The Corporation is not exposed to any losses or risks as a result of its involvement with these schemes.

The Fund is an investment entity. It meets all three aspects of the definition of an investment entity.

Comparison with IFRS 10

IPSAS 35, *Consolidated Financial Statements* is drawn primarily from IFRS 10, *Consolidated Financial Statements* (issued in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of certain IFRSs referred to in IFRS 10. These standards include:

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

The main differences between IPSAS 35 and IFRS 10 are as follows:

- Commentary additional to that in IFRS 10 has been included in IPSAS 35 to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS 35 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”. The equivalent terms in IFRS 10 are “income statement,” “equity,” “group,” “parent,” and “subsidiary.” In many cases the terms “investor” and “investee” used in IFRS 10 are replaced by references to “an entity”, “another entity” or “an entity being assessed for control”. The terms “investor” and “investee” have been retained in the application guidance on investment entities as they are appropriate in that context.
- IFRS 10 identifies typical characteristics of an investment entity separately from the definition of an investment entity. IPSAS 35 does not identify such typical characteristics. However, it does discuss some of these characteristics in the context of the definition of an investment entity.
- IPSAS 35 contains more guidance on non-financial benefits.
- IPSAS 35 does not require that a controlling entity, that is not itself an investment entity, shall consolidate all controlled entities. Instead it requires that such a controlling entity shall present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with IPSAS 35.
- IPSAS 35 contains additional illustrative examples that reflect the public sector context.

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**Final Pronouncement
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International Public Sector Accounting Standard

Investments in Associates and Joint Ventures



International Public
Sector Accounting
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

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 the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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IPSAS 36—INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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International Public Sector Accounting Standard 36, *Investments in Associates and Joint Ventures*, is set out in paragraphs 1–53. All the paragraphs have equal authority. IPSAS 36 should be read in the context of its objective, the Basis for Conclusions, and the *Preface to International Public Sector Accounting Standards*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this 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 Standard in accounting for investments in associates and joint ventures.**
3. **This 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 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. This includes ownership interests arising from investments in the formal equity structure of another entity. A formal equity structure means share capital or an equivalent form of capital, such as units in a property trust. Quantifiable ownership interests may also include ownership interests arising from other investments in which the entity's ownership interest can be measured reliably (for example, interests in a partnership). Where the equity structure of the other entity 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 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 Standard with the meanings specified:**

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

Binding arrangement: For the purposes of this Standard, a binding arrangement is 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.

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 agreed sharing of control of an arrangement by way of a binding 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 Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in IPSAS 35, *Consolidated Financial Statements*, and IPSAS 37, *Joint Arrangements*: benefits, control, controlled entity, controlling entity, economic entity, investment entity, joint operation and power.

Binding Arrangement

9. 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 contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Significant Influence

10. 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 Standard. This Standard applies only to those associates in which an entity holds a quantifiable ownership interest either in the form of a shareholding or other formal equity structure or in another form in which the entity's interest can be measured reliably.
11. If an entity holds a quantifiable ownership interest 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.

12. 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.
13. 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.
14. 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.
15. 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

16. 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.
17. 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.

18. 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 19 applies.
19. 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.
20. 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.
21. 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

22. **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 23–25.**

Exemptions from Applying the Equity Method

23. 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 IPSAS 35, *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 financial statements available for public use that comply with IPSASs, including the requirements to consolidate controlled entities in accordance with paragraph 36 of IPSAS 35 or measure them at fair value in accordance with paragraph 54 of IPSAS 35.
24. 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 organization, 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. An investment entity will, by definition, have made this election.
25. When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organization, 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 organization, 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 organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. When an entity has an investment in an associate, a portion of which is held indirectly through an investment entity, the entity shall measure that portion of the investment at fair value through surplus or deficit in accordance with IPSAS 29.

Discontinuing the Use of the Equity Method

26. **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 IPSAS 35.**
 - (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 an entity is precluded by IPSAS 29, paragraphs AG113 and AG114 from measuring the retained interest at fair value, 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.**

- 27. 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

28. If an entity's ownership interest in an associate or a joint venture is reduced, but the investment continues to be classified either as an associate or a joint venture respectively, 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

29. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IPSAS 35. 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.
30. 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 37–38).
31. 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.
32. When downstream transactions provide evidence of a reduction in the net realizable 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 realizable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognize its share in those losses.
33. 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 31, 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 34 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.

34. 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.
35. 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.

36. **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 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. Except as described in paragraph 39, 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. Notwithstanding the requirements in paragraph 38, if an entity has an interest in an associate or a joint venture that is an investment entity, the entity shall, when applying the equity method, retain the

fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities.

40. 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.
41. 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 recognizing 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).
42. 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 recognizing its share of those surpluses only after its share of the surpluses equals the share of deficits not recognized.

Impairment Losses

43. After application of the equity method, including recognizing the associate's or joint venture's deficits in accordance with paragraph 41, 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.
44. 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.
45. Whenever application of IPSAS 29 indicates that the investment in an associate or a joint venture may be impaired, an entity applies IPSAS 26, *Impairment of Cash-Generating Assets*, and possibly, IPSAS 21, *Impairment of Non-Cash-Generating Assets*.
46. 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.

47. IPSAS 21 requires that, if the recoverable service amount of an asset is less than its carrying amount, the carrying amount shall be reduced to its recoverable service amount. Recoverable service amount is the higher of an asset's fair value, less costs to sell and its value in use. Value in use of a non-cash-generating asset is defined as the present value of the asset's remaining service potential. The present value of the remaining service potential may be assessed using the depreciated replacement cost approach, the restoration cost approach or the service units approach, as appropriate.
48. 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

49. An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 12 of IPSAS 34, *Separate Financial Statements*.

Transitional Provisions

50. The transitional provisions for changing from proportionate consolidation to the equity method, or from the equity method to accounting for assets and liabilities in respect of a joint operation are set out in IPSAS 37.

Effective Date

51. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, IPSAS 35, IPSAS 37, and IPSAS 38, *Disclosure of Interests in Other Entities*, at the same time.**
52. 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)

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

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 36, Investments in Associates and Joint Ventures.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching its conclusions on IPSAS 36. As this 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 IPSAS 36 departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 50 *Investments in Associates and Joint Ventures* was based on IAS 28 (Amended in 2011), having regard to the relevant public sector modifications in IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 36. These new IPSASs supersede IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7 and IPSAS 8.

BC3. As a result of combining the accounting for associates and joint ventures the title of the Standard was changed to *Investments in Associates and Joint Ventures*.

BC4. In drafting IPSAS 36 the Board did not reconsider all the requirements of IPSAS 7, *Investments in Associates* (December 2006). 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 IPSAS 37.

Scope

Quantifiable Ownership Interests

BC5. 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.

BC6. In contrast with IPSAS 7 (December 2006) this 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 Standard should be limited to "quantifiable ownership interests". Respondents supported this proposal, but considered that disclosure of information about an entity's non-quantifiable ownership interests in other entities

would be appropriate. The IPSASB agreed that IPSAS 38, *Disclosure of Interests in Other Entities* should require the disclosure of non-quantifiable ownership interests.

Temporary Joint Control and Significant Influence

- BC7. IPSAS 7 (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*.
- BC8. The IPSASB noted that in developing IPSAS 35, *Consolidated Financial Statements* it had considered the related issue of whether to incorporate a temporary control exemption in that 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 IPSAS 36.

Significant Influence

- BC9. The Standard establishes a presumption that an entity has significant influence over an investee if an entity holds an ownership interest in the form of a shareholding or other formal equity structure and holds, directly, or indirectly, (e.g., through controlled entities) 20 per cent or more of the voting power of an investee. The IPSASB noted that the use of 20 percent in establishing a presumption of significant influence came initially from IAS 27 and had also been used in IPSAS 7 (December 2006). In deciding to retain this presumption in the Standard, the IPSASB noted that it was unaware of any public sector reason to use an amount other than 20 per cent.

Uniform Reporting Dates

- BC10. The IPSASB considered whether to impose a time limit on the difference between the end of the reporting period of the entity and associate or joint venture of the entity. The IPSASB noted that IAS 28 requires that the most recent available financial statements of the associate or joint venture be used by an entity in applying the equity method and requires adjustments when they are not the same. In addition, IAS 28 limits the difference in dates to three months. The IPSASB noted that there may be instances in the public sector where entities have different reporting dates and it may not be possible to change those dates. The IPSASB agreed not to impose a three month limit on the difference in dates.

Investment Entities

- BC11. Some respondents to ED 50 requested that the IPSASB clarify the application of the equity method by investment entities and by investors with investments in an associate or a joint venture that is an investment entity. Accordingly the IPSASB:
- (a) Clarified that an investment entity will, by definition, have elected to account for investments in associates and joint ventures at fair value through surplus or deficit in accordance with IPSAS 29; and
 - (b) Required that an entity with an interest in an investment entity associate or an investment entity joint venture, shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or investment entity joint venture to its interests in controlled entities.

- BC12. The IPSASB noted that, at the time of finalizing IPSAS 36 the IASB had proposing to amend IAS 28 to clarify the accounting for investments in investment entity associates and investment entity joint ventures. The IASB's proposals were set out in ED 2014/2 *Investment Entities—Applying the Consolidation Exception* (Proposed amendments to IFRS 10 and IAS 28) issued in June 2014. In October 2014 the IASB had tentatively decided to proceed to amend IFRS 10 and IAS 28. The IPSASB considered that these clarifications were helpful in addressing implementation issues identified by early adopters of the IASB's investment entity requirements and incorporated those aspects of the amendments that were relevant to this Standard.

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

- BC13. At the time that IPSAS 36 was being developed, the IASB was in the process of seeking feedback on proposals to amend IFRS 10 and 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 would 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*. The IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)* in September 2014. The IPSASB agreed not to incorporate the requirements introduced by these amendments in IPSAS 35 and IPSAS 36 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)

The main differences between IPSAS 36 and IAS 28 (Amended in 2011) are as follows:

- Commentary additional to that in IAS 28 (Amended in 2011) has been included in IPSAS 36 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 36 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 36. The equivalent terms in IAS 28 (Amended in 2011) are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS 36 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 an entity is precluded by IPSAS 29 from measuring the retained interest in a former associate or joint venture at fair value, IPSAS 36 permits an entity to use carrying amount as the cost on initial recognition of the financial asset. IAS 28 (Amended in 2011) requires that the retained interest be measured at fair value.
- IPSAS 36 requires that an entity with an interest in an associate or a joint venture that is an investment entity, shall, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities. IAS 28 (Amended in 2011) does not specify requirements for investment entity associates or joint ventures.

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**Final Pronouncement
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International Public Sector Accounting Standard

Joint Arrangements

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

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 the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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IPSAS 37—JOINT ARRANGEMENTS

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International Public Sector Accounting Standard 37, *Joint Arrangements*, is set out in paragraphs 1–45. All the paragraphs have equal authority. IPSAS 37 should be read in the context of its objective, the Basis for Conclusions, and the *Preface to International Public Sector Accounting Standards*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this 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 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. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in determining the type of joint arrangement in which it is involved and in accounting for the rights and obligations of the joint arrangement.**
4. **This Standard shall be applied by all entities that are a party to a joint arrangement.**
5. **This 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 Standard with the meanings specified:

Binding arrangement: For the purposes of this Standard, a binding arrangement is 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.

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, 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 Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* and IPSAS 36, *Investments in Associates and Joint Ventures*: benefits, control, equity method, power, protective rights, relevant activities, separate financial statements and significant influence

Binding Arrangement

8. 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 contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Joint Arrangements (see paragraphs AG2–AG33)

9. **A joint arrangement is an arrangement of which two or more parties have joint control.**
10. **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 12–18).**
11. **A joint arrangement is either a joint operation or a joint venture.**

Joint Control

12. **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.**
13. 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).
14. 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.
15. 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.

16. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This 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.
17. 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).
18. If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

Types of Joint Arrangement

19. **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.**
20. 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).
21. 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.
22. 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–AG37)

Joint Operations

23. **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.**

24. 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.
25. 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.
26. 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 23–25 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

27. **A joint venturer shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IPSAS 36, *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in that Standard.**
28. 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 IPSAS 36.

Separate Financial Statements

29. **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 23–25; and**
 - (b) **A joint venture in accordance with paragraph 12 of IPSAS 34.**
30. **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 26; and**
 - (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 12 of IPSAS 34.**

Transitional Provisions

31. **Notwithstanding the requirements of paragraph 33 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, when this 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 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

32. 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).
33. The opening balance of the investment determined in accordance with paragraph 32 is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 43-48 of IPSAS 36 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.
34. 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.
35. 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 32–36.
36. After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with IPSAS 36.

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

37. 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 IPSAS 36 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.
38. 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.
39. 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 IPSAS 36 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.
40. 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

41. An entity that, in accordance with paragraph 58 of IPSAS 6, *Consolidated and Separate Financial Statements*, was previously accounting in its separate financial statements for its interest in a joint operation as an investment using the equity method, 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 37-39.
 - (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"

42. Notwithstanding the references to the "immediately preceding period" in paragraphs 31–41, 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 31–41 shall be read as the "earliest adjusted comparative period presented".
43. 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

44. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, IPSAS 35, IPSAS 36 and IPSAS 38, *Disclosure of Interests in Other Entities*, at the same time.**

Withdrawal of IPSAS 8 (December 2006)

45. This Standard supersedes IPSAS 8, *Interests in Joint Ventures* (December 2006).

Application Guidance

This Appendix is an integral part of IPSAS 37, 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 IPSAS 37.

Joint Arrangements

Binding Arrangement and Legislative or Executive Authority (paragraph 8)

AG2. The discussion of binding arrangements in this 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 12–18)

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. IPSAS 35 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

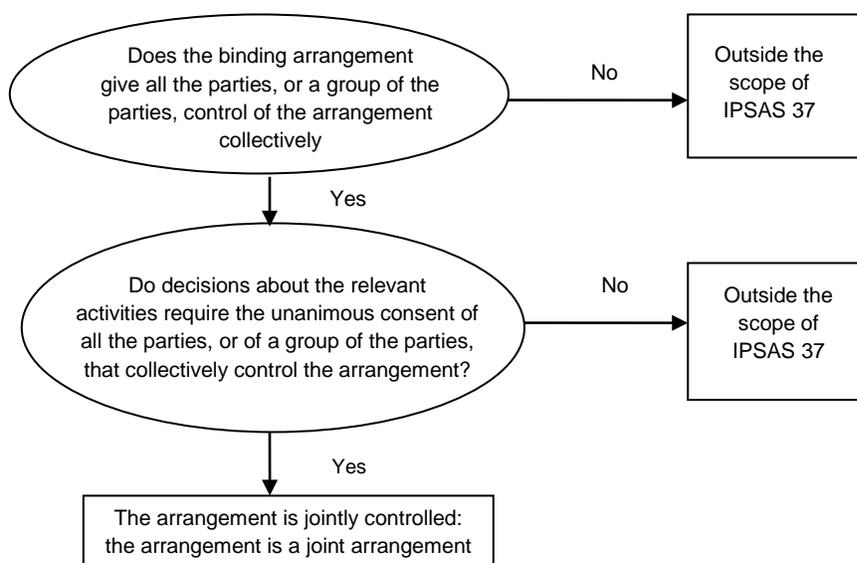
Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The binding arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the 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 IPSAS 37 an entity accounts for its interest in the arrangement in accordance with relevant IPSASs, such as IPSAS 35, IPSAS 36, or IPSAS 29.

Types of Joint Arrangement (paragraphs 19–22)

- 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 Standard depends upon the parties' rights and obligations arising from the arrangement in the normal course of operations. This Standard classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs AG16–AG33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

Classification of a Joint Arrangement

- AG15. 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

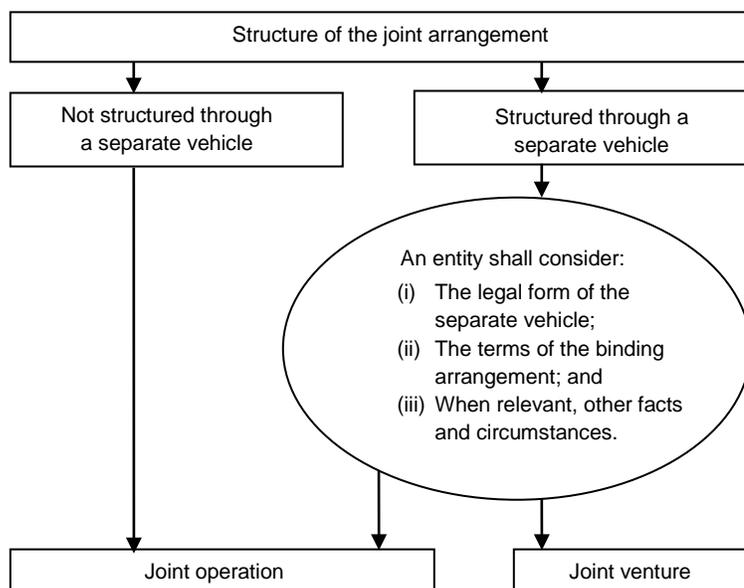
- AG16. A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the binding arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues 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 |
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| Example 4 |
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| 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. |
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| 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. |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

- 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). | The binding arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement. |
| | | 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. |

| Assessing the Terms of the Binding Arrangement | | |
|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Joint Operation | Joint Venture |
| | The binding arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties. | The binding 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. |
| 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:

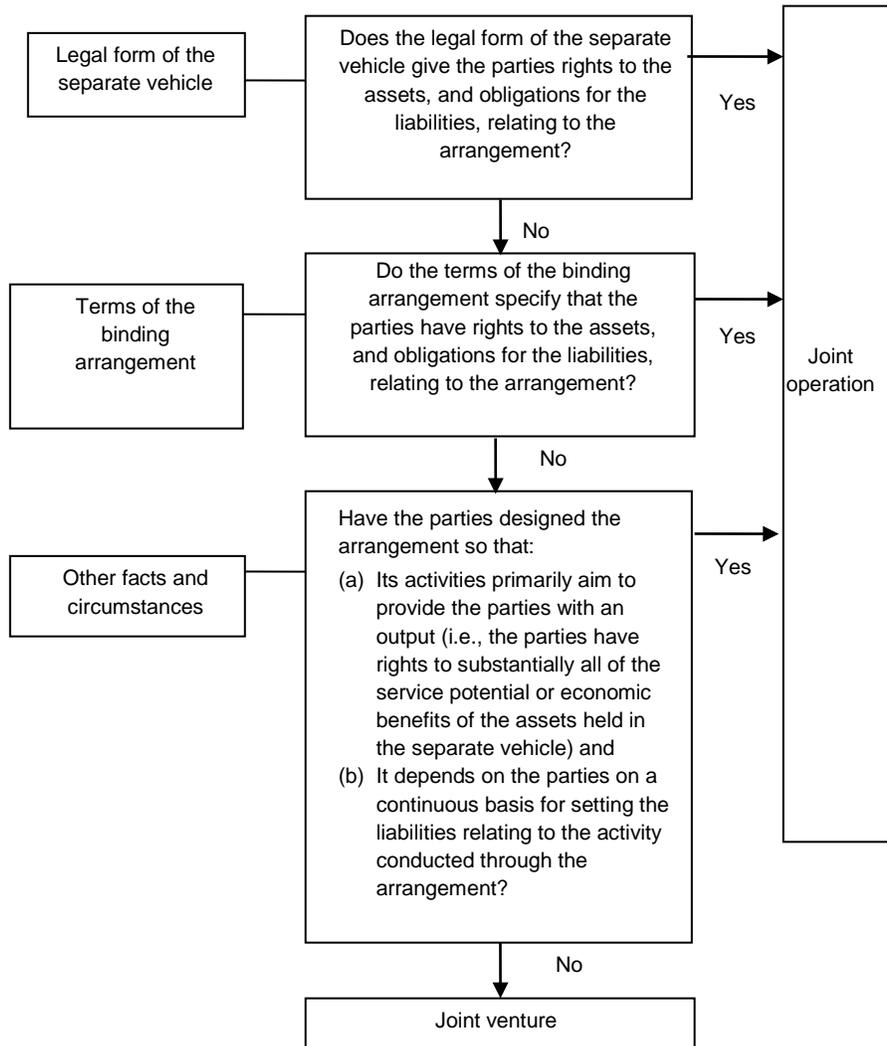
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties 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 (paragraphs 23–28)

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. IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 47, 48, added paragraphs 52A and 52B and deleted paragraph 61(b). An entity shall apply those amendments when it applies IPSAS 35, and IPSAS 37.**

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

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

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:
- (a) In accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement*,

- (b) In translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation, ~~proportionate consolidation,~~ or by the equity method; and
- (c) In translating an entity's financial performance and financial position into a presentation currency.

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

...

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

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

...

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

38. When a monetary item forms part of a reporting entity's net investment in a foreign operation, and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 32. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 32. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 32. Such exchange differences are reclassified to the separate component of net assets/equity in the financial statements that include the foreign operation and the reporting entity (i.e., financial statements in which the foreign operation is consolidated, ~~proportionately consolidated,~~ or accounted for using the equity method).

50. Paragraphs 51–56, in addition to paragraphs 43–49, apply when the financial performance and financial position of a foreign operation are translated into a presentation currency, so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, ~~proportionate consolidation,~~ or the equity method.

51. The incorporation of the financial performance and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS 35, Consolidated Financial Statements ~~IPSAS 6 and IPSAS 8, Interests in Joint Ventures.~~)

55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS 356, The same approach is used in applying the equity method to associates and joint ventures, ~~and in applying proportionate consolidation to joint ventures~~ in accordance with IPSAS 367, *Investments in Associates and Joint Ventures*, ~~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 recognized 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. IPSAS 35 and IPSAS 37, Joint Arrangements, issued in January 2015, 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 IPSAS 35 and IPSAS 37.

IPSAS 9, Revenue from Exchange Transactions

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

10. This Standard does not deal with revenues arising from:
- (a) Lease agreements (see IPSAS 13, *Leases*);
 - (b) Dividends or similar distributions arising from investments that are accounted for under the equity method (see IPSAS ~~36~~7, *Investments in Associates and Joint Ventures*);

....

42A. IPSAS 37, Joint Arrangements, issued in January 2015, amended paragraph 10(b). An entity shall apply that amendment when it applies IPSAS 37.

IPSAS 18, Segment Reporting

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

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

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

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

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

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

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

77A. IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs (the descriptions of segment assets, segment expenses, segment liabilities and segment revenue), 27, 32 and 61 to 63. An entity shall apply those amendments when it applies IPSAS 37.

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

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

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

111B. IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraph 37. An entity shall apply that amendment when it applies IPSAS 37.

IPSAS 20, *Related Party Disclosures*

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

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

...

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

- (a) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity;
- (b) Associates (see IPSAS ~~367~~, *Investments in Associates and Joint Ventures*);

...

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 IPSAS ~~367~~.

15. The definition of related party includes entities owned by key management personnel, close family members of such individuals or major shareholders (or equivalent where the entity does not have a formal equity structure) of the reporting entity. The definition of related party also includes circumstances in which one party has the ability to exercise significant influence over the other party. In the public sector, an individual or entity may be given oversight responsibility for a

reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. For the purposes of this Standard, significant influence is defined to encompass joint ventures ~~entities subject to joint control~~.

42A. IPSAS 35, Consolidated Financial Statements and IPSAS 37, Joint Arrangements, issued in January 2015, amended paragraphs 4 and 15. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.

IPSAS 21, Impairment of Non-Cash-Generating Assets

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

13. Investments in:

....

- (b) Associates, as defined in IPSAS ~~367~~, *Investments in Associates and Joint Ventures*; and
- (c) Joint arrangements ~~ventures~~, as defined in ~~IPSAS 8, *Interests in Joint Ventures*~~ IPSAS 37, *Joint Arrangements*;

....

82C. IPSAS 37 issued in January 2015, amended paragraph 13. An entity shall apply that amendment when it applies IPSAS 37.

IPSAS 26, Impairment of Cash-Generating Assets

Paragraph 12 is amended and paragraph 47A added as follows:

12. Investments in:

...

- (b) Associates, as defined in IPSAS ~~367~~, *Investments in Associates and Joint Ventures*; and
- (c) Joint arrangements ~~ventures~~, as defined in ~~IPSAS 8, *Interests in Joint Ventures*~~ IPSAS 37, *Joint Arrangements*;

47A. IPSAS 35, Consolidated Financial Statements and IPSAS 37 issued in January 2015, amended paragraph 12. An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.

IPSAS 28, Financial Instruments: Presentation

Paragraph 3(a) is amended and paragraph 60A added as follows:

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to all types of financial instruments except:

- (a) Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with IPSAS 34, *Separate Financial Statements*, ~~IPSAS 356, *Consolidated and Separate Financial Statements*, or IPSAS 367, *Investments in Associates and Joint Ventures*, or IPSAS 8, *Interests in Joint Ventures*~~. However, in some cases, IPSAS 34, IPSAS 35 or IPSAS 36 ~~IPSAS 6, IPSAS 7 or IPSAS 8~~ require or permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; ...

60A. IPSAS 35 and IPSAS 37, Joint Arrangements, issued in January 2015, amended paragraph 3. An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.

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 IPSAS 34, Separate Financial Statements, IPSAS 356, Consolidated and Separate Financial Statements, or IPSAS 367, Investments in Associates and Joint Ventures, or IPSAS 8, Interests in Joint Ventures. However, in some cases, IPSAS 34, IPSAS 35 or IPSAS 36 require or permit an entity to account for an interest in a controlled entity, associate, or joint venture in accordance with some or all of the requirements of this Standard. ~~However, 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 this Standard...~~

125B. IPSAS 35 and IPSAS 37, Joint Arrangements, issued in January 2015, amended paragraphs 2(a), 17, 89, AG2, AG14, AG51–53 and C2. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.

In Appendix A paragraphs AG2 and AG14 are amended as follows:

Investments in Controlled Entities, Associates, and Joint Ventures

AG2. Sometimes, an entity makes what it views as a “strategic investment” in equity instruments issued by another entity, with the intention of establishing or maintaining a long-term operating relationship with the entity in which the investment is made. The investor or joint venturer entity uses IPSAS 367, to determine whether the equity method of accounting is appropriate for such an investment. ~~Similarly, the investor entity uses IPSAS 8 to determine whether proportionate consolidation or the equity method is appropriate for such an investment.~~ If ~~neither~~ the equity method ~~nor proportionate consolidation~~ is not appropriate, the entity applies this Standard to that strategic investment.

AG14. The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through surplus or deficit only if it meets the principle in paragraph 10(b)(ii).

- (a) The entity is a venture capital organization, mutual fund, unit trust or similar entity whose business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or similar distributions and changes in fair value. IPSAS 367 and IPSAS 8 allows such investments to be ~~excluded from their scope provided they are~~ measured at fair value through surplus or deficit in accordance with this Standard. An entity may apply the same accounting policy to other investments managed on a total return basis but over which its influence is insufficient for them to be within the scope of ~~IPSAS 367 or IPSAS 8.~~

In Appendix C paragraph C2 is amended as follows:

- C2. Hedge accounting of the foreign currency risk arising from a net investment in a foreign operation will apply only when the net assets of that foreign operation are included in the financial statements. This will be the case for consolidated financial statements, financial statements in which investments such as associates or joint ventures are accounted for using the equity method, ~~and financial statements in which venturers' interests in joint ventures are proportionately consolidated and financial statements that include a branch or a joint operation as defined in IPSAS 37.~~ The item being hedged with respect to the foreign currency risk arising from the net investment in a foreign operation may be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation.

IPSAS 30, *Financial Instruments: Disclosures*

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

3. This Standard shall be applied by all entities to all types of financial instruments, except:
- (a) Those interests in controlled entities, associates, or joint ventures that are accounted for in accordance with IPSAS 34, *Separate Financial Statements*, IPSAS 356, *Consolidated and Separate Financial Statements*, or IPSAS 367, *Investments in Associates and Joint Ventures*, or IPSAS 8, *Interests in Joint Ventures*. However, in some cases, IPSAS 34, IPSAS 35 or IPSAS 37 require or permit IPSAS 6, IPSAS 7, *Investments in Associates* or IPSAS 8 permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; in those cases

52A. IPSAS 35 and IPSAS 37 issued in January 2015, amended paragraph 3(a). An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.

IPSAS 31, *Intangible Assets*

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

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:
- (a) ...
- (d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS 34, *Separate Financial Statements*, IPSAS 356, *Consolidated and Separate Financial Statements* and IPSAS 367, *Investments in Associates and Joint Ventures*, and IPSAS 8, *Interests in Joint Ventures*; and...

132A. IPSAS 35 and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraph 6(d). An entity shall apply that amendment when it applies IPSAS 35, and IPSAS 37.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 37, Joint Arrangements.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 37. As this Standard is based on IFRS 11, *Joint Arrangements* issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 37 departs from the main requirements of IFRS 11.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 51 *Joint Arrangements* was based on IFRS 11 *Joint Arrangements*, having regard to the relevant public sector modifications in IPSAS 8 *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 37. These new IPSASs supersede IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates* and IPSAS 8.

Classification of Joint Arrangements

BC3. IPSAS 37 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 IPSAS 37 should be consistent with IFRS 11.

Elimination of Accounting Option

BC4. IPSAS 37 requires that a joint venturer account for its interest in a joint venture 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 acknowledged the IASB's rationale for removing proportionate consolidation as a method for accounting for interests in joint ventures and agreed that the accounting treatments permitted by IPSAS 37 should be consistent with IFRS 11.

BC5. The IASB's reasons for removing proportionate consolidation as a method for accounting for interests in joint ventures included the following:

- (a) The equity method is the most appropriate method to account for joint ventures because it is a method that accounts for an entity's interest in the net assets of an investee.
- (b) The approach in IFRS 11 is consistent with the IASB's view of what constitutes the economic substance of an entity's interests in joint arrangements
- (c) IFRS 11 will require consistent accounting for arrangements with similar rights.

(d) The IASB did not consider that the elimination of proportionate consolidation would cause a loss of information for users of financial statements (having regard to the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities*).

BC6. The IPSASB took the view there were no public sector differences that warranted a different approach to that taken by the IASB.

Acquisition of an Interest in a Joint Operation

BC7. At the time that IPSAS 37 was being developed, the IASB sought feedback on proposals to amend IFRS 11 by adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, as defined in IFRS 3, *Business Combinations*. The IASB issued *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11) in May 2014. The IPSASB agreed not to incorporate such guidance in IPSAS 37 on the grounds that it would be more appropriate to consider such guidance in the context of drafting standards-level requirements for public sector combinations.

ILLUSTRATIVE EXAMPLES

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Illustrative Examples

These examples accompany, but are not part of, IPSAS 37, Joint Arrangements.

IE1. These examples portray hypothetical situations illustrating the judgments that might be used when applying IPSAS 37 in different situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 37.

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. The joint arrangement will have no further involvement once the road has been completed. The road will be transferred to the government at that point.

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 a project manager, who will be an employee of one of the parties. After a specified time, the role of the project manager will rotate to an employee of the other party. A and B agree that the activities will be executed by the 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. It is not a service concession arrangement.

- IE8. A and B each recognize 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 recognizes 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 center. 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 center and its equipment, such as lifts, building the reputation of the center and managing the client base for the center.

- IE10. The terms of the binding arrangement are such that:

- (a) Entity X owns the service center. The binding arrangement does not specify that the parties have rights to the service center.
- (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 recognize their rights to the net assets of entity X as investments and account for them using the equity method.

Example 3 – Joint Provision of Assisted Living Services

- IE14. A public sector health care provider (entity X) and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly. Entity X and entity Y establish a separate company (entity Z). The legal form of the company confers the rights to the assets and obligations for liabilities to the company itself. The agreement between entity X and entity Y requires all decisions be made jointly. The agreement also confirms:
- (a) Entity X will provide the assisted living services. Entity Y will construct the premises.
 - (b) The assets of the arrangement are owned by entity Z, the company. Neither party will be able to sell, pledge, transfer or otherwise mortgage the assets of entity Z.
 - (c) The liability of the parties is limited to any unpaid capital of entity Z.
 - (d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity Z.
 - (d) Profits of entity Z will be distributed to entity X and entity Y 40:60, being the parties' respective interests in the arrangement.

Analysis

- IE15. 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 Z.
- IE16. 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, or that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.
- IE17. The parties recognize their rights to the net assets of entity Z as investments and account for them using the equity method.

Variation

- IE18. A public sector health care provider (entity X) and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly. The agreement between entity X and entity Y requires all decisions to be made jointly. The agreement confirms:
- (a) Entity X will supply operational assets including office equipment, motor vehicles and furniture and fittings for the assisted living premises.
 - (b) Entity Y will construct the premises and will continue to own the premises. Entity Y will be responsible for the ongoing maintenance of the premises. Entity Y cannot sell the premises without first offering entity X the right to purchase the premises. Entity Y is entitled to 100% of any gain on eventual sale of the premises.

- (c) The services will be delivered through a new entity, entity Z, established for this purpose.
- (d) Each party will pay for 50% of the expenses for operating the services.
- (e) Any profits from providing the assisted living services will be shared equally between entity X and entity Y.
- (f) Entity X will be responsible for managing staff and for any liabilities arising from personal grievance claims and health and safety issues.
- (g) Entity Y will be responsible for any liabilities to make good any defects in the premises or alterations to the premises required to meet health and safety codes and changes in those codes.

Analysis of Variation

- IE19. Although the services are delivered through a separate vehicle, entity X and entity Y continue to own the assets used to provide the services. The joint arrangement is a joint operation.
- IE20. Entity X and entity Y each recognize in their financial statements their own assets and liabilities. They also recognize their share of the revenue and expenses resulting from the provision of assisted living services through entity Z.

Example 4 – Joint Manufacturing and Distribution of a Product

- IE21. 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.
- IE22. 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.

IE23. 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

IE24. 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.

IE25. 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 fulfill 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.

IE26 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.

- IE27. 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.
- IE28. A and B each recognize 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 recognizes 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.
- IE29. The parties recognize their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

Variation

- IE30. 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.
- IE31. 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.
- IE32. 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 of Variation

- IE33. 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.
- IE34. The variation has no effect on the classification of the distribution arrangement as a joint venture.
- IE35. The parties recognize 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 5 – Bank Operated Jointly

- IE36. 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 service 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.
- IE37. 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.
- IE38. 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 honors 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

- IE39. 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.
- IE40. Both banks A and B recognize their rights to the net assets of bank C as investments and account for them using the equity method.

Example 6 – Oil and Gas Exploration, Development and Production Activities

- IE41. 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).
- IE42. 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).

- IE43. The agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarized below.

Agreement

- IE44. 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)

- IE45. 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.
- IE46. The Operating Committee approves the budgets and work programs 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 programs.
- IE47. 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 programs.
- IE48. The costs incurred in relation to all the work programs 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

- IE49. 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 programs) that are held in entity H. The joint arrangement is a joint operation.
- IE50. Both entity A and entity B recognize 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 recognizes its share of the revenue (from the sale of their share of the production) and its share of the expenses.

Example 7 – Liquefied Natural Gas Arrangement

- IE51. 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.
- IE52. 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).
- IE53. 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.
- IE54. The binding arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity C.
- IE55. 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
- IE56. 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

- IE57. 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.
- IE58. 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.
- IE59. The parties recognize their rights to the net assets of entity C as investments and account for them using the equity method.

Comparison with IFRS 11

IPSAS 37, *Joint Arrangements*, is drawn primarily from IFRS 11, *Joint Arrangements* (issued in 2011, including amendments up to December 31, 2014). 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 37 and IFRS 11 are as follows:

- Commentary additional to that in IFRS 11 has been included in IPSAS 37 to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS 37 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 37. The equivalent terms in IFRS 11 are “contractual arrangement”, “parent,” “profit or loss” and “retained earnings.”
- IPSAS 37 does not provide guidance on the allocation of goodwill to joint ventures or on how to account for the acquisition of an interest in a joint operation that constitutes a business. Such guidance is included in IFRS 11.
- IPSAS 37 contains additional illustrative examples that reflect the public sector context.

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International Public Sector Accounting Standard

Disclosure of Interests in Other Entities

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

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 the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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IPSAS 38—DISCLOSURE OF INTERESTS IN OTHER ENTITIES

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Basis for Conclusions

Comparison with IFRS 12

International Public Sector Accounting Standard 38, *Disclosure of Interests in Other Entities*, is set out in paragraphs 1–60. All the paragraphs have equal authority. IPSAS 38 should be read in the context of its objective, the Basis for Conclusions, and the *Preface to International Public Sector Accounting Standards*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this 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 controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
 - (b) The effects of those interests on its financial position, financial performance and cash flows.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in disclosing information about its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated.**
3. This 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) Structured entities that are not consolidated.
4. This 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 IPSAS 34, *Separate Financial Statements* applies. However, if an entity is an investment entity and prepares separate financial statements as its only financial statements, it shall apply the requirements of this Standard when preparing those separate financial statements. In addition, if an entity has interests in structured entities that are not consolidated and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraphs 40–48 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 Standard:
 - (i) When that interest is an interest in an associate or a joint venture that, in accordance with IPSAS 36, *Investments in Associates and Joint Ventures*, is measured at fair value through surplus or deficit; or
 - (ii) When that interest is an interest in a structured entity that is not consolidated.

5. **This 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 Standard with the meanings specified:

Binding arrangement: For the purposes of this Standard, a binding arrangement is 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.

An **interest in another entity**, for the purpose of this Standard, refers to involvement by way of binding arrangements 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 AG57–AG59 of IPSAS 35, *Consolidated Financial Statements* explain variability of benefits.

Revenue from a structured entity, for the purpose of this 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 AG20–AG23 provide further information about structured entities.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in IPSAS 34, *Separate Financial Statements*, IPSAS 35,

Consolidated Financial Statements, IPSAS 36, Investments in Associates and Joint Ventures and IPSAS 37, Joint Arrangements: associate, consolidated financial statements, control, controlled entity, controlling entity, economic entity, equity method, investment entity, joint arrangement, joint control, joint operation, joint venture, non-controlling interest, relevant activities, separate financial statements, separate vehicle and significant influence.

Binding Arrangement

8. 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 contractual arrangements, either on their own or in conjunction with contracts between the parties.

Disclosing Information about Interests in Other Entities

9. **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 12–14); and**
 - (iii) **That it meets the definition of an investment entity, if applicable (paragraph 15); and**
 - (b) **Information about its interests in:**
 - (i) **Controlled entities (paragraphs 17–26);**
 - (ii) **Joint arrangements and associates (paragraphs 35–39); and**
 - (iii) **Structured entities that are not consolidated (paragraphs 40–48).**
10. If the disclosures required by this 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.
11. An entity shall consider the level of detail necessary to satisfy the disclosure objective in paragraph 1 and how much emphasis to place on each of the requirements in this 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).

Significant Judgments and Assumptions

12. **An entity shall disclose the methodology used to determine:**
- (a) **That it has control of another entity as described in paragraphs 15 and 16 of IPSAS 35;**
 - (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.**

13. The disclosures required by paragraph 12 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. The use of such cross-referencing may be subject to jurisdictional restrictions.
14. To comply with paragraph 12, 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 AG60–AG74 of IPSAS 35);
 - (e) It does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity; and
 - (f) It has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

Investment Entity Status

15. **When a controlling entity determines that it is an investment entity in accordance with IPSAS 35, the investment entity shall disclose information about significant judgments and assumptions it has made in determining that it is an investment entity. An investment entity is not required to disclose this information if it has all of the characteristics in paragraph 59 of IPSAS 35.**
16. 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 61 of IPSAS 35; 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

17. **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 19); 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 20);**
 - (ii) **The nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 21–24);**
 - (iii) **The consequences of changes in its ownership interest in a controlled entity that do not result in a loss of control (paragraph 25); and**
 - (iv) **The consequences of losing control of a controlled entity during the reporting period (paragraph 26).**
18. 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 44 of IPSAS 35) 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

19. 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; and
 - (g) Summarized financial information about the controlled entity (see paragraph AG10).

The Nature and Extent of Significant Restrictions

20. An entity shall disclose:
- (a) Significant restrictions in binding arrangements (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

21. An entity shall disclose the terms of any binding arrangements 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).
22. If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement 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.
23. If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement 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.
24. 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

25. 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

26. An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph 50 of IPSAS 35 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)

27. An investment entity that, in accordance with IPSAS 35 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.
28. 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.
29. If an investment entity is the controlling entity of another investment entity, the controlling entity shall also provide the disclosures in paragraph 28(a)–(c) for investments that are controlled by its controlled investment 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.
30. An investment entity shall disclose:
- (a) The nature and extent of any significant restrictions arising from binding arrangements (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.
31. If, during the reporting period, an investment entity or any of its controlled entities has, without having an obligation arising from a binding arrangement 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.
32. An investment entity shall disclose the terms of any binding 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).
33. If during the reporting period an investment entity or any of its unconsolidated controlled entities has, without having an obligation arising from a binding arrangement 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.
34. 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 27 to 33 in respect of such unconsolidated controlled entities.

Interests in Joint Arrangements and Associates

35. **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 relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 36 and 38); and**
 - (b) **The nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 39).**

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

36. 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; and
 - (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; and
 - (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.
37. An investment entity need not provide the disclosures required by paragraphs 36(b)–36(c).
38. 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 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

39. 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 AG17–AG19; and
 - (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 Structured Entities that are not Consolidated

40. **An entity shall disclose information that enables users of its financial statements:**
- (a) **To understand the nature and extent of its interests in structured entities that are not consolidated (paragraphs 43–45); and**
 - (b) **To evaluate the nature of, and changes in, the risks associated with its interests in structured entities that are not consolidated (paragraphs 46–48).**
41. The information required by paragraph 40(b) includes information about an entity's exposure to risk from involvement that it had with structured entities that are not consolidated in previous periods (e.g., sponsoring the structured entity), even if the entity no longer has any involvement by way of binding arrangement with the structured entity at the reporting date.
42. An investment entity need not provide the disclosures required by paragraph 40 for a structured entity that it controls but which is not consolidated, and for which it presents the disclosures required by paragraphs 27–33.

Nature of Interests

43. An entity shall disclose qualitative and quantitative information about its interests in structured entities that are not consolidated, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.
44. If an entity has sponsored a structured entity that is not consolidated for which it does not provide information required by paragraph 46 (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.
45. An entity shall present the information in paragraph 44(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

46. 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 structured entities that are not consolidated;
 - (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 structured entities that are not consolidated, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in structured entities that are not consolidated it shall disclose that fact and the reasons; and

- (d) A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in structured entities that are not consolidated and the entity's maximum exposure to loss from those entities.
47. If during the reporting period an entity has, without having an obligation under a binding arrangement to do so, provided financial or other support to a structured entity that is not consolidated 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.
48. An entity shall disclose any current intentions to provide financial or other support to a structured entity that is not consolidated, 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.

Non-quantifiable Ownership Interests

49. **An entity shall disclose information that enables users of its financial statements to understand the nature and extent of any non-quantifiable ownership interests in other entities.**
50. To the extent that this information has not already been provided in accordance with this Standard, an entity shall disclose, in respect of each non-quantifiable ownership interest that is material to the reporting entity:
- (a) The name of the entity in which it has an ownership interest; and
 - (b) The nature of its ownership interest in the entity.

Controlling Interests Acquired with the Intention of Disposal

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|------------------------------------------------------------------------------------------|
| Refer Agenda Paper 3.1, Issue 1 for a discussion of the proposals in paragraphs 51 to 55 |
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51. **An entity shall disclose information regarding its interest in a controlled entity when, at the point at which control arose, the entity had the intention of disposing of that controlling interest.**
52. There are a number of situations in which a public sector entity may obtain control of another entity, but where the entity has the intention of disposing of all or part of the controlling interest in the near future.
53. Because of a government's broad responsibility for the economic well-being of a jurisdiction it may intervene to prevent the failure of an entity, such as a financial institution. Such interventions may lead to a government obtaining control of another entity, although it has no intention of maintaining control over that entity. Rather, its intention may be to sell, or otherwise dispose of, its interest in the controlled entity. If the other entity needs to be restructured to facilitate disposal the restructuring can occur over a period of one or more years and the government may retain some residual assets or liabilities at the end of the process. The consolidation of such controlled entities

for the reporting periods in which control is present, can have a significant impact on the consolidated financial statements. The obtaining of control as a result of interventions to prevent failure is most likely to occur in the context of governments, but could also occur in the case of individual public sector entities.

54. A public sector entity may also acquire a controlling interest in another entity, with the intention of disposing of all or part of that interest, in implementing a government's policy objectives. For example, a government may direct an entity to acquire certain interests in other entities for the purpose of redistribution.
55. An entity shall disclose the following information in the notes in respect of each controlled entity referred to in paragraph 51:
 - (a) The name of the controlled entity and a description of its key activities;
 - (b) A description of how control arose and the factors considered in determining that control exists;
 - (c) A description of the anticipated method of disposal; and
 - (d) The impact on the consolidated financial statements of accounting for the controlled entity including the impact on assets, liabilities, revenue and expenses.
56. Where other disclosures required by this Standard would provide information relevant to paragraph 55(d) a cross-reference to those other disclosures shall be provided.

Transitional Provisions

57. An entity is encouraged to provide information required by this Standard earlier than annual periods beginning on or after January 1, 2017. Providing some of the disclosures required by this Standard does not compel the entity to comply with all the requirements of this Standard or to apply IPSAS 34, IPSAS 35, IPSAS 36, and IPSAS 37 early.
58. The disclosure requirements of this Standard need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which this Standard is applied.
59. The disclosure requirements of paragraphs 40–55 and the corresponding guidance in paragraphs AG20–AG25 of this Standard need not be applied for any period presented that begins before the first annual period for which this Standard is applied.

Effective Date

60. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged.**

Application Guidance

This Appendix is an integral part of IPSAS 38, 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 Standard.

Aggregation (paragraph 11)

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 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) Structured entities that are not consolidated.

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 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 19 and 36)

- 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; and
 - (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; and
 - (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; and
 - (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; and
 - (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 IPSAS 36; 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 39(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 AG17 and AG18 illustrate some of the types of disclosure required by paragraph 27 of IPSAS 20, *Related Party Disclosures*.

Interests in Structured Entities that are not Consolidated (paragraphs 40–48)

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 that is not a joint venture, 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 Structured Entities that are not Consolidated (paragraphs 46–48)

- AG24. In addition to the information required by paragraphs 46–48, an entity shall disclose additional information that is necessary to meet the disclosure objective in paragraph 40(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 a structured entity that is not consolidated are:

- (a) The terms of an arrangement that could require the entity to provide financial support to a structured entity that is not consolidated (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 structured entities that are not consolidated.
- (c) The types of revenue the entity received during the reporting period from its interests in structured entities that are not consolidated.
- (d) Whether the entity is required to absorb losses of a structured entity that is not consolidated 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 structured entity that is not consolidated.
- (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 structured entities that are not consolidated.
- (f) Any difficulties a structured entity that is not consolidated has experienced in financing its activities during the reporting period.
- (g) In relation to the funding of a structured entity that is not consolidated, 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 a 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, IPSAS 38, *Disclosure of Interests in Other Entities* requires an entity to disclose the judgments it has made in determining whether it controls another entity IPSAS 6 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a controlled entity, even though more than half of its voting or potential voting power is owned directly or indirectly through controlled entities. IPSAS 16, *Investment Property*, requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property, and from property held for sale in the ordinary course of business, when classification of the property is difficult.

153E. IPSAS 35, *Consolidated Financial Statements* and IPSAS 38 issued in January 2015, amended paragraphs 4, 12, 88(n), 95(d), 97, 103, 118, 134, 135 and 139. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 38.

IPSAS 30, Financial Instruments: Disclosures

Paragraph AG6 is amended and paragraph 52A is added as follows:

AG6. The disclosures required by paragraphs 38–49 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, 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. The use of such cross-referencing may be subject to jurisdictional restrictions.

52A. IPSAS 35, IPSAS 37, *Joint Arrangements*, and IPSAS 38, *Disclosure of Interests in Other Entities*, issued in January 2015, amended paragraphs 3(a) and A6. An entity shall apply those amendments when it applies IPSAS 35, IPSAS 37 and IPSAS 38.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 38, Disclosure of Interests in Other Entities.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 38. 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 IPSAS 38 departs from the main requirements of IFRS 12.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 52 *Disclosure of Interests in Other Entities* was based on IFRS 12, *Disclosure of Interests in Other Entities*, having regard to the relevant public sector modifications to the disclosure requirements in IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 38. These new IPSASs supersede IPSAS 6, IPSAS 7 and IPSAS 8.

Significant Judgments and Assumptions (paragraphs 12 to 14)

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 7 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).
- BC6. Some respondents to ED 52 were concerned that the definition of a structured entity could be read as suggesting that an entity was operating in an unauthorized way or in contravention of laws. The IPSASB noted that this was not its intention and reviewed the definition of structured entities to see if any clarification was required. The IPSASB noted that the definition does not suggest that a structured entity would not be required to comply with relevant statutes or administrative arrangements. Rather the definition allows for the possibility that a small group of entities may have been established under different arrangements from the arrangements commonly used to establish similar entities.

Investment Entities (paragraphs 27 to 34)

- BC7. The IPSASB considered the investment entity disclosures required by IFRS 12 and concluded that those disclosures were particularly appropriate in the public sector context. The IPSASB noted that, as a consequence of the requirements in IPSAS 35 most public sector entities with investment entities would be required to make these disclosures.
- BC8. 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 investment entities were appropriate and should also be provided in the consolidated financial statements of a controlling entity with investment entities.

Non-quantifiable Ownership Interests (paragraphs 49 and 50)

- BC9. The scope of IPSAS 36, *Investments in Associates and Joint Ventures* is limited to “quantifiable ownership interests”. The IPSASB noted that respondents supported this proposal, but considered that disclosure of information about an entity’s non-quantifiable ownership interests in other entities would be appropriate. The IPSASB agreed to require, in this Standard, disclosure of information about non-quantifiable ownership interests.

Controlling Interests Acquired with the Intention of Disposal (paragraphs 50 to 56)

- BC10. Some respondents to ED 52 proposed that the IPSASB require disclosures about temporary control (either by developing a standard based on IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* or by adding disclosures to this Standard). The IPSASB noted that there can be a number of situations where a government acquires a controlling interest

in an entity, but where it has the intention to dispose of that interest. These situations include interventions to prevent the failure of an entity, or acquisitions to achieve policy objectives such as the redistribution of wealth. The existence of such controlling interests can have a significant short-term impact on the consolidated financial statements. The IPSASB agreed to require disclosures to assist users to understand the impact of consolidating such controlling interests on the consolidated financial statements. The IPSASB considered, and rejected, the idea of requiring disclosures of all controlled investments held for sale on the grounds that interests in other entities acquired with the intention of disposal differed in nature from interests previously held and which are subsequently identified as being held for disposal.

- BC11. The IPSASB considered whether to limit the disclosures to situations where control was expected to exist for a specified time period, such as one or two years. The IPSASB decided not to specify a time period. It considered that limiting the disclosures to situations where there was the intention to dispose of the interest at the point at which control arose would lead to informative disclosures without overwhelming readers with too much detail. In addition, the IPSASB considered that limiting the disclosures to situations where control exists would prevent the disclosures from being onerous.
- BC12. The IPSASB noted that the disclosure requirements would not apply to an investment entity obtaining control of another entity as, by definition, the investment entity would have invested funds solely for returns from capital appreciation, investment revenue, or both.

Comparison with IFRS 12

IPSAS 38, *Disclosure of Interests in Other Entities* is drawn primarily from IFRS 12, *Disclosure of Interests in Other Entities* (issued in 2011, including amendments up to December 31, 2014). 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 38 and IFRS 12 are as follows:

- IPSAS 38 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 38. 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 38 to clarify the applicability of the Standard to accounting by public sector entities.
- The definition of a structured entity in IPSAS 38 acknowledges the differing ways in which control may be obtained in the public sector.
- IPSAS 38 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 requires that the controlling entity consolidate controlled investment entities.
- IPSAS 38 requires the disclosure of information about non-quantifiable ownership interests. IFRS 12 does not specify such disclosures.
- IPSAS 38 requires the disclosure of information about interests in entities that are acquired with the intention of disposal. IFRS 12 does not specify such disclosures. However, IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* requires disclosures about non-current assets held for sale.

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