



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor Tel: (212) 286-9344
New York, New York 10017 Fax: (212) 286-9570
Internet: <http://www.ifac.org>

DATE: 4 FEBRUARY 2005
MEMO TO: MEMBERS OF IFAC IPSASB
FROM: LI LI LIAN AND PAUL SUTCLIFFE
SUBJECT: **CURRENT STATUS OF IPSAS GENERAL IMPROVEMENTS
PROJECT**

ACTION REQUIRED

The Board is asked to:

- **note** the progress and proposed timetable of the IPSASs General Improvements project; and
- **review and approve** the draft policy document.

AGENDA MATERIAL:

| | Pages |
|--|----------------|
| 11.2 Draft IPSASB's Policy Document | 11.5 – 11.11 |
| 11.3 Memo from Hongxia Li and Li Li Lian | 11.12 – 11.13 |
| 11.4 Overview of Changes | 11.14 – 11.16 |
| 11.5 Marked-up IPSASs 7, 8 and 4 | 11.17 – 11.118 |

BACKGROUND

Review of General Improvements Project

In November 2003, the IPSASB/PSC agreed to update 11 IPSASs to converge with the IASB's General Improvements Project. A brief history of the General Improvements Project and the policy decisions re this Project are outlined in the attachment to this memo. In 2004, the IPSASB/PSC reviewed 8 out of the 11 IPSASs under the General Improvements Project.

At this meeting, it is proposed that the IPSASB reviews the remaining 3 IPSASs under the General Improvements Project – IPSAS 7, "Interests in Associates", IPSAS 8, "Interests in Joint Ventures" and IPSAS 4, "The Effects of Changes in Foreign Exchange Rates".

At the July 2005 meeting, it is proposed that the IPSASB reviews the omnibus Exposure Draft of the proposed 11 IPSASs, specific matters for comment for each draft IPSAS and a Basis for Conclusion for the whole package. The intention is to issue that omnibus ED after the July 2005 meeting.

Draft IPSASB Policy Document

In the last IPSASB/PSC meeting in New Delhi, staff were directed to prepare a draft policy document explaining to constituents on the limited nature of the IPSASB/PSC's program to update IPSASs. The draft policy document would be prepared for review in this meeting, with a view to its issue together with the omnibus improvements ED following the IPSASB's July meeting.

The draft policy document is at item 11.2. The draft policy explains that:

- The IPSASs General Improvements Project updates the IPSASs to converge with the improved International Accounting Standards (IASs) that were issued in December 2003 where appropriate to the public sector. The amendments made to the improved IASs that were issued in December 2003 as a result of the issuance of new IFRSs are not incorporated into their equivalent IPSASs as these new IFRSs had not been reviewed by the IPSASB; and
- The IPSASB remained committed to the IFRS/IAS convergence program in the long term. However due to the limited funding available, the IPSASB agreed to delay or defer a review of International Financial Reporting Standards (IFRSs) for which there is no equivalent IPSAS.

Li Li Lian

TECHNICAL MANAGER

Paul Sutcliffe

DIRECTOR

Attachment: History of General Improvements Project

This attachment provides a brief history of the IPSAS General Improvements Project and the policy decisions made to date by the IPSASB/PSC in regards to its IPSASs.

May – September 2002

The IASB issued the Exposure Draft of Proposed Improvements to IASs in May 2002. A subcommittee was established by the IPSASB/PSC after the July 2002 IPSASB/PSC meeting to consider the issues raised in the IASB ED. The IPSASB/PSC's submission was sent to the IASB in September 2002.

April – July 2003

The IPSASB/PSC noted that IPSASs should reflect the improvements made by the IASB in their equivalent IASs unless there was a public sector specific reason for a departure.

November 2003

The IPSASB/PSC:

- reviewed a strategy paper on possible approaches available to deal with the IPSASs/IFRSs convergence program. It was agreed that the IPSASB should not simply rely on the hierarchy, but review and rewrite IASs/IFRSs where necessary (ie redrafting sections that pertain to public sector specific issues) for IPSASs.
- agreed to update relevant IPSASs that were impacted by the IASB General Improvements Project. The original IASs/IFRSs text will be retained and clear indications will be made when there are changes. The update will also retain 'public sector paragraphs' introduced by the IPSASB/PSC, unless there was a good reason.
- agreed that IPSAS 20, "Related Party Disclosure" will not be updated as the requirements in IPSAS 20 were different to its equivalent IAS – IAS 24, "Related Party Disclosures".

March 2004

The IPSASB/PSC agreed to:

- adopt the equal authority doctrine going forward in the development of IPSASs
- update the *Preface*. The update will be subject to the usual due process, and use "shall" terminology in place of "should" to be consistent with the IASB's approach.

At that meeting, the IPSASB/PSC Chair requested the Deputy Chair, Mike Hathorn, to lead and co-ordinate the development of IPSASs/IFRSs convergence program, and Mike agreed to do so.

The IPSASB/PSC reviewed and agreed on the proposed changes to IPSAS 12, "Inventories", IPSAS 13, "Leases", and IPSAS 14, "Events after the Reporting Date".

July 2004

The IPSASB/PSC:

- noted that the improved IASs had been further updated as a consequence of newly issued IFRSs, such as IFRS 3, "Business Combinations" and IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations"; and
- agreed that the IPSASs under the General Improvements project would be updated to reflect only the changes arising from the IASB Improvements project. The

amendments made to the improved IASs as a result of the issue of new IFRSs would not be incorporated into their equivalent IPSASs as these new IFRSs had not reviewed.

The IPSASB/PSC reviewed and agreed on the proposed changes to IPSAS 1, “Presentation of Financial Statements”.

November 2004

The IPSASB/PSC reviewed and agreed on the proposed changes to IPSAS 17, “Property, Plant and Equipment”, IPSAS 16, “Investment Property”, IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” and IPSAS 6, “Consolidated and Separate Financial Statements”. The IPSASB/PSC also agreed that to be consistent with its new hierarchy, IPSASs will not mention any IASs for which there is no equivalent IPSAS. Rather, the IPSASs will use the phrase “the relevant international or national accounting standard dealing with [eg income taxes]”.

March and July 2005: Proposed timetable for this meeting and beyond

At this meeting, it is intended that the IPSASB completes its review of proposed amendments to the final 3 IPSASs. At the July 2005 meeting, it is proposed that the IPSASB reviews the omnibus Exposure Draft of the proposed 11 IPSASs, specific matters for comment for each proposed IPSAS and a Basis for Conclusion for the whole package. The intention is to issue that omnibus ED after the July 2005 meeting.

Timetable for the IPSASs General Improvements project

| PSC meetings | Tentatively agreed | | | To be discussed | |
|---------------------|----------------------------------|---------|--|-------------------------------|--|
| March 2004 | IPSAS 12 IPSAS 13 IPSAS 14 | | | | |
| July 2004 | | IPSAS 1 | | | |
| November 2004 | | | IPSAS 17 IPSAS 16 IPSAS 3 IPSAS 6 | | |
| March 2005 | | | | IPSAS 7 IPSAS 8 IPSAS 4 | |
| July 2005 | | | | | Omnibus ED (11 IPSASs, specific matter for comments, Basis for Conclusions) |

DRAFT IPSASB's IFRS Convergence Policy will be issued with DISTRIBUTION 2, using pages 11.5 to 11.11.



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor Tel: (212) 286-9344
New York, New York 10017 Fax: (212) 286-9570
Internet: <http://www.ifac.org>

DATE: 4 FEBRUARY 2005
MEMO TO: MEMBERS OF IFAC IPSASB
FROM: HONGXIA LI AND LI LI LIAN
SUBJECT: **IPSAS GENERAL IMPROVEMENTS PROJECT**

ACTION REQUIRED

The Board is asked to:

- **agree** the changes made to IPSAS 7, IPSAS 8, and IPSAS 4.

BACKGROUND

At this meeting, staff propose that the IPSASB reviews and agrees on the changes made in the 3 IPSASs in the following sequence:

- IPSAS 7, “Investments in Associates”
- IPSAS 8, “Financial Reporting of Joint Ventures”; and
- IPSAS 4, “The Effects of Changes in Foreign Exchange Rates”.

IPSAS 7 and IPSAS 8 follows on from the review of IPSAS 6, “Consolidated and Separate Financial Statements” in November 2004. IPSAS 4 is the final Standard within the General Improvements Project.

These IPSASs have been updated to reflect all the decisions made so far within the context of the General Improvements Project. This includes the decisions made at the New Delhi meeting to use the phrase “the relevant international or national accounting standard dealing with [eg employee benefits]” to refer to guidance in IASs/IFRSs for which there is no equivalent IPSAS.

As noted in item 11.1, it is intended that the IPSASB will review the whole omnibus ED package, including the specific matters for comment, basis for conclusions and updated Preface referring to equal authority, at the July 2005 meeting.

Agenda Item 11.4 provides a brief overview of the major changes to the three IPSASs, and identifies the views included in the IPSASB/PSC’s submission on IASB’s Improvements ED, as submitted to the IASB in 2002.

ISSUES

1) IPSAS 7, “Investments in Associates” – Impairment Losses

IPSAS 7 includes a section on how to deal with impairment losses after an associate has been equity accounted. IPSAS 7 is based on IAS 28, “Investments in Associates”. IAS 28 requires that an investor, after an associate has been equity accounted, to:

- 1) Apply IAS 39, “Financial Instruments: Recognition and Measurement” to determine whether it is necessary to recognize any additional impairment loss with respect to the investor’s net investment in the associate; then
- 2) If there is any indication of impairment, apply the requirements in IAS 36, “Impairment of Assets” that imposes the recoverable amount constraint.

Staff have confirmed with the IASB that the above approach was required for associates that have been equity accounted.

Staff have followed the IPSASB’s policy to adopt the text of the December 2003 version of the IAS, unless there is a public sector specific reason for a departure. Therefore, staff have replicated the requirements in IAS 28 in the draft IPSAS 7 in paragraphs 40 and 41. Staff have also amended paragraph 40 to reflect the requirements in IPSAS 21, “Impairment of Non-Cash-Generating Assets”.

Li Li Lian
Technical Manager

Hongxia Li
Technical Manager

Overview of Changes in IPSASs affected by the IASB's General Improvements Project

The table below summarizes major changes in 3 IPSASs affected by the IASB's General Improvements project that will be discussed in this meeting – IPSAS 7, IPSAS 8, and IPSAS 4. It identifies whether the changes are new requirements, changes in existing requirements or further clarification of matters already dealt with (or implied) in the existing IPSASs. In some cases, determining how to classify the change is a matter of judgment.

The table identifies the former PSC's views in the submission it made on proposals in the IASB's Improvements ED – that submission generally focused on the specific questions raised by the IASB in the ED. The table also identifies changes that were not proposed in the Improvements ED but were introduced by the IASB when finalizing the improved IASs.

| <p style="text-align: center;">IPSASs/ Changes made in revised IPSASs to harmonize with improved IASs</p> | <p style="text-align: center;">Consistent with IASB Improvement ED/Submission by the PSC on IASB Improvement ED/Not in IASB Improvement ED but added by the IASB when finalizing</p> |
|--|---|
| IPSAS 7, “Investments in Associates” | |
| <p>1) Exclude from the scope of the Standard, investors' interests in jointly controlled entities held by:</p> <ul style="list-style-type: none"> ▪ venture capital organizations, or ▪ mutual funds, unit trusts and similar entities including investment-linked insurance funds that meet certain criteria. (Nature of change: New requirement) | <ul style="list-style-type: none"> • Consistent with IASB Improvement ED • PSC submission on the Improvement ED: Agreed. |
| <p>2) Exempt an investor from equity accounting when (a) the investor's interest in an associate is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer. (Nature of change: Further clarification)</p> | <ul style="list-style-type: none"> • Consistent with IASB Improvement ED |
| <p>3) When an associate incurs losses, the amount of what should be reduced to nil would include investments in equity of the associate and other interests such as long-term receivables.</p> | <ul style="list-style-type: none"> • Consistent with IASB Improvement ED • PSC submission on the Improvement ED: Majority Agreed. |
| <p>4) Require an associate to account for an interest in a jointly controlled entity in its separate financial statements in accordance with IPSAS 6. (Nature of change: New requirement)</p> | <ul style="list-style-type: none"> • Not in IASB Improvement ED but added by IASB when finalizing IAS 27 and IAS 28 |
| | |

| <p style="text-align: center;">IPSASs/ Changes made in revised IPSASs to harmonize with improved IASs</p> | <p style="text-align: center;">Consistent with IASB Improvement ED/Submission by the PSC on IASB Improvement ED/Not in IASB Improvement ED but added by the IASB when finalizing</p> |
|--|---|
| <p>IPSAS 8, “Interests in Joint Ventures”</p> | |
| <p>1) Exclude from the scope of the Standard, venturers’ interests in jointly controlled entities held by:</p> <ul style="list-style-type: none"> ▪ venture capital organizations, or ▪ mutual funds, unit trusts and similar entities including investment-linked insurance funds <p>that meet certain criteria. (Nature of change: New requirement)</p> | <ul style="list-style-type: none"> • Not in IASB Improvement ED but added by IASB when finalizing IAS 27 and IAS 28 |
| <p>2) Exempt a venturer from applying proportionate consolidation or the equity method when (a) the venturer’s interest in a jointly controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer. (Nature of change: Further clarification)</p> | <ul style="list-style-type: none"> • Not in IASB Improvement ED but added by IASB when finalizing IAS 27 and IAS 28 |
| <p>3) Exempt a venturer from applying proportionate consolidation or the equity method if: (a) the venturer is also a controlling entity exempt in accordance with IPSAS 6 <i>Consolidated and Separate Financial Statements</i> from preparing consolidated financial statements, or (b) the venturer is not such a controlling entity but can satisfy the same type of conditions that exempt such controlling entities. (Nature of change: New requirement)</p> | <ul style="list-style-type: none"> • Not in IASB Improvement ED but added by IASB when finalizing IAS 27 and IAS 28 |
| <p>4) Require a venturer to account for an interest in a jointly controlled entity in its separate financial statements in accordance with IPSAS 6. (Nature of change: New requirement)</p> | <ul style="list-style-type: none"> • Not in IASB Improvement ED but added by IASB when finalizing IAS 27 and IAS 28 |
| <p>5) Require a venturer to disclose the method it uses to account for its interests in jointly controlled entities. (Nature of change: New requirement)</p> | <ul style="list-style-type: none"> • Not in IASB Improvement ED but added by IASB when finalizing IAS 27 and IAS 28 |
| <p>IPSAS 4, “The Effects of Changes in Foreign Exchange Rates”</p> | |
| <p><i>Note: PSC did not review IAS 21, “The Effects of Changes in Foreign Exchange Rates” in detail, but agreed in principle with the proposed changes.</i></p> | |
| <p>1) Replace the notion of ‘reporting currency’ with two notions:</p> <ul style="list-style-type: none"> a. functional currency (the currency in which the entity measures the items in its financial statements); and b. presentation currency (the currency in which the entity presents its financial statements). <p>(Nature of change: New requirement)</p> | <ul style="list-style-type: none"> • Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Agreed in principle |
| <p>2) Allow the reporting entity (whether an economic entity or a stand-alone entity) to choose its own functional and presentation currency. (Nature of change: Change in requirement.)</p> | <ul style="list-style-type: none"> • Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Agreed in principle |

| <p style="text-align: center;">IPSASs/ Changes made in revised IPSASs to harmonize with improved IASs</p> | <p style="text-align: center;">Consistent with IASB Improvement ED/Submission by the PSC on IASB Improvement ED/Not in IASB Improvement ED but added by the IASB when finalizing</p> |
|---|---|
| <p>3) Eliminate the distinction between ‘integral foreign operations’ and ‘foreign entity’. Consequently, there is only one translation method for all entities with foreign operations/transactions. (Nature of change: New requirement)</p> | <ul style="list-style-type: none"> • Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Agreed in principle |
| <p>4) Remove the allowed alternative treatment to capitalize certain exchange differences. (Nature of change: New requirement)</p> | <ul style="list-style-type: none"> • Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Agreed in principle |
| <p>5) Goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of the foreign operation be treated as the assets and liabilities of the foreign operation at translated at closing rate. (Nature of change: New requirement)</p> | <ul style="list-style-type: none"> • Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Agreed in principle |

Summary of Main Changes

IPSAS 7 *Investment in Associates*

The main changes proposed are:

Name of Standard

- to change to “*Investment in Associates*”.

Scope

- to now exclude in paragraph 1 investments that would otherwise be associates or joint ventures held by venture capital organizations, mutual funds, unit trusts and similar entities that are measured at fair value in accordance with international and national accounting standards that deal with recognition and measurement of financial instruments.
- to provide exemptions from application of the equity method to certain:
 - controlling entities, similar to those provided for not to prepare consolidated financial statements in IPSAS 6 *Consolidated and Separate Financial Statements* (in paragraph 25(b)); and
 - investors can satisfy the same type of conditions that exempt controlling entities in preparing consolidated financial statements in paragraph 25(c).

Definitions

- to modify the definitions of ‘equity method’ and ‘significant influence’ for uniform definitions in IPSASs in paragraph 7.

Significant Influence

- to require in paragraphs 14-16 for an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to participate in the financial and operating policy decisions of the investee (associate).

Application of the Equity Method

- to clarify in paragraph 19 that investments that are held exclusively with a view to its disposal within twelve months of acquisition and that management is actively seeking a buyer shall be classified as “held for trading” and will be accounted for in accordance with international and national accounting standards that deal with the recognition and measurement of financial instruments.
- to clarify in paragraph 24 that when an investor ceases to significantly influence its investment, the cost of the investment shall be accounted for in accordance with international and national accounting standards that deal with the recognition and measurement of financial instruments.
- to require in paragraph 29 that surpluses and deficits resulting from ‘upstream’ and ‘downstream’ transactions between an investor and an associate to be eliminated to the extent of the investor’s interest in the associate.

- to allow a maximum of three months between the reporting period of the investor and its associate when applying the equity method (paragraph 32).
- to remove the ‘impracticable’ notion in paragraph 34, such that an investor has to make appropriate adjustments for transactions and other events in the associate’s financial statements when the accounting policies in both entities are not similar.
- to require in paragraphs 36 and 37 to consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognizing its share of losses of the associate.

Impairment Losses

- To provide guidance in paragraphs 38-41 on when and how an entity tests for impairment of its associate.

Separate Financial Statements

- to move the requirements and guidance for separate financial statements into IPSAS 6 in paragraphs 42 and 43. Entities will now have to refer to IPSAS 6 for guidance on how to prepare an investor’s separate financial statements.

Disclosure

- to require in paragraph 44 more detailed disclosures on investments in associates, including:
 - nature and extent of any significant restrictions (eg resulting from borrowing arrangements) on the ability of associates to transfer funds to the investor;
 - unrecognized share of losses of an associate if any investor has discontinued recognition of its share of losses of an associate; and
 - the reasons why:
 - an investment is considered to have significantly influence when it holds less than 20 percent of the voting or potential voting power of the investee;
 - an investment is not considered to have significantly influence when it holds less than 20 percent of the voting or potential voting power of the investee; and
 - the reporting date of the financial statements of the associate and investor is different.

(Please note: Staff have relocated the paragraph under the title of IPSAS 7 to this separate page and reflected the decision made on equal authority. It is also consistent with the IASB's approach.)

International Public Sector Accounting Standard 7, "Investments in Associates" (IPSAS 7) is set out in paragraphs 1-50 and the Appendix. All the paragraphs have equal authority. IPSAS 7 should be read in the context of the Basis for Conclusion (if any), and the "Preface to the 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.

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 7

~~Accounting for~~ Investments in Associates

This para has been updated and relocated to the preceding page.

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.

Note: IPSAS 7 and its equivalent IAS 28 do not have objectives of the Standard.

Scope

1. An entity ~~which~~that prepares and presents financial statements under the accrual basis of accounting ~~shall~~should apply this Standard in accounting by an investor for 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. However, it does not apply to investments in associates held by:

(a) venture capital organizations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds.

that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change in accordance with relevant international and national accounting standards dealing with the recognition and measurement of financial instruments.

Introduced in IAS 28, but amended from IAS 28 because PSC has no equivalent to IAS 39. Staff have included the wording agreed in New Delhi when there is no equivalent IPSAS.

In regards to parts 1(a) and 1(b), venture capital organizations, mutual funds, unit trusts or similar entities may not be common in the public sector. However, staff have retained it because there is no public sector reason to depart from the IAS 28.

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

2. Guidance on classification, recognition and measurement of such investments excluded in paragraph 1 can be found in relevant international or national accounting standards dealing with the recognition and measurement of financial instruments.

Note in IAS 28, the equivalent of above paras 1 and 2 are in one paragraph, in black letter and refers specifically to “upon initial recognition designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39.” These are defined terms in IAS 39. Since the IPSASB does not have a standard on the recognition and measurement of financial instruments, staff have used the more general, and usual, way of referencing. The exclusion of para 1 (a) and (b) was introduced to IAS 28 by the IASB.

3. ~~2.~~—This Standard provides the basis for accounting for ownership interests in associates. That is, the investment in the other entity confers on the investor the risks and rewards incidental to an ownership interest. The Standard applies only to investments in the formal equity structure (or its equivalent) of an investee. A formal equity structure means share capital or an equivalent form of unitized capital, such as units in a property trust, but may also include other equity structures in which the investor’s interest can be measured reliably. Where the equity structure is poorly defined it may not be possible to obtain a reliable measure of the ownership interest.
4. ~~3.~~—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. Whilst such contributions are non-reciprocal 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 which are incidental to an ownership interest.

IPSAS 7 ~~Accounting for~~ *Investments in Associates*

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

5. ~~4.~~ This Standard applies to all public sector entities other than Government Business Enterprises.

This para has been amended as directed in New Delhi.

6. ~~5.~~ The “Preface to International Public Sector Accounting” Standards issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board. Government Business Enterprises (GBEs) are defined in IPSAS 1, “Presentation of Financial Statements”, required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee’s Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).

Definitions

~~6.7.~~ ~~6.~~ The following terms are used in this Standard with the meanings specified:

~~Accounting policies~~ are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

~~Accrual basis~~ means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

~~Assets~~ are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

IASB updated the
dfn of associate

Associate is an entity, including an unincorporated entity such as a partnership, over~~in~~ which the investor has significant influence and ~~that~~which is neither a controlled entity nor an interest in a joint venture~~of the investor~~.

Consolidated financial statements are the financial statements of an economic entity presented as those of a single economic entity.

~~Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:~~

~~(a) — conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or~~

~~(b) — can be sold, exchanged, transferred or redeemed.~~

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

IASB updated defn
of 'controlled
entity'

Controlled entity is an entity, including an unincorporated entity such as a partnership, that is subject to the control of another entity (known as the controlling entity).

~~Controlling entity is an entity that has one or more controlled entities.~~

~~Cost method is a method of accounting whereby the investment is recorded at cost. The statement of financial performance reflects revenue from the investment only to the extent that the investor receives distributions from accumulated net surpluses of the investee arising subsequent to the date of acquisition.~~

~~Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of~~

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

~~its owners, either as a return on investment or as a return of investment.~~

~~Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.~~

IASB updated defn
of equity method

~~The Equity method~~ is a method of accounting whereby the investment is initially ~~recognized~~recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The ~~statement of financial performance~~surplus or deficit ~~reflects~~of the ~~investor includes the~~ investor's share of the ~~results of operation~~surplus or deficit of the investee.

~~Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.~~

~~Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.~~

~~Government Business Enterprise means an entity that has all the following characteristics:~~

- ~~(a) — is an entity with the power to contract in its own name;~~
- ~~(b) — has been assigned the financial and operational authority to carry on a business;~~
- ~~(c) — sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;~~
- ~~(d) — is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and~~
- ~~(e) — is controlled by a public sector entity.~~

~~Investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.~~

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

~~**Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.**~~

~~**Joint control is the agreed sharing of control over an activity by a binding arrangement.**~~

The term 'joint control' was added in this IPSAS. Please note that this definition was amended from its equivalent IAS definition when the PSC issued IPSAS 8, "Financial Reporting of Interests in Joint Ventures" in 2000.

The amendments to defn of "joint control" by IASB upon issuing IFRS 3 *Business Combinations* were not incorporated per decision in NY meeting. IASB defn is as follows:

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

~~**Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.**~~

~~**Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.**~~

~~**Net surplus/deficit comprises the following components:**~~

- ~~**(a) — surplus or deficit from ordinary activities; and**~~
- ~~**(b) — extraordinary items.**~~

~~**Reporting date means the date of the last day of the reporting period to which the financial statements relate.**~~

~~**Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.**~~

IPSAS 7 ~~*Accounting for*~~ *Investments in Associates*

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

IASB has introduced new definition 'separate financial statements'

Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

IASB updated defn of 'sig influence' in IAS 28

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

8. Financial statements in which the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a controlled entity, associate or venturer's interest in a joint venture.

9. Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which the venturer's interests in joint ventures are proportionately consolidated. Separate financial statements may or may not be appended to, or accompany, those financial statements.

10. Entities that are exempted in accordance with paragraph 16 of International Public Sector Accounting Standard (IPSAS) 6, "Consolidated and Separate Financial Statements" from consolidation, paragraph 3 of International Public Sector Accounting Standard (IPSAS) 8, "Interests in Joint Ventures" from applying proportionate consolidation or paragraph 19(c) of this Standard from applying the equity method may present separate financial statements as their only financial statements.

Para number of IPSAS 6 refers to the number in proposed IPSAS 6 rather than existing IPSAS 6. See Item 12.4 (p 12.164) of Delhi meeting. This also applies to IPSAS 8 (page 11.53).

Cost Method

IASB has moved the "cost method" to IAS 27 (equivalent IPSAS 6), the std on consolidtn

~~7. Under the cost method, an investor records its investment in the investee at cost. The investor recognizes revenue only to the extent that IPSAS 7 Accounting for Investments in Associates~~

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

~~it is entitled to receive distributions from the accumulated net surpluses of the investee arising subsequent to the date of acquisition by the investor. Entitlements due or received in excess of such surpluses are considered a recovery of investment and are recognized as a reduction of the cost of the investment.~~

Economic Entity

~~8. 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.~~

~~9. Other terms sometimes used to refer to an economic entity include “administrative entity”, “financial entity”, “consolidated entity” and “group”.~~

~~10. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.~~

The section “Equity Method” (former para 11) has been moved to after the section on Significant Influence.

Future Economic Benefits or Service Potential

~~12. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity’s objectives but which do not directly generate net cash inflows are often described as embodying “service potential”. Assets that are used to generate net cash inflows are often described as embodying “future economic benefits”. To encompass all the purposes to which assets may be put, this Standard uses the term “future economic benefits or service potential” to describe the essential characteristic of assets.~~

Government Business Enterprises

~~13. Government Business Enterprises (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~~

IPSAS 7 *Accounting for Investments in Associates*

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

~~individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. International Public Sector Accounting Standard IPSAS 6 Consolidated Financial Statements and Accounting for Controlled Entities 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.~~

~~Net Assets/Equity~~

~~14. “Net assets/equity” is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.~~

Significant Influence

~~11.~~ 15. — 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 an ownership interest.

~~12.~~ 16. — The existence of significant influence by an investor 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 other distributions;
- (c) material transactions between the investor and the investee;
- (d) interchange of managerial personnel; or
- (e) provision of essential technical information.

~~13.~~ 17. — If the investor’s ownership interest is in the form of shares and it holds, directly or indirectly (eg through controlled

IPSAS 7 ~~Accounting for~~ Investments in Associates

entities), 20% per cent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (eg through controlled entities), less than 20% per cent of the voting power of the investee, it is presumed that the investor 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 investor from having significant influence.

14. 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 reduce another party's voting power over the financial and operating policies of another entity (ie 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.

15. 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 or contractual arrangements whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.

Staff added 'binding arrangements' to be consistent with the phrase used in IPSAS 8

16. 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, administrator or regulator. It could also occur as a result of a binding or contractual agreement. Where the associate does not have a profit objective (such as a social welfare agency), the associate may not be able to transfer funds to the investor but

7. Accounting for Investments in Associates

Staff have used "another government" to replace "a government: used by the IASB. This change is consistent with those made in IPSAS 6. The last sentence is from former para 22, a para added by the PSC. The last sentence is from former para 25 of IPSAS 7.

may nonetheless be able to deliver services to beneficiaries, consistent with the objectives of the investor.

Equity Method

- ~~17.~~ ~~11.~~—Under the equity method, the investment in an associate is initially ~~recorded~~recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of ~~net-surpluses~~ or deficits of the investee after the date of acquisition. The investor's share of the surplus or deficit of the investee 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 ~~alterations~~changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been ~~recognized~~included in the ~~investee's surplus or deficit~~statement of financial performance. Such changes include those arising from the revaluation of property, plant, equipment and ~~investments~~, from foreign exchange translation differences ~~and from the adjustment of differences arising from business combinations.~~ The investor's share of those changes is recognized directly in net assets/equity of the investor.
- ~~18.~~ When potential voting rights exist, the investor's share of surplus or deficit of the investee and of changes in the investee's net assets/equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

~~Consolidated Financial~~ ~~Statements~~Application of the Equity Method

- ~~19.~~ ~~18.~~—An investment in an associate ~~should~~shall be accounted for ~~in consolidated financial statements using~~ under the equity method except when:
- (a) there is evidence that the investment is acquired and held exclusively with a view to its disposal ~~in the near future, in which case it should be accounted for under the cost method within twelve~~

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

months from acquisition and that management is actively seeking a buyer.:

The issue of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* amended para 19(a). The existing equivalent paragraph in IAS 28 is below.

(a) *the investment is classified as held for sale in accordance with IFRS 5;*

Re 19b: Para number of IPSAS 6 refers to the number in proposed IPSAS 6 rather than existing IPSAS 6. See “summary of main changes to IPSAS 7” for exemption criteria in IPSAS 6.

(b) the exception in paragraph 16 of IPSAS 6, allowing a controlling entity that also has an investment in an associate not to present consolidated financial statements, applies; or

(c) all of the following apply:

(i) the investor is a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are not met by its controlling entity’s consolidated financial statements, or is a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;

(ii) the investor’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 investor 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

Re ci: the wording in the subpara is slightly different from that in IAS 28 given the public sector specific context, as described in IPSAS 6 and IPSAS 8.

Re cii & ciii: While these types of situations are not common for public sector entities, they may be encompassed in a consolidated whole of government financial statement.

IPSAS 7 ~~Accounting for~~ *Investments in Associates*

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

(iv) the ultimate or any intermediate controlling entity of the investor produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.

20. Investments described in paragraph 19(a) shall be accounted for in accordance with international and national accounting standards dealing with the recognition and measurement of financial instruments.

Staff have amended paragraph 20 by deleting the phrase “held for trading” because staff believe that this phrase may not have much meaning to users as it has a particular meaning to IAS 39 and the IPSASB has not yet dealt with that standard.

In addition, the amendment to paragraph 20 consequence of the issue of IFRS 5 was not included as per decision in NY and Delhi meeting. The equivalent paragraph is as follows:

14. Investments described in paragraph 13(a) shall be accounted for in accordance with IFRS 5.

21. When an investment in an associate previously accounted for in accordance with international and national accounting standards that deal with the recognition and measurement of financial instruments is not disposed of within twelve months, it shall be accounted for using the equity method as from the date of acquisition (guidance on how to account for these types of investments can be found in international or national accounting standard dealing with business combinations). Financial statements for the periods since acquisition shall be restated.

In the December 2003 edition in IAS 27, the first sentence in the equivalent to paragraph 21 refers to IAS 22, “Business Combinations” and IAS 39. As directed in New Delhi, staff have replaced those references with the usual wording.

In addition, as a consequence of the issue of IFRS 3 and IFRS 5, the IASB equivalent for paragraph 21 has been amended. The new wordings of the IAS equivalent paragraph are below

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

15. When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

22. Exceptionally, an entity may have found a buyer for an associate described in paragraph 19(a), but may not have completed the sale within twelve months because of the need for approval by regulators or others. The entity is not required to apply the equity method to an investment in such an associate if the sale is in process at the reporting date and there is no reason to believe that it will not be completed shortly after the reporting date.

The equivalent to para 22 was deleted from the improved IAS 28 as a result of the issue of IFRS 3 and IFRS 5. Staff retained it per decision in NY.

~~23.~~ 19.—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 because the distributions received may bear little relationship to the performance of the associate. In particular, where the associate has not-for-profit objectives, investment performance will be determined by factors such as the cost of outputs and overall service delivery. AsBecause the investor has significant influence over the associate, the investor has an interest in ~~measure of responsibility for~~ the associate's performance and, as a result, the return on its investment. The investor accounts for this stewardship interest by extending the scope of its consolidated financial statements to include its share of net surpluses or deficits of such an associate ~~and so provides an analysis of earnings and investment from which more useful ratios can be calculated.~~ As a result, ~~the~~ application of the equity method provides more informative reporting of the net assets/equity and net surplus or deficit of the investor.

~~20.—An investment in an associate is accounted for using the cost method when it operates under severe long-term restrictions that significantly impair its ability to transfer funds or provide other non-financial benefits to, or on behalf of, the investor. Investments in~~

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

~~associates are also accounted for using the cost method when the investment is acquired and held exclusively with a view to its disposal in the near future.~~

24. ~~21.~~—An investor ~~should~~ shall discontinue the use of the equity method from the date that:

(a) —it ceases to have significant influence ~~in over~~ an associate and shall account for the investment in accordance with international and national accounting standards that deal with recognition and measurement of financial instruments from that date, provided the associate does not become a controlled entity or a joint venture as defined in IPSAS 8.~~but retains, either in whole or in part, its investment; or~~

~~(b) —the use of the equity method is no longer appropriate because the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds or provide other non-financial benefits to, or on behalf of, the investor.~~

~~The carrying amount of the investment at that date should be regarded as cost thereafter.~~

25. The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset in accordance with international and national accounting standards that deal with the recognition and measurement of financial instruments.

~~22. —An entity is required to discontinue the equity method where severe long-term restrictions have the effect of preventing, or substantially preventing, the investee from transferring funds or providing other non-financial benefits to the investor. Where the associate does not have a profit objective (such as a social welfare agency), the associate may not be able to transfer funds to the investor but may nonetheless be able to deliver services to beneficiaries, consistent with the objectives of the investor.~~

The example used in former para 22 was incorporated into new paragraph 16.

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

This section has now been summarized and moved to paras 42 and 43.

~~Separate Financial Statements of the Investor~~

~~23. An investment in an associate that is included in the separate financial statements of an investor that issues consolidated financial statements should be either:~~

~~(a) accounted for using the equity method or the cost method, whichever is used for the associate in the investor's consolidated financial statements; or~~

~~(b) accounted for as an investment.~~

~~24. Guidance on accounting for investments can be found in international and/or national accounting standards.~~

~~25. The preparation of consolidated financial statements does not, in itself, obviate the need for separate financial statements for an investor.~~

~~26. An investment in an associate that is included in the financial statements of an investor that does not issue consolidated financial statements should be either:~~

~~(a) accounted for using the equity method or the cost method, whichever would be appropriate for the associate if the investor issued consolidated financial statements; or~~

~~(b) accounted for as an investment.~~

~~27. Guidance on accounting for investments can be found in international and/or national accounting standards.~~

~~28. An investor that has investments in associates may not issue consolidated financial statements because it does not have controlled entities. It is appropriate that such an investor provides the same information about its investments in associates as those entities that issue consolidated financial statements.~~

~~Application of the Equity Method~~

~~26.~~ 29. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures

IPSAS 7 ~~Accounting for Investments in Associates~~

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

~~set out~~described in IPSAS 6. Furthermore, the ~~broad~~ concepts underlying the ~~consolidation~~ procedures used in ~~the accounting for the~~ acquisition of a controlled entity are also adopted ~~on~~in the accounting for the acquisition of an investment in an associate.

- ~~27.~~ 30.—Where an associate is accounted for using the equity method, unrealized surpluses and deficits resulting from all transactions between an investor (or its consolidated controlled entities) and associates ~~should~~shall be eliminated to the extent of the investor's interest in the associate. Unrealized deficits ~~should~~shall not be eliminated to the extent that the transaction provides evidence of an impairment of the asset transferred.
28. An economic entity's share in an associate is the aggregate of the holdings in that associate 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 has controlled entities, associates, or joint ventures the surpluses or deficits and net assets taken into account in applying the equity method are those recognized in the associate's financial statements (including the associate'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 33 and 34).
29. Surpluses and deficits resulting from 'upstream' and 'downstream' transactions between an investor (including its consolidated controlled entities) and an associate are recognized in the investor's financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the investor. 'Downstream' transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's surpluses and deficits resulting from these transactions is eliminated.
- ~~30.~~ 31.—An investment in an associate is accounted for ~~under~~using the equity method from the date on which it ~~falls within the definition of~~becomes an associate. Guidance on accounting for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is

IPSAS 7 ~~Accounting for~~ Investments in Associates

treated as goodwill (guidance can be found in ~~I~~international ~~or~~ national ~~A~~accounting ~~S~~standards IAS 22, “~~dealing with B~~business ~~C~~combinations”). Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor’s share of the surpluses or deficits after acquisition are made to account, for example:

- (a) ~~for~~ depreciation of the depreciable assets, based on their fair values at the date of acquisition; ~~and~~
- (b) ~~amortization of the difference between the cost of the investment and the investor’s share of the fair values of the net identifiable assets.~~

Para 30 was amended as a consequence of the issue of IFRS 3 and IFRS 5. The new equivalent paragraph in IAS 28 is as follows:

23. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference ~~(whether positive or negative)~~ between the cost of the investment and the investor’s share of the net fair values of the net associate’s identifiable assets ~~of the associate, liabilities and contingent liabilities~~ is accounted for in accordance with ~~(see IAS 22)~~ IFRS 3 Business Combinations. Therefore:

- (a) ~~G~~goodwill relating to an associate is included in the carrying amount of the investment. However, amortisation of that goodwill is not permitted and is therefore not included in the determination of the investor’s share of the associate’s profits or losses.
- (b) any excess of the investor’s share of the net fair value of the associate’s identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor’s share of the associate’s profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the investor’s share of the associate’s profits or losses after acquisition are also made to account, for example depreciation of the depreciable assets, based on their fair values at the date of acquisition. Similarly, appropriate adjustments to the investor’s share of the associate’s profits or losses after acquisition are made for

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

impairment losses recognized by the associate, such as for goodwill or property, plant and equipment.

Para has been updated to become black letter

31. ~~32.~~—The most recent available financial statements of the associate are used by the investor in applying the equity method; ~~they are usually drawn up to the same date as the financial statements of the investor.~~ When the reporting dates of the investor and the associate are different, the associate ~~often~~ prepares, for the use of the investor, financial statements as ~~at~~of the same date as the financial statements of the investor, unless. ~~When~~ it is impracticable to do ~~so~~this, ~~financial statements drawn up to a different reporting date may be used.~~ The consistency principle dictates that the length of the reporting periods, and any difference in the reporting dates, are consistent from period to period.

Para has been updated to become black letter

32. ~~33.~~—When, in accordance with paragraph 31, the financial statements of an associate used in applying the equity method are prepared as of with a different reporting date ~~from that of the investor are used~~, adjustments ~~are~~shall ~~be~~ made for the effects of ~~any significant events or transactions or events between the investor and the associate that occur between the~~that date ~~of the associate's financial statements~~ and the date of the investor's financial statements. In any case, the difference between the reporting date of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.

First part of the former para 34 has become black letter

33. ~~34.~~—The investor's financial statements ~~are~~shall be ~~usually~~ prepared using uniform accounting policies for like transactions and events in similar circumstances.

34. ~~In many cases, if~~ an associate uses accounting policies other than those adopted by the investor for like transactions and events in similar circumstances, ~~appropriate~~ adjustments ~~are~~shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements ~~when they~~ are used by the investor in applying the equity method. ~~If it is not practicable for such adjustments to be calculated, that fact is generally disclosed.~~

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

35. If an associate has outstanding cumulative preferred shares, that are held by outside interest parties other than the investor and classified as net assets/equity, the investor computes its share of net surpluses or deficits after adjusting for the preferred dividends on such shares, whether or not the dividends have been declared.
36. If, ~~under the equity method~~, an investor's share of deficits of an associate equals or exceeds ~~the carrying amount of an investment~~ its interest in the associate, the investor ~~ordinarily~~ discontinues ~~recognizing~~ including its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. 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. 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. Losses recognized under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (ie priority of liquidation).
37. After the investor's interest is reduced to zero ~~The investment is reported at nil value.~~ Additional losses are provided for, and a liability is recognized, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate ~~to satisfy obligations of the associate that the investor has guaranteed or otherwise committed~~. If the associate subsequently reports surpluses, the investor resumes ~~including~~ recognizing its share of those surpluses only after its share of surpluses equals the share of ~~net~~ deficits not recognized.

Impairment Losses

38. After application of the equity method, including recognizing the associate's losses in accordance with paragraph 36, the investor applies the requirements of international and national accounting standards that deal with the recognition and

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

measurement of financial instruments to determine whether it is necessary to recognize any additional impairment loss with respect to the investor's net investment in the associate.

39. The investor also applies the requirements of international and national accounting standards that deal with the recognition and measurement of financial instruments to determine whether any additional impairment loss is recognized with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of the impairment loss.

40. 37.——If application of the requirements of international and national accounting standards that deal with the recognition and measurement of financial instruments ~~there is an indication~~ that ~~an~~ the investment ~~isn~~ an associate may be impaired, an entity applies International Public Sector Accounting Standard (IPSAS) 21, "Impairment of Non-Cash Generating Assets" ~~should consider the relevant international and/or national standards on accounting for such an impairment. IPSAS 21 directs an entity to refer IAS 36 to determine the value in use of the cash-generating investment. Based on IAS 36, an entity estimates:~~

- (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or
- (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with IAS 36. Therefore, it is allocated first to any remaining goodwill (see paragraph 30).

Paras 40 is modified from IAS 28 (Dec 03) version to reflect that the IPSASB has issued IPSAS 21. More details are after para 40.

Paragraphs 40 is modified from its equivalent paragraph in IAS 28 because IPSASB has different requirements for non-cash-generating and cash-generating assets, and does not have an equivalent standard for IAS 39. In addition, the IASB amended IAS 28 paragraph as consequence of

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

the issuance of IFRS 3. The amendment (marked-up to to reflect the March 04 version) is below:

33. Because goodwill included in the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*. Instead the entire carrying amount of the investment is tested under IAS 36 for impairment, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in IAS 39 indicates that the investment may be impaired. If application of the requirements of IAS 39 indicates that the investment may be impaired, an entity applies IAS 36 *Impairment of Assets*. In determining the value in use of the investment, an entity estimates:

(a) ...

(b) ...

Under the appropriate assumptions, both methods give the same result. ~~Any resulting impairment loss for the investment is allocated in accordance with IAS 36. Therefore, it is allocated first to any remaining goodwill (see paragraph 23).~~

41. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Income Taxes

38. ~~Guidance on accounting for income taxes arising from investments in associates can be found in International Accounting Standard IAS 12, Income Taxes.~~

Separate Financial Statements

42. An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs 58-64 of IPSAS 6.

43. This Standard does not mandate which entities produce separate financial statements available for public use.

IPSAS 7 ~~Accounting for~~ *Investments in Associates*

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

Contingencies

~~39.~~

Para 39 has been moved to para 47 in the disclosure section of this IPSAS.

Disclosure

~~40. The following disclosures should be made:~~

~~(a) an appropriate listing and description of significant associates including the proportion of ownership interest and, if different, the proportion of voting power held; and~~

~~(b) the methods used to account for such investments.~~

44. The following disclosures shall be made:

(a) the fair value of investments in associates for which there are published price quotations;

(b) summarized financial information of associates, including the aggregated amounts of assets, liabilities, revenues and surplus or deficit;

(c) the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;

(d) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 per cent or more of the voting power of the investee but concludes that it does not have significant influence;

(e) the reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

that of the investor, and the reason for using a different reporting date or different period;

- (f) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;
- (g) the unrecognized share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;
- (h) the fact that an associate is not accounted for using the equity method in accordance with paragraph 19; and
- (i) summarized financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and surpluses or deficits.

45. 41.——Investments in associates accounted for using the equity method ~~should~~shall be classified as non-current assets ~~and disclosed as a separate item in the statement of financial position~~. The investor's share of the ~~net~~surpluses or deficits of such associates, and the carrying amount of these investments ~~should~~shall be separately disclosed as a separate item in the statement of financial performance. The investor's share of any ~~extraordinary or prior period items~~ discontinuing operations of such associates ~~should~~shall also be separately disclosed.

46. The investor's share of changes recognized directly in the associate's ~~net assets~~equity shall be recognized directly in net assets/equity by the investor and shall be disclosed in the statement of changes in equity as required by International Public Sector Accounting Standard IPSAS 1, "Presentation of Financial Statements".

In para 45's equivalent IAS para, the term 'discontinuing operations' was updated to 'discontinued operations' due to IFRS 5.

IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

Para 47 has been updated to become black letter and to reflect that PSC has issued IPSAS 19

~~47.~~ ~~39.~~ — In accordance with ~~the appropriate standards that address provisions, contingent liabilities and contingent assets~~ International Public Sector Accounting Standard IPSAS 19, “Provisions, Contingent Liability and Contingent Assets”, the investor shall disclose:

- (a) its share of the contingent liabilities of an associate incurred jointly with other investors for which it is also contingently liable; and
- (b) those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate;~~;~~ and
- ~~(c) — its share of the contingent assets of an associate.~~

~~42. — International Public Sector Accounting Standard IPSAS 1 Presentation of Financial Statements also requires the share of net surpluses or deficits of associates accounted for using the equity method of accounting to be presented on the face of the statement of financial performance.~~

Effective Date

~~48.~~ ~~43.~~ — An entity shall apply tThis International Public Sector Accounting Standard ~~becomes effective~~ for annual ~~financial statements covering~~ periods beginning on or after ~~1DD JulyMM 2001~~YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before DD MM YYYY, it shall disclose that fact.

~~49.~~ ~~44.~~ — When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, 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 (2000)

~~50.~~ This Standard supersedes IPSAS 7, “Accounting for Investments in Associates” issued in 2000.

Withdrawal para added as per decision in NY meeting.

IPSAS 7 ~~Accounting for~~ *Investments in Associates*

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

| IPSAS 7 ~~Accounting for~~ Investments in Associates

Item 11.5 Marked-up IPSASs 7, 8 and 4
IPSASB Oslo March 2005

Appendix

Amendments to Other Pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after DD MM YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

- A1. In International Public Sector Accounting Standards, applicable at MM YYYY, references to the current version of IPSAS 7, “Accounting for Investments in Associates” are amended to IPSAS 7, “Investments in Associates”.

Comparison with IAS 28

International Public Sector Accounting Standard IPSAS 7 ~~Accounting for~~ “Investments in Associates” (Revised 2003) is drawn primarily from International Accounting Standard IAS 28, ~~Accounting for~~ “Investments in Associates” (Revised 2003). The main differences between IPSAS 7 and IAS 28 are as follows:

As directed in July 04, IPSAS 7 does not incorporate consequential changes to IAS 28 upon the issue of new IFRSs that the IPSASB has not yet considered.

- At the time of issuing this Standard, the IPSASB has not considered the applicability of IAS 39, “Financial Instruments: Recognition and Measurement”, IFRS 3, “Business Combinations” and IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations” to public sector entities. Therefore, IPSAS 7 does not reflect amendments made to IAS 27 consequent upon the issue of those Standards.
- Commentary additional to that in IAS 28 has been included in IPSAS 7 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 7 applies to all investments in associates where the investor holds an ownership interest in the associate in the form of a shareholding or other formal equity structure. IAS 28 does not contain similar ownership interest requirements. However, it is unlikely that equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure.
- IPSAS 7 uses different terminology, in certain instances, from IAS 28. The most significant examples are the use of the terms ~~“entity”~~, “revenue”, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 7. The equivalent terms in IAS 28 are ~~“enterprise”~~, “income”, “income statement”, “balance sheet” and “equity”.
- IPSAS 7 contains a different set of definitions of technical terms from IAS 28 (paragraph 67).
- ~~In common with IAS 28 this Standard allows an investment in an associate that is included in the separate financial statements of an investor that issues consolidated financial statements, to be carried at cost or accounted for using the equity method. International Accounting Standard IAS 28 also allows such investments in associates to be accounted for as an available-for-~~

~~sale financial asset as described in International Accounting Standard IAS 39, *Financial Instruments: Recognition and Measurement*. By contrast this Standard allows such investments to be accounted for in the same way as other investments shown in the financial statements of the investor.~~

The last bullet point has been deleted because in valuation of investments in investment of associates has been moved to IPSAS 6.

Summary of Main Changes

IPSAS 8 *Interests in Joint Ventures*

The main changes proposed are:

Title of the Standard

- to change the title of the Standard to *Interests in Joint Ventures*. Previously the title was *Financial Reporting of Interests in Joint Ventures*.

Scope

- to exclude from the scope in paragraph 1, venturers' interests in jointly controlled entities that are recognized at fair value held by:
 - venture capital organizations, or
 - mutual funds, unit trusts and similar entities including investment-linked insurance funds.

Previously, IPSAS 8 did not contain these exclusions from its scope.

Definitions

- in paragraph 6:
 - to define a new term "separate financial statements".
 - to remove the following unnecessary terms: "accrual basis", "assets", "associates", "cash", "cash flows", "contribution from owners", "controlled entity", "controlling entity", "distribution to owners", "economic entity", "expenses", "government business enterprises", "liabilities", "net assets/equity", and "revenue". These terms are defined in other IPSASs.
 - to remove the term "net surplus/deficit", which no longer exists.
- to include in paragraphs 14-16 explanation of "separate financial statements". Previously, IPSAS 8 did not contain these illustrations.

Exemptions from Applying Proportionate Consolidation or the Equity Method

- to clarify in paragraphs 47 and paragraph 3(a) that applying proportionate consolidation or the equity method is not required when (a) an interest in a joint venture is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer.

The proposed IPSAS 8 further specifies in paragraph 49 that when a jointly controlled entity previously exempted from proportionate consolidation or the equity method is not disposed of within twelve months, it shall be accounted for using proportionate consolidation or the equity method from the date of acquisition unless narrowly specified circumstances apply.

The words "in the near future" used in previous IPSAS 8 were replaced with the words "within twelve months". There was no requirement that management must be actively seeking a buyer in previous IPSAS 8 for exemption from applying proportionate consolidation or the equity method.

- to clarify in paragraph 3(b) and 3(c) the exemptions from application of proportionate

consolidation or the equity method, including when the venturer is:

- also a controlling entity exempt in accordance with IPSAS 6 *Consolidated and Separate Financial Statements* from preparing consolidated financial statements, or
- though not such a controlling entity, can satisfy the same type of conditions that exempt such controlling entities.

IPSAS 6 requires that a controlling entity need not present consolidated financial statements if and only if:

- the controlling entity is itself a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements; or is a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements;
- the controlling 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);
- the controlling 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; and
- the ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.

Previously, IPSAS 8 did not contain these exemptions.

- to remove previous paragraph 46(b) to clarify that severe long-term restrictions that significantly impair the ability to transfer funds to the venturer does not of itself justify not applying the proportionate consolidation or the equity method. Joint control must be lost before proportionate consolidation or the equity method ceases to apply.

Separate Financial Statements

- to require in paragraph 52 that a venturer should account for an interest in a jointly controlled entity in its separate financial statements in accordance with IPSAS 6. IPSAS 6 requires that the venturer shall account for its interest in a jointly controlled entity in its separate financial statements either at cost or as financial instruments in accordance with the relevant international or national accounting standard dealing with financial instruments.

Disclosure

- to require in paragraph 64 that a venturer shall disclose the method it uses to recognize its interests in jointly controlled entities (ie proportionate consolidation or the equity method).

Amendments to Other IPSASs

- to include an authoritative appendix of amendments to other IPSASs.

(Please note: Staff have relocated the paragraph under the title of IPSAS 8 to this separate page and reflected the decision made on equal authority. It is also consistent with the IASB's approach.)

International Public Sector Accounting Standard 8 *Interests in Joint Ventures* (IPSAS 8) is set out in paragraphs 1-70 and the Appendix. All the paragraphs have equal authority. IPSAS 8 should be read in the context of the Basis for Conclusion (if any), 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.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 8

Financial Reporting of Interests in Joint Ventures

This para has been updated and relocated to the preceding page.

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.

Scope

1. An entity ~~which~~ that prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:

While these entities may not be common in the public sector, they may occur and staff see no public sector reason to depart from the IAS.

- (a) venture capital organizations, or
 - (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds.
- that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change in accordance with the relevant international or national accounting standard dealing with financial instruments.

2. Guidance on recognition and measurement of interests identified in paragraph 1(a) and (b) that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change can be found in the relevant international or national accounting standard dealing with

Pls note that in IAS 31, the equivalent of above paras 1 and 2 is in one paragraph and in black letter and refers specifically to "upon initial recognition designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39." These are defined terms in IAS 39. Since the IPSASB does not have a standard on recognition and measurement of financial instruments, staff have used the more general, and usual, way of referencing. The exclusion of para 1 (a) and (b) was introduced to IAS 31 by the IASB.

Item

IPSASB Oslo March 2005

3. A venturer with an interest in a jointly controlled entity is exempted from paragraphs 35 (proportionate consolidation) and 43 (equity method) when it meets the following conditions:

(a) there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer ;

The amendments to subpara (a) upon issue of IFRS 5 were not incorporated per decision in NY meeting. The para 2(a) in IAS 31 is currently as follows:

(a) the interest is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;

Para number of IPSAS 6 refers to the number in proposed IPSAS 6 rather than existing IPSAS 6. See “summary of main changes IPSAS 8” for exemption

(b) the exception in paragraph 16 of IPSAS 6 Consolidated and Separate Financial Statements allowing a controlling entity that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable; or

(c) all of the following apply:

(i) the venturer is a wholly-owned controlled entity and users of financial statements prepared by applying proportionate consolidation or the equity method are unlikely to exist or their information needs are met by the controlling entity’s consolidated financial statements; or is a partially-owned controlled entity of another entity and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the venturer not applying proportionate consolidation or the equity method;

(ii) the venturer’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 venturer 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

The wording in subpara (c)(i) is slightly different from that in IAS 31 given the public sector specific context, as described in IPSAS 6.

While equity instruments are broadly defined in IPSAS 15, it is not common for equity instruments of public sector entities to be traded in a public market. However, they may be encompassed in a consolidated whole of government financial statement.

Staff removed para 2 as it is not necessary, though it was a PSC additional para.

(iv) the ultimate or any intermediate controlling entity of the venturer produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.

~~2. This Standard provides the basis for accounting for interests in joint ventures.~~

~~34. This Standard applies to all public sector entities other than Government Business Enterprises.~~

~~45. The Preface to International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). Government Business Enterprises (GBEs) are defined in IPSAS 1 Presentation of Financial Statements required to comply with and International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 Financial Reporting by Government Business Enterprises notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.~~

The revision to para 5 is consistent with its latest version in IPSAS 21 and the updated Preface.

Definitions

~~56. The following terms are used in this Standard with the meanings specified:~~

~~Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, and expenses.~~

~~Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.~~

Unnecessary definitions deleted per decision in BA meeting.

Staff retain defn
“consolidated
financial
statements” to help
better understand
difference between
consolidated and
separate financial
statements.

Unnecessary
definitions deleted
per decision in BA
meeting.

Unnecessary
definitions deleted
per decision in BA
meeting.

~~*Associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.*~~

~~*Cash comprises cash on hand and demand deposits.*~~

~~*Cash flows are inflows and outflows of cash and cash equivalents.*~~

~~*Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.*~~

~~*Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:*~~

~~*(a) conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or*~~

~~*(b) can be sold, exchanged, transferred or redeemed.*~~

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

~~*Controlled entity is an entity that is under the control of another entity (known as the controlling entity).*~~

~~*Controlling entity is an entity that has one or more controlled entities.*~~

~~*Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.*~~

~~*Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.*~~

~~*Equity method (for the purpose of this Standard) is a method of accounting and reporting whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's*~~

share of net assets/equity of the jointly controlled entity. The statement of financial performance reflects surplus or deficit of the venturer includes the venturer's share of the results of operations surplus or deficit of the jointly controlled entity.

~~Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.~~

~~Government Business Enterprise means an entity that has all the following characteristics:~~

- ~~(a) is an entity with the power to contract in its own name;~~*
- ~~(b) has been assigned the financial and operational authority to carry on a business;~~*
- ~~(c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;~~*
- ~~(d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and~~*
- ~~(e) is controlled by a public sector entity.~~*

Investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.

Joint control is the agreed sharing of control over an activity by a binding arrangement.

The amendments to defn of "joint control" by IASB upon issuing IFRS 3 *Business Combinations* were not incorporated per decision in NY meeting. IASB defn is as follows:

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity ~~which~~ that is subject to joint control.

~~Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.~~

Unnecessarily
definitions deleted
per decision in BA
meeting.

~~*Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.*~~

Proportionate consolidation is a method of accounting ~~and reporting~~ whereby a venturer's share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined ~~on a line-by-line basis~~ with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.

Unnecessary
definition deleted
per decision in BA
meeting.

~~*Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.*~~

"Separate financial
statements" term was
added by IASB to
IAS 31.

Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an activity but is not control or joint control over those policies.

Venturer is a party to a joint venture and has joint control over that joint venture.

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

Binding Arrangement

- ~~67.~~ The existence of a binding arrangement distinguishes interests ~~which that~~ involve joint control from investments in associates ~~where in which~~ the investor has significant influence (see International Public Sector Accounting Standard IPSAS 7 ~~Accounting for~~ Investments in Associates). For the purposes of this Standard, an arrangement includes all binding arrangements between venturers. That is, in substance, the arrangement confers similar rights and obligations on the parties to it as if it were in the form of a contract. For instance, two government

departments may enter into a formal arrangement to undertake a joint venture but the arrangement may not constitute a legal contract because, in that jurisdiction, individual departments may not be separate legal entities with the power to contract. Activities ~~which that~~ have no binding arrangement to establish joint control are not joint ventures for the purposes of this Standard.

78.

The binding arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the binding arrangement is incorporated in the enabling legislation, articles or other by-laws of the joint venture. Whatever its form, the arrangement is usually in writing and deals with such matters as:

- (a) the activity, duration and reporting obligations of the joint venture;
- (b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;
- (c) capital contributions by the venturers; and
- (d) the sharing by the venturers of the output, revenue, expenses, surpluses or deficits, or cash flows of the joint venture.

Staff introduced "binding" at the beginning of current para 8 and subsequent paras where the IASB uses "contractual" in IAS 31 for the consistency with the definition of "joint control" in IPSAS 8.

89.

The binding arrangement establishes joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to ~~unilaterally~~ control the activity unilaterally. The arrangement identifies those decisions in areas essential to the goals of the joint venture which require the consent of all the venturers and those decisions which may require the consent of a specified majority of the venturers.

Pls note the third sentence "The arrangement of a specified majority of the venturers" has been removed by IASB upon issuing IFRS 3.

910.

The binding arrangement may identify one venturer as the operator or manager of the joint venture. The operator does not control the joint venture but acts within the financial and operating policies ~~which that~~ have been agreed by the venturers in accordance with the arrangement and delegated to the operator. If the operator has the power to govern the financial and operating policies of the activity, it controls the venture and the venture is a controlled entity of the operator and not a joint venture.

Previous paras 10-12 were removed due to the elimination of term "economic entity" from Definitions.

Economic Entity

10. 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.
11. Other terms sometimes used to refer to an economic entity include “administrative entity”, “financial entity”, “consolidated entity” and “group”.
12. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Forms of Joint Venture

11. Many public sector entities establish joint ventures to undertake a variety of activities. The nature of these activities ranges from commercial undertakings to provision of community services at no charge. The terms of a joint venture are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any), and expenses of each of the joint venturers.
12. Joint ventures take many different forms and structures. This Standard identifies three broad types — jointly controlled operations, jointly controlled assets and jointly controlled entities — ~~which~~ that are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:
 - (a) two or more venturers are bound by an binding arrangement; and
 - (b) the binding arrangement establishes joint control.

Joint Control

13. Joint control may be precluded when a joint venture is in legal reorganization or in bankruptcy, is subject to an administrative restructuring of government arrangements, or operates under severe long-term restrictions on its ability to transfer funds to the venturer. If joint control is continuing, these events are not

Para 13 was added by IASB to IAS 31 to illustrate joint control. Staff added reference to “subject to an administrative restructuring of government arrangements.”

enough in themselves to justify not accounting for joint ventures in accordance with this Standard.

Separate financial statements

Paras 14-16 were added by IASB to IAS 31 to further illustrate separate financial statements.

14. Financial statements in which proportionate consolidation or the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a controlled entity, associate or venturer's interest in a jointly controlled entity.

15. Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements need not be appended to, or accompany, those statements.

Para numbers of IPSAS 6 and IPSAS 7 refer to those in proposed standards rather than existing ones.

16. Entities that are exempted in accordance with paragraph 16 of IPSAS 6 from consolidation, paragraph 19(c) of IPSAS 7 *Investments in Associates* from applying the equity method or paragraph 3 of this Standard from applying proportionate consolidation or the equity method may present separate financial statements as their only financial statements.

Future Economic Benefits or Service Potential

Previous paras 15-17 were removed due to the elimination of related terms.

~~15. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential". Assets that are used to generate net cash inflows are often described as embodying "future economic benefits". To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.~~

Government Business Enterprises

~~16. Government Business Enterprises (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. International Public Sector Accounting Standard IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* 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.~~

~~Net Assets/Equity~~

~~17. “Net assets/equity” is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.~~

Jointly Controlled Operations

~~17.~~ The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer’s employees alongside the venturer’s similar activities. The joint venture agreement usually provides a means by which the revenue from the sale or provision of the joint product or service and any expenses incurred in common are shared among the venturers.

~~18.~~ An example of a jointly controlled operation is when two or more venturers combine their operations, resources and expertise ~~in order~~ to manufacture, market and distribute jointly a particular product, such as an aircraft. Different parts of the manufacturing process are carried out by each of the venturers. Each venturer bears its own costs and takes a share of the

revenue from the sale of the aircraft, such share being determined in accordance with the binding arrangement. A further example is when two entities combine their operations, resources and expertise ~~in order~~ to jointly deliver a service, such as aged care where, in accordance with an agreement, a local government offers domestic services and a local hospital offers medical care. Each venturer bears its own costs and takes a share of revenue, such as user charges and government grants; such share being determined in accordance with the binding agreement.

2019. *In respect of its interests in jointly controlled operations, a venturer ~~should~~ shall recognize in its ~~separate~~ financial statements ~~and consequently in its consolidated financial statements~~:*

- (a) the assets that it controls and the liabilities that it incurs; and*
- (b) the expenses that it incurs and its share of the revenue that it earns from the sale or provision of goods or services by the joint venture.*

2120. Because the assets, liabilities, revenue (if any) and expenses are already recognized in the ~~separate~~ financial statements of the venturer, ~~and consequently in its consolidated financial statements~~, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

2221. Separate accounting records may not be required for the joint venture itself and financial statements may not be prepared for the joint venture. However, the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly Controlled Assets

2322. Some joint ventures involve the joint control, and often the joint ownership by the venturers, of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.

- 2423.** These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits or service potential through its share ~~in~~ of the jointly controlled asset.
- 2524.** Some activities in the public sector involve jointly controlled assets. For example, a local government may enter into an arrangement with a private sector corporation to construct a toll road. The road provides the citizens with improved access between the local government's industrial estate and its port facilities. The road also provides the private sector corporation with direct access between its manufacturing plant and the port. The agreement between the local authority and the private sector corporation specifies each party's share of revenues and expenses associated with the toll road. Accordingly, each venturer derives economic benefits or service potential from the jointly controlled asset and bears an agreed proportion of the costs of operating the road. Similarly, many activities in the oil, gas and mineral extraction industries involve jointly controlled assets; ~~for~~ ff For example, a number of oil production companies may jointly control and operate an oil pipeline. Each venturer uses the pipeline to transport its own product in return for which it bears an agreed proportion of the expenses of operating the pipeline. Another example of a jointly controlled asset is when two entities jointly control a property, each taking a share of the rents received and bearing a share of the expenses.
- 2625.** *In respect of its interest in jointly controlled assets, a venturer ~~should~~ shall recognize in its ~~separate~~ financial statements ~~and consequently in its consolidated financial statements~~:*
- (a) *its share of the jointly controlled assets, classified according to the nature of the assets;*
 - (b) *any liabilities ~~which~~ that it has incurred;*
 - (c) *its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;*
 - (d) *any revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and*
 - (e) *any expenses ~~which~~ that it has incurred in respect of its interest in the joint venture.*

2726. In respect of its interest in jointly controlled assets, each venturer includes in its accounting records and recognizes in its ~~separate~~ financial statements ~~and consequently in its consolidated financial statements~~:

- (a) its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment. For example, a share of a jointly controlled road is classified as property, plant and equipment;;
- (b) any liabilities ~~which that~~ it has incurred, for example those incurred in financing its share of the assets;;
- (c) its share of any liabilities incurred jointly with other venturers in relation to the joint venture;;
- (d) any revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture ~~and~~;;
- (e) any expenses ~~which that~~ it has incurred in respect of its interest in the joint venture, for example those related to financing the venturer's interest in the assets and selling its share of the output.

2827. Because the assets, liabilities, revenue and expenses are ~~already~~ recognized in the ~~separate~~ financial statements of the venturer, ~~and consequently in its consolidated financial statements~~, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

2928. The treatment of jointly controlled assets reflects the substance and economic reality and, usually, the legal form of the joint venture. Separate accounting records for the joint venture itself may be limited to those expenses incurred in common by the venturers and ultimately borne by the venturers according to their agreed shares. Financial statements may not be prepared for the joint venture, although the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly Controlled Entities

3029. A jointly controlled entity is a joint venture ~~which that~~ involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the

- same way as other entities, except that ~~an~~ binding arrangement between the venturers establishes joint control over the activity of the entity.
3130. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns revenue. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the ~~results~~ surpluses of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.
3231. A common example of a jointly controlled entity is when two entities combine their activities in a particular line of service delivery by transferring the relevant assets and liabilities into a jointly controlled entity. Another example arises when an entity commences a business in a foreign country in conjunction with a government or other agency in that country, by establishing a separate entity ~~which that~~ is jointly controlled by the entity and the government or agency in the foreign country.
3332. Many jointly controlled entities are similar in substance to those joint ventures referred to as jointly controlled operations or jointly controlled assets. For example, the venturers may transfer a jointly controlled asset, such as a road, into a jointly controlled entity, for tax or other reasons. Similarly, the venturers may contribute into a jointly controlled entity; assets ~~which that~~ will be operated jointly. Some jointly controlled operations also involve the establishment of a jointly controlled entity to deal with particular aspects of the activity, for example, the design, marketing, distribution or after-sales service of the product.
3433. A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with ~~the appropriate~~ International Public Sector ~~a~~ Accounting s Standards or other accounting standards if appropriate.
3534. Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognized in its ~~separate~~ financial statements as an investment in the jointly controlled entity.

~~Consolidated~~ Financial Statements of a Venturer

~~Benchmark Treatment~~—Proportionate Consolidation

~~3635.~~ *~~In its consolidated financial statements, a A venturer should shall report recognize its interest in a jointly controlled entity using proportionate consolidation or the alternative method described in paragraph 43. When proportionate consolidation is used, one of the two reporting formats for proportionate consolidation identified below shall be used.~~*

Para 36 is a new para added by IASB.

36. A venturer recognizes its interest in a jointly controlled entity using one of the two formats for proportionate consolidation irrespective of whether it also has investments in controlled entities or whether it describes its financial statements as consolidated financial statements.

37. When ~~reporting~~ recognizing an interest in a jointly controlled entity ~~in consolidated financial statements~~, it is essential that a venturer reflects the substance and economic reality of the arrangement, rather than the joint venture's particular structure or form. In a jointly controlled entity, a venturer has control over its share of future economic benefits or service potential through its share of the assets and liabilities of the venture. This substance and economic reality ~~is~~ are reflected in the consolidated financial statements of the venturer when the venturer ~~reports~~ recognizes its interests in the assets, liabilities, revenue and expenses of the jointly controlled entity by using one of the two reporting formats for proportionate consolidation described in paragraph 39.

38. The application of proportionate consolidation means that the ~~consolidated~~ statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The ~~consolidated~~ statement of financial performance of the venturer includes its share of the revenue and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in controlled entities, which are set out in IPSAS 6.

39. Different reporting formats may be used to give effect to proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, revenue and expenses of

the jointly controlled entity with the similar items, line by line, in its ~~consolidated~~ financial statements ~~on a line by line basis~~. For example, it may combine its share of the jointly controlled entity's inventory with ~~the its~~ inventory ~~of the economic entity~~ and its share of the jointly controlled entity's property, plant and equipment with ~~the same items of the economic entity its~~ property, plant and equipment. Alternatively, the venturer may include separate line items for its share of the assets, liabilities, revenue and expenses of the jointly controlled entity in its ~~consolidated~~ financial statements. For example, it may show its share of ~~the a~~ current assets of the jointly controlled entity separately as part of ~~the its~~ current assets ~~of the economic entity~~; it may show its share of the property, plant and equipment of the jointly controlled entity separately as part of ~~the its~~ property, plant and equipment ~~of the economic entity~~. Both these reporting formats result in the reporting of identical amounts of net revenue and expenses surplus or deficit and of each major classification of assets, liabilities, revenue and expenses; both formats are acceptable for the purposes of this Standard.

40. ~~Whatever~~Whichever format is used to give effect to proportionate consolidation, it is inappropriate to offset any assets or liabilities by the deduction of other liabilities or assets or any revenue or expenses by the deduction of other expenses or revenue, unless a legal right of set-off exists and the offsetting represents the expectation as to the realization of the asset or the settlement of the liability.

41. *A venturer ~~should~~ shall discontinue the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.*

42. A venturer discontinues the use of proportionate consolidation from the date on which it ceases to share in the control of a jointly controlled entity. This may happen, for example, when the venturer disposes of its interest or when such external restrictions are placed on the jointly controlled entity ~~so that it can the venturer~~ no longer ~~achieve its goals~~ has joint control.

~~Allowed Alternative Treatment~~—Equity Method

43. *~~In its consolidated financial statements~~ As an alternative to proportionate consolidation described in paragraph 35, a venturer ~~should~~ shall report recognize its interest in a jointly controlled entity using the equity method.*

44. A venturer recognizes its interest in a jointly controlled entity using the equity method irrespective of whether it also has investments in controlled entities or whether it describes its financial statements as consolidated financial statements.

Para 44 is a new para added by the IASB.

4445. Some venturers—~~report~~ recognize their interests in jointly controlled entities using the equity method, as described in IPSAS 7. The use of the equity method is supported by those who argue that it is inappropriate to combine controlled items with jointly controlled items and by those who believe that venturers have significant influence, rather than joint control, in a jointly controlled entity. This Standard does not recommend the use of the equity method because proportionate consolidation better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity, —that is to say, control over the venturer's share of the future economic benefits or service potential. Nevertheless, this Standard permits the use of the equity method, as an ~~allowed~~ alternative treatment, when ~~reporting~~ recognizing interests in jointly controlled entities.

4546. A venturer ~~should~~ shall discontinue the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.

Exceptions to ~~Benchmark~~ Proportionate Consolidation and Allowed Alternative Treatments Equity Method

4647. The following ~~i~~Interests in jointly controlled entities for which there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer, as set out in paragraph 3(a), ~~should~~ shall be ~~accounted~~ classified and accounted for as held for trading financial instruments in accordance with the relevant international or national accounting standard dealing with financial instruments. ~~for as investments:~~

The wording is slightly different from that in IAS 31 given the IPSASB does not have a standard on recognition and measurement of financial instruments. Staff also quoted para 3(a) for ease of understanding.

~~(a) an interest in a jointly controlled entity which is acquired and held exclusively with a view to its subsequent disposal in the near future; and~~

~~(b) an interest in a jointly controlled entity which operates under severe long-term restrictions that significantly~~

~~*impair its ability to transfer funds or provide other non-financial benefits to the venturer.*~~

4748. Guidance on recognition and measurement~~accounting for investments of financial instruments dealt with in paragraph 47~~ can be found in the relevant international and/or national accounting standards dealing with financial instruments.

Pls note that the equivalent of above paras 47 and 48 in improved IAS 31 is in one paragraph and has been amended by the IASB upon issuing IFRS 5 as follows. Staff did not incorporate these changes per decision in NY meeting.

42. *Interests in jointly controlled entities that are classified as held for sale in accordance with IFRS 5 shall be accounted for in accordance with that IFRS.*

49. When, in accordance with paragraphs 3(a) and 47, an interest in a jointly controlled entity previously accounted for as a held for trading financial instrument is not disposed of within twelve months, it shall be accounted for using proportionate consolidation or the equity method as from the date of acquisition. (Guidance on the meaning of the date of acquisition can be found in the relevant international or national accounting standard dealing with business combinations). Financial statements for the periods since acquisition shall be restated.

Pls note that the equivalent para 49 has been amended upon the issue of IFRS 5 as follows. Staff did not incorporate the changes per decision in NY meeting.

43. When an interest in a jointly controlled entity previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using proportionate consolidation or the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

50. Exceptionally, a venturer may have found a buyer for an interest described in paragraphs 3(a) and 47, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The venturer is not required to apply proportionate consolidation or the equity method to an interest in a jointly controlled entity if the sale is in process at the reporting date and there is no reason to believe that it will not be completed shortly after the reporting date.

Pls note that the equivalent para 50 was added when the IASB issued the Improvements project in December 2003. However, it has been removed by the IASB upon the issue of IFRS 5. Staff retained it per decision in NY meeting. Consistent with IPSAS 17, sale encompasses other disposals including transfers.

Equivalent previous
para 48 was deleted
by IASB in IAS 31.

48. ~~The use of either proportionate consolidation or the equity method is inappropriate when the interest in a jointly controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future. It is also inappropriate when the jointly controlled entity operates under severe long-term restrictions which significantly impair its ability to transfer funds or provide other non-financial benefits to the venturer.~~

4951. *From the date on which a jointly controlled entity becomes a controlled entity of a venturer, the venturer shall accounts for its interest in accordance with IPSAS 6. From the date on which a jointly controlled entity becomes an associate of a venturer, the venturer shall account for its interest in accordance with IPSAS 7.*

Separate Financial Statements of a Venturer

50. ~~In some jurisdictions, separate financial statements may be presented by a venturer in order to meet legal or other requirements. Such separate financial statements are prepared in order to meet a variety of needs with the result that different reporting practices are in use in different jurisdictions. Accordingly, this Standard does not indicate a preference for any particular treatment.~~

52. *An interest in a jointly controlled entity shall be accounted for in a venturer's separate financial statements in accordance with paragraphs 58-64 of IPSAS 6.*

Paras 52 and 53 were
added by IASB.

53. ~~This Standard does not mandate which entities produce separate financial statements available for public use.~~

Para numbers of IPSAS 6 refer to those in proposed IPSAS 6 rather than existing IPSAS 6 (ie at cost or as a fin. Instrmnt).

Transactions between a Venturer and a Joint Venture

5154. *When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction—~~should~~ shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer ~~should~~ shall recognize only that portion of the gain or loss ~~which~~ that is attributable to the interests of the other venturers. The venturer ~~should~~ shall recognize the full amount of any loss when the*

contribution or sale provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

5255. *When a venturer purchases assets from a joint venture, the venturer ~~should~~ shall not recognize its share of the gains of the joint venture from the transaction until it resells the assets to an independent party. A venturer ~~should~~ shall recognize its share of the losses resulting from these transactions in the same way as gains except that losses ~~should~~ shall be recognized immediately when they represent a reduction in the net realizable value of current assets or an impairment loss.*

5356. To assess whether a transaction between a venturer and a joint venture provides evidence of impairment of an asset, the venturer determines the recoverable amount or recoverable service amount of the assets in accordance with ~~the relevant guidance on impairment of assets~~ IPSAS 21 Impairment of Non-Cash-Generating Assets. In determining value in use of a cash-generating asset, the venturer estimates future cash flows from the asset ~~are estimated on the basis of~~ continued use of the asset and its ultimate disposal by the joint venture. In determining value in use of a non-cash-generating asset, the venturer estimates the present value of the remaining service potential of the asset using the approaches specified in IPSAS 21.

This para will be updated when the IPSAS based on IAS 36 is issued.

Reporting Interests in Joint Ventures in the Financial Statements of an Investor

5457. *An investor in a joint venture, ~~which~~ that does not have joint control, but does have significant influence ~~should~~ shall ~~report~~ account for its interest in a joint venture in accordance with IPSAS 7.*

In IAS 31, paras 57 and 58 are in one para in black letter.

5558. ~~International Accounting Standard IAS 39, Financial Instruments: Recognition and Measurement provides~~ Guidance on accounting for interests in joint ventures where an investor does not have joint control or significant influence can be found in the relevant international or national accounting standard dealing with financial instruments.

Operators of Joint Ventures

5659. Operators or managers of a joint venture ~~should~~ shall account for any fees in accordance with ~~the appropriate standards that address accounting for IPSAS 9~~ Revenue from eExchange tTransactions.

5760. One or more venturers may act as the operator or manager of a joint venture. Operators are usually paid a management fee for such duties. The fees are accounted for by the joint venture as an expense.

Disclosure

5861. ~~In accordance with the appropriate standards that address provisions, contingent liabilities and contingent assets, a A~~ venturer ~~should~~ shall disclose:

Staff noted that IASB used “probability of loss” in subpara (a), while the PSC used “possibility of any outflow in settlement” in existing IPSAS 8. Staff retained existing version in accordance with IPSASB decision about changes.

- (a) *the aggregate amount of the following contingent liabilities, unless the possibility of any outflow in settlement is remote, separately from the amount of other contingent liabilities:*
 - (i) *any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities ~~which~~ that have been incurred jointly with other venturers;*
 - (ii) *its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and*
 - (iii) *those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture; and*
- (b) *a brief description of the following contingent assets and, where practicable, an estimate of their financial effect, where an inflow of economic benefits or service potential is probable:*
 - (i) *any contingent assets of the venturer arising in relation to its interests in joint ventures and its share in each of the contingent assets ~~which~~ that have arisen jointly with other venturers; and*
 - (ii) *its share of the contingent assets of the joint ventures themselves.*

Pls note that subpara (b) was not included in both previous and improved IAS 31. Staff retained it as it was introduced by the PSC when finalizing existing IPSAS 8.

5962. A venturer ~~should~~ shall disclose the aggregate amount of the following commitments, in respect of its interests in joint ventures, separately from other commitments:

- (a) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and
- (b) its share of the capital commitments of the joint ventures themselves.

6063. A venturer ~~should~~ shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer ~~which reports that recognizes~~ its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method ~~should~~ shall disclose the aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, revenue and expenses related to its interest in joint ventures.

Equivalent para 64 is a new para added by IASB.

64. A venturer shall disclose the method it uses to recognize its interests in jointly controlled entities.

Previous paras 61 and 62 were removed by IASB.

~~61. A venturer which does not issue consolidated financial statements because it does not have controlled entities, should disclose the information required in paragraphs 58, 59, and 60 (where applicable).~~

~~62. It is appropriate that a venturer which does not prepare consolidated financial statements because it does not have controlled entities provides the same information about its interests in joint ventures as those venturers that issue consolidated financial statements.~~

Transitional Provisions

6365. Where the ~~benchmark treatment~~ proportionate consolidation treatment set out in this Standard is adopted, ~~entities~~ venturers are not required to eliminate balances and transactions between themselves, their controlled entities and entities that they jointly control for reporting periods beginning on a date within three years following the date of first adoption of ~~this Standard~~ accrual accounting in accordance with International Public Sector Accounting Standards.

Staff revised paras 65 and 66 per decision made in Delhi meeting re transitional provisions.

6466. Entities that adopt ~~this Standard~~ accrual accounting for the first time in accordance with International Public Sector Accounting Standards may have many controlled and jointly controlled entities with a significant number of transactions between these entities. Accordingly, it may initially be difficult to identify all the transactions and balances that need to be eliminated for the purpose of preparing the financial statements. For this reason, paragraph 6365 provides temporary relief from eliminating in full balances and transactions between entities and their jointly controlled entities.
6567. *Where entities apply the transitional provision in paragraph 6365, ~~an entity they should~~ shall disclose the fact that not all inter-entity balances and transactions have been eliminated.*

Effective Date

6668. *An entity shall apply ~~This~~ International Public Sector Accounting Standard ~~becomes effective~~ for annual financial statements covering periods beginning on or after ~~1 July 2001~~ MM DD YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD YYYY, it shall disclose that fact.*
6769. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, 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 8 (2001)

70. *This Standard supersedes IPSAS 8 *Financial Reporting of Interests in Joint Ventures* issued in 2001.*

The withdrawal para is added per decision in NY meeting.

Appendix – Amendments to Other IPSASs

“Amendments to Other IPSASs” is a new authoritative section. Only the relevant paragraphs in other IPSASs that are not part of IPSASs Improvements project are included and shown in marked-up.

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

- A1. In International Public Sector Accounting Standards applicable at MM YYYY, references to the current version of IPSAS 8 *Financial Reporting of Interests in Joint Ventures* are amended to IPSAS 8 *Interests in Joint Ventures*.

Comparison with IAS 31

International Public Sector Accounting Standard IPSAS 8 ~~*Financial Reporting of Interests in Joint Ventures*~~ is drawn primarily from International Accounting Standard IAS 31, ~~*Financial Reporting of Interests in Joint Ventures*~~. The main differences between IPSAS 8 and IAS 31 are as follows:

- At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 3 Business Combinations and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, to public sector entities, therefore, IPSAS 8 does not reflect amendments made to IAS 31 consequent on the issue of IFRS 3 and IFRS 5.
- Commentary additional to that in IAS 31 has been included in IPSAS 8 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 8 uses different terminology, in certain instances, from IAS 31. The most significant examples are the use of the terms “entity”, “revenue”, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 8. The equivalent terms in IAS 31 are ~~“enterprise”~~, “income”, “income statement”, “balance sheet” and “equity”.
- ~~IPSAS 8 contains a different set of definitions of technical terms from IAS 31 (paragraph 5).~~
- IPSAS 8 uses a different definition of joint venture from IAS 31. The term “contractual arrangement” has been replaced by “binding arrangement”.
- IPSAS 8 includes a transitional provision that permits entities which adopt ~~the benchmark treatment~~ proportionate consolidation treatment to not eliminate all balances and transactions between entities venturers, their controlled entities and entities that they jointly control within the economic entity for reporting periods beginning on a date within three years following the date of ~~first application of this Standard~~ adopting accrual accounting for the first time in accordance with International Public Sector Accounting Standards. IAS 31 does not contain transitional provisions.

This difference no longer exists because Staff have removed unnecessary definitions in IPSAS 8.

Staff believe that the amendments to this bullet are more consistent with para 65. It also reflects decision in Delhi meeting re transitional provisions.

Summary of Main Changes

IPSAS 4 The Effects of Changes in Foreign Exchange Rates

The main changes proposed are:

Scope

- to now exclude in paragraph 3 foreign currency derivatives that are within the scope of international or national accounting standards that address the recognition and measurement of financial instruments. (Hedge accounting that was previously excluded in IPSAS 4 will remain excluded in IPSAS 4 because it is a form of derivative.)

Definitions

- to replace the term ‘reporting currency’ with two notions (in paragraph 10):
 - functional currency – currency of the primary economic environment in which the entity operates
 - presentation currency – currency in which the financial statements are presented
- to modify the definitions in paragraph 10 the terms: “exchange difference”, “foreign currency”, and “net investment in a foreign operation”

Functional Currency

- to require each reporting entity to determine its functional currency and measure its results and financial position in that currency in paragraphs 24 and 26. Consequently, the entity:
 - does not have a free choice of functional currency (paragraphs 11-16); and
 - cannot avoid restatement when reporting in a hyperinflationary economy (paragraphs 16, 47-48).
- to disclose the functional currency of the entity when the functional currency is different from its presentation currency and to clarify why in paragraph 61.
- to disclose when there has been a change in functional currency, and the reasons for the change in paragraph 62.
- to replace the previous requirement to account for a change in the classification of a foreign operation with a requirement that a change in functional currency is accounted for prospectively in paragraph 39.

Integral Foreign Operations vs Foreign Entities

- to eliminate the distinction between integral foreign operations and foreign entities. Consequently an entity that was previously classified as an integral foreign operation will have the same functional currency as the reporting entity only one translation method is used.

Reporting Foreign Currency Transactions in the Functional Currency - Recognition of Exchange Differences

- to remove the allowed alternative treatment where an entity can capitalize exchange differences resulting from a severe devaluation or depreciation of a currency against which there is no means of hedging. Now, the Standard requires that such exchange differences, where applicable, be reflected in the surplus or deficit in paragraph 31.

Use of a Presentation Currency other than the Functional Currency

- to clarify in paragraph 42 that this Standard permits an entity to present its financial statements in any currency (or currencies).
- to require that goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity only be treated as part of the assets and liabilities of the acquired entity and translated at the closing rate in paragraph 55. Previously, an entity was also allowed to treat these types of goodwill and fair value adjustments as assets and liabilities of the reporting entity. This paragraph has also changed to bold type from a commentary paragraph.

Disclosure

- to require in paragraph 65 that when the entity discloses financial information where the presentation currency is not its functional currency and the translation method does not comply with each applicable IPSAS, the entity shall:
 - clearly identify the information as supplementary information to distinguish it from other information that complies with IPSASs;
 - disclose the currency in which supplementary information is displayed; and
 - disclose the entity's functional currency and the method of translation used to determine the supplementary information.

Transitional Provisions

- to allow first-time adopters of IPSASs to deem the cumulative translation differences that existed at the date they first adopt IPSASs as zero in paragraph 67.
- to provide a new transitional provision in paragraph 68 for those entities which previously applied the eliminated alternative treatment for goodwill and fair value adjustments arising on the acquisition of a foreign operation. An entity, on first application of this Standard, is allowed to apply prospectively these types of goodwill and fair value adjustments in accordance to the new requirements in this Standard. (Retrospective application is allowed.)

Staff have relocated the paragraph under the title of IPSAS 3 to this separate page and reflected the decision made on equal authority. It is also consistent with the IASB's approach.

International Public Sector Accounting Standard 4, "The Effects of Changes in Foreign Exchange Rates" (IPSAS 4) is set out in paragraphs 1-74 and the Appendix. All the paragraphs have equal authority. IPSAS 4 should be read in the context of its objective, the Basis for Conclusion (if any), and the "Preface to the 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.

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 4

The Effects of Changes in Foreign Exchange Rates

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards”. International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how ~~In order to~~ include foreign currency transactions and foreign operations in the financial statements of an entity, ~~transactions must be expressed in the entity’s reporting currency and how to~~ the financial statements of foreign operations must be translated ~~financial statements~~ into a the entity’s reporting presentation currency.
2. The principal issues are which exchange rate(s) to use in ~~accounting for foreign currency transactions and foreign operations are to decide which exchange rate to use~~ and how to ~~recognize in the financial statements the financial report~~ the effects of changes in exchange rates in the financial statements.

Scope

3. ~~1.~~ An entity which prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard:

For the introductory sentence in para 3, the IASB also noted in a footnote that constituents also have to refer to SIC-7 *Introduction of the Euro*.

- (a) in accounting for transactions and balances ~~(including the subsequent reporting of monetary~~

In para 3(a), the IASB excluded derivative transactions and balances that are within the scope of IAS 39. As directed in Nov 04, staff have modified references of IAS 39 to “relevant international or national accounting standard...”

Effects of Changes in Foreign Exchange Rates

ed-up IPSASs 7, 8 and 4

March 2005

~~and non-monetary items~~) in foreign currencies, except for those derivative transactions and balances that are within the scope of international and national accounting standards that deal with the recognition and measurement of financial instruments; and

(b) in translating the results and financial statements 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 results and financial position into a presentation currency.

4. International and national accounting standards dealing with the recognition and measurement of financial instruments apply to many currency derivatives and, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of those international and national accounting standards (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

In its equivalent para, the IASB explains that IAS 39 applies to currency derivatives. Staff have modified para 4 as there is no equivalent IAS 39 in IPSASs and deleted the word "accordingly" in the first sentence to fit better with PSC's policy.

~~2.5.~~ This Standard does not apply to deal with hedge accounting for foreign currency items ~~other than the classification of exchange differences arising on a foreign currency liability accounted for as a~~ including the hedge of a net investment in a foreign operation entity. Accordingly, entities may apply relevant international or national accounting standards dealing with hedge accounting.

~~3. Guidance on other aspects of hedge accounting, including the criteria to use hedge accounting, can be found in International Accounting Standard IAS 39, Financial Instruments: Recognition and Measurement.~~

Former para 3 was added by the PSC but staff have deleted it to be consistent with the decision made in Nov 04 to update all IAS references where there is no equivalent IPSAS to "relevant international or national accounting standard" as already noted in para 5 above.

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

6. 4. This Standard applies to all public sector entities other than Government Business Enterprises.

Para 7 changed following PSC decision in Nov 04.

~~7. 5. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). Government Business Enterprises (GBEs) are defined in IPSAS 1, “Presentation of Financial Statements”, required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee’s Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.~~

~~8. 6. This Standard applies to does not specify the currency in which an entity presentations of an entity’s its financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with International Public Sector Accounting Standards. However, an entity normally uses the currency of the country in which it is domiciled. For translations of financial information into a foreignIf it uses a different currency that do not meet these requirements, this Standard specifies information to be requires disclosure of the reason for using that currency. This Standard also requires disclosure of the reason for any change in the reporting currency~~

Former para 7 was deleted because IASB introduced new disclosure reqts on restating functional currency to presentation currency.

~~7. This Standard does not deal with the restatement of an entity’s financial statements from its reporting currency into another currency for the convenience of users accustomed to that currency or for similar purposes.~~

~~9. 8. This Standard deals withapplies to the presentation of revenue and expenses arising from transactions in a foreign currency and translating the financial statements of a foreign operation. It does not deal with-apply to the presentation in a cash flow statement of cash flows arising from transactions in a~~

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

foreign currency ~~and/or to~~ the translation of cash flows of a foreign operation (see International Public Sector Accounting Standard IPSAS 2, “Cash Flow Statements”).

Definitions

~~10.~~ ~~9.~~ The following terms are used in this Standard with the meanings specified:

As directed in the Mar 04 meeting, delete definitions that are not significant in this IPSAS. They are: accrual basis, assets, associate, cash, cash equivalents, cash flows, consolidated financial statements, contributions from owners

~~Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.~~

~~Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.~~

~~Associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.~~

~~Cash comprises cash on hand and demand deposits.~~

~~Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.~~

~~Cash flows are inflows and outflows of cash and cash equivalents.~~

~~Closing rate is the spot exchange rate at the reporting date.~~

~~Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.~~

~~Contributions from owners means future economic benefits or service potential that has been contributed to the entity~~

~~by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:~~

~~(a) conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or~~

~~(b) can be sold, exchanged, transferred or redeemed.~~

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

~~Controlled entity is an entity that is under the control of another entity (known as the controlling entity).~~

~~Controlling entity is an entity that has one or more controlled entities.~~

~~Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.~~

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

~~Equity method is a method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The statement of financial performance reflects the investor's share of the results of operations of the investee.~~

Exchange difference is the difference resulting from translating a given reporting the same number of units of one foreign currency into another the reporting currency at different exchange rates.

Exchange rate is the ratio ~~of~~ exchange ~~off~~ two currencies.

Updated defn on
exchange
difference

~~Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.~~

~~Extraordinary items are revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.~~

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

~~Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.~~

Updated defn

Foreign currency is a currency other than the ~~reporting functional~~ currency of ~~an~~the entity.

Foreign entity has been deleted & the notion of foreign entity has been moved into foreign operation

~~Foreign entity is a foreign operation, the activities of which are not an integral part of those of the reporting entity.~~

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

Introduced new dfn 'functional currency'

Functional currency is the currency of the primary economic environment in which the entity operates.

~~Government Business Enterprise means an entity that has all the following characteristics:~~

- ~~(a) is an entity with the power to contract in its own name;~~
- ~~(b) has been assigned the financial and operational authority to carry on a business;~~
- ~~(c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;~~

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

~~(d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and~~

~~(e) is controlled by a public sector entity.~~

~~Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.~~

~~Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.~~

~~Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.~~

~~Minority interest is that part of the net surplus (deficit) and of net assets/equity of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.~~

Updated defn: monetary items

Monetary items are units of currency held and assets and liabilities to be received or paid in fixed or determinable number of units of currency amounts of money.

~~Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.~~

Updated defn to "net investment in a foreign operation"

Net investment in a foreign entityoperation is the amount of the reporting entity's shareinterest in the net assets/equity of that operationentity.

~~Net surplus/deficit comprises the following components:~~

~~(a) surplus or deficit from ordinary activities; and~~

~~(b) extraordinary items.~~

~~Operating activities are the activities of the entity that are not investing or financing activities.~~

| | |
|--|---|
| <div data-bbox="65 443 387 544">New defn "Presentation currency"</div> | <p>Ordinary activities are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.</p> <p><u>Presentation currency is the currency in which the financial statements are presented.</u></p> |
| <div data-bbox="65 846 387 992">"Reporting currency" was replaced with "functional currency"</div> | <p>Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined on a line-by-line basis with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.</p> <p><u>Reporting currency is the currency used in presenting the financial statements.</u></p> <p>Reporting date means the date of the last day of the reporting period to which the financial statements relate.</p> |
| <div data-bbox="65 1294 387 1440">New defn – spot exchange rate</div> | <p>Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.</p> <p><u>Spot exchange rate is the exchange rate for immediate delivery.</u></p> |
| | <p>Surplus/deficit from ordinary activities is the residual amount that remains after expenses arising from ordinary activities have been deducted from revenue arising from ordinary activities.</p> <p><u>Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.</u></p> |

Elaboration on the Definitions

Economic Entity

As directed in Mar 04: delete unnecessary defn: 'econc entity' section

~~10. 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.~~

~~11. Other terms sometimes used to refer to an economic entity include “administrative entity”, “financial reporting entity”, “consolidated entity” and “group”.~~

~~12. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.~~

Functional Currency

11. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

Staff have modified 11(a) to include references to taxes and other forms of revenue

(a) the currency:

(i) that revenue is raised from, such as taxes, grants, and fines;

(ii) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(b) the currency that mainly influences labor, material and other costs of providing goods and services (this will often be the currency in which such costs are denominated and settled).

12. The following factors may also provide evidence of an entity’s functional currency:

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

(a) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated.

(b) the currency in which receipts from operating activities are usually retained.

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):

(a) ~~34.~~ whether the activities of the A-foreign operation are that is integral to the operations of the reporting entity carried out on its activities as if it were an extension of the reporting entity's operations rather than being carried out with a significant degree of autonomy. For An example of the former is, when a department of defense might have a number of overseas bases which conduct activities on behalf of a national government. The defense bases might conduct their activities substantially in the reporting functional currency of the reporting entity. For example, military personnel may be paid in the reporting functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity with purchases in local currency being kept to a minimum. Another example would be an overseas campus of a public university which operates under the management and direction of the domestic campus. In such cases, a change in the exchange rate between the reporting currency and the currency in the country of foreign operation has an almost immediate effect on the reporting entity's cash flow from operations. Therefore, the change in the exchange rate affects the individual monetary items held by the foreign operation rather than the reporting entity's net investment in that operation.

35. In contrast, a foreign entity operation with a significant degree of autonomy may accumulates cash and other monetary items, incurs expenses, generates revenue

The old para 34-36 have been moved and updated into this new para 13. They include public sector examples.

and perhaps arranges borrowings, all substantially in its local currency. ~~It may also enter into transactions in foreign currencies, including transactions in the reporting currency.~~ Some examples of government-owned foreign operationentities which may operate independently of other government agencies include tourist offices, petroleum exploration companies, trade boards and broadcasting operations. Such entities may be established as Government Business Enterprises. When there is a change in the exchange rate between the reporting functional currency and the local currency, there is little or no direct effect on the present and future cash flows from operations of either the foreign operationentity or the reporting entity. The change in the exchange rate affects the reporting entity's net investment in the foreign entity operation rather than the individual monetary and non-monetary items held by the foreign entity operation.

- 36(b) whether transactions with the reporting entity are ~~not~~ a high or low proportion of the foreign operation's activities;
- (fc) whether cash flows ~~of the reporting entity are insulated from the day-to-day activities of the foreign operation rather than being~~ directly affected ~~by the activities of the foreign operation~~ the cash flows of the reporting entity and are readily available for remittance to it.
- (ed) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by ~~financed mainly from its own operations or local borrowings rather than from the reporting entity;~~

14. When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 11 before considering the indicators in paragraphs 12 and 13, which are designed to

provide additional supporting evidence to determine an entity's functional currency.

15. An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.
16. If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with IPSAS 10, "Financial Reporting Hyperinflationary Economies". An entity cannot avoid restatement in accordance with IPSAS 10 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its controlling entity).

Future Economic Benefits or Service Potential

~~13. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential". Assets that are used to generate net cash inflows are often described as embodying "future economic benefits". To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.~~

Government Business Enterprises

~~14. Government Business Enterprises (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. International Public Sector Accounting Standard IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* provides guidance on determining whether control exists for financial reporting purposes, and~~

As directed in Mar 04, delete guidance on definitions that are not significant in the IPSAS.

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

~~should be referred to in determining whether a GBE is controlled by another public sector entity.~~

Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: child benefits, pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash, and cash dividends that are recognized as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (eg prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

In para 17, staff included child benefits

Net Assets/Equity

~~15. “Net assets/equity” is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.~~

Net Investment in a Foreign Operation

~~18.~~ 28.—An entity may have a monetary item that is receivable from, or payable to, a foreign entity operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, ~~an extension to, or deduction from a part of,~~ the entity’s net investment in that foreign entity operation, and is accounted for in accordance with paragraphs 36 and 37. Such monetary items may include long-term receivables or loans. They do not include trade receivables and trade payables.

The old para 28 has been moved to the defn section.

Summary of the Approach Required by this Standard

19. In preparing financial statements, each entity – whether a stand-alone entity, an entity with foreign operations (such as a controlling entity) or a foreign operation (such as a controlled

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

entity or branch) – determines its functional currency in accordance with paragraphs 11-16. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 22-41 and 58.

20. Many reporting entities comprise a number of individual entities (eg 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. They may also have branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 42-58.

21. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IPSAS 6, “Consolidated and Separate Financial Statements” to present its financial statements in any currency (or currencies). If the entity’s presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency in accordance with paragraphs 42-58.

Reporting Foreign Currency Transactions in the Functional Currency

Initial Recognition

22. ~~16.~~—A foreign currency transaction is a transaction ~~which~~~~that~~ is denominated ~~in~~ or requires settlement in a foreign currency, including transactions arising when an entity ~~either~~:

- (a) buys or sells goods or services whose price is denominated in a foreign currency;
- (b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

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

~~(e) becomes a party to an unperformed foreign exchange contract; or~~

(~~ec~~) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

23. 17.—A foreign currency transaction ~~should~~**shall** be recorded, on initial recognition in the ~~reporting~~**functional** currency, by applying to the foreign currency amount the ~~spot~~ exchange rate between the ~~reporting~~**functional** currency and the foreign currency at the date of the transaction.

24. 18.—The ~~exchange rate at the~~ date of ~~the~~a transaction is ~~the date on which the transaction first qualifies for recognition in accordance with International Public Sector Accounting Standard~~**often referred to as the spot rate**. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is ~~unreliable~~**inappropriate**.

25. 19.—Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in IPSAS 2. Although these changes are not cash flows, the effect of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing and financing activities and include the differences, if any, had those cash flows been reported at end-of-period exchange rates.

Reporting at Subsequent Reporting Dates

26. 20.—At each reporting date:

(a) foreign currency monetary items ~~should~~**shall** be ~~reported~~**translated** using the closing rate;

(b) non-monetary items ~~which~~that are ~~carried~~measured in terms of historical cost ~~denominated~~ in a foreign currency ~~should~~shall be ~~reported~~translated using the exchange rate at the date of the transaction; and

(c) non-monetary items ~~which~~that are ~~carried~~measured at fair value ~~denominated~~ in a foreign currency ~~shall~~should be ~~translated~~reported using the exchange rates ~~that existed~~at the date when the fair values ~~were~~was determined.

~~27.~~ 21.—The carrying amount of an item is determined in ~~accordance~~ conjunction with ~~the other~~ relevant International Public Sector Accounting Standards. For example, ~~certain financial instruments and~~ property, plant and equipment may be measured ~~at~~ in terms of fair value or ~~at~~ historical cost in accordance with IPSAS 17, “Property, Plant and Equipment”. Whether the carrying amount is determined on the basis ~~ed on~~ of historical cost or on the basis of fair value, if the amounts ~~is~~ so determined ~~for in a~~ foreign currency it is ~~items are~~ then ~~reported~~translated into the ~~reporting~~functional currency in accordance with this Standard.

28. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories held for sale is the lower of cost and net realizable value in accordance with IPSAS 12, “Inventories”. Similarly, in accordance with IPSAS 21, “Impairment of Non-Cash-Generating Assets”, the carrying amount of a non-cash generating asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable service amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

- (a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (ie the rate at the date of the transaction for an item measured in terms of historical cost); and
- (b) the recoverable service amount, as appropriate, translated at the exchange rate at the date when that

The references to inventories and impairment of assets in para 28 has been amended to be consistent with the requirements in IPSASs.

value was determined (eg the closing rate at the reporting date).

The effect of this comparison may be that an impairment loss is recognized in the functional currency but would not be recognized in the foreign currency, or vice versa.

29. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of Exchange Differences

~~22. Paragraphs 24 to 28 set out the accounting treatment required by this Standard in respect of exchange differences on foreign currency transactions. These paragraphs include the benchmark treatment for exchange differences that result from a severe devaluation or depreciation of a currency against which there is no practical means of hedging and that affects liabilities which cannot be settled and which arise directly on the recent acquisition of assets invoiced in a foreign currency. The allowed alternative treatment for such exchange differences is set out in paragraph 31.~~

30. ~~23. As noted in paragraph 3, This Standard does not deal with hedge accounting for foreign currency items other than the classification of exchange differences arising on a foreign currency liability accounted for as a hedge of a net investment in a foreign entity.~~ Guidance in relation to other aspects of hedge accounting, including the criteria to use hedge accounting, can be found in IAS 39 international or national accounting standards that deal with measurement and recognition of financial instruments.

The former paragraph 23 (current paragraph 30) was amended by the PSC to reflect that there was no equivalent IPSAS for IAS 39. Consequently, staff did not update paragraph 30 to follow its new equivalent IAS paragraph. Rather, staff have updated the existing paragraph to follow the new scope in the standard.

The equivalent to paragraph 30 above in IAS 21 is below.

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

27. As noted in paragraph 3, IAS 39 applies to hedge accounting for foreign currency items. The application of hedge accounting requires an entity to account for some exchange differences differently from the treatment of exchange differences required by this Standard. For example, IAS 39 requires that exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are reported initially in equity to the extent that the hedge is effective.

31. ~~24.~~—Exchange differences arising on the settlement of monetary items or on ~~reporting~~translating an entity's monetary items at rates different from those at which they were ~~translated on initially recorded~~recognition during the period, or ~~reported~~ in previous financial statements, ~~should~~shall be recognized ~~as revenue~~in surplus or ~~as expenses~~deficit in the period in which they arise, ~~with the except ion of exchange differences dealt with in accordance with~~as described in paragraphs 27 and 2936.

32. ~~25.~~—When monetary items arise from a foreign currency transaction and ~~An exchange difference results when~~ there is a change in the exchange rate between the transaction date and the date of settlement, ~~an exchange difference results of any monetary items arising from a foreign currency transaction.~~ When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognized in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognized in each ~~intervening~~ period up to the ~~period~~date of settlement is determined by the change in exchange rates during ~~that~~each period.

33. ~~26.~~—The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph 1925.

34. When a gain or loss on a non-monetary item is recognized directly in net assets/equity, any exchange component of that gain or loss shall be recognized directly in net assets/equity. Conversely, when a gain or loss on a non-monetary item is recognized in surplus or deficit, any exchange component of that gain or loss shall be recognized in surplus or deficit.

35. Other Standards require some gains and losses to be recognized directly in net assets/equity. For example, IPSAS 17 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 26(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

Net Investment in a Foreign Entity

36. ~~27.~~ Exchange differences arising on a monetary item that, ~~in substance,~~ forms part of an reporting entity's net investment in a foreign entity operation (see paragraph 18) ~~should~~shall be recognized in surplus or deficit in the separate financial statements of the reporting entity or the individual financial statements of the of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (eg consolidated financial statements when the foreign operation is a controlled entity), such exchange differences shall be recognized initially in a separate component of ~~classified as net assets/equity in the entity's financial statements until the~~ and recognized in surplus or deficit on disposal of the net investment, ~~at which time they should be recognized as revenue or as expenses in accordance with paragraph 56~~55.

28.

Para 28 was moved to paragraph 18.

37. 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 31. Similarly, 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 31. 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 (ie

financial statements in which the foreign operation is consolidated, proportionally consolidated or accounted for using the equity method). However, a monetary item that forms part of the reporting entity's net investment in a foreign operation may be denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. The exchange differences that arise on translating the monetary item into the functional currencies of the reporting entity and the foreign operation are not reclassified to the separate component of **net assets/equity** in the financial statements that include the foreign operation and the reporting entity (ie they remain recognized in surplus or deficit).

38. When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 22-29. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

~~29. — Exchange differences arising on a foreign currency liability accounted for as a hedge of an entity's net investment in a foreign entity should be classified as net assets/equity in the entity's financial statements until the disposal of the net investment, at which time they should be recognized as revenue or as expenses in accordance with paragraph 55.~~

Change in Functional Currency

39. When there is a change in an entity's functional currency, **the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.**

40. As noted in paragraph 15, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions.

The example in para 40 was amended to include "provision" of goods and services to adapt to the public sector context.

4 The Effects of Changes in Foreign Exchange Rates

For example, a change in the currency that mainly influences the sales prices or the provision of goods and services may lead to a change in an entity's functional currency.

41. The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in net assets/equity in accordance with paragraphs 36 and 43(c) are not recognized in surplus or deficit until the disposal of the operation.

Allowed Alternative Treatment

30. The benchmark treatment for exchange differences dealt with in paragraph 31 is set out in paragraph 24.

~~31. Exchange differences may result from a severe devaluation or depreciation of a currency against which there is no practical means of hedging and that affects liabilities which cannot be settled and which arise directly on the recent acquisition of an asset invoiced in a foreign currency. Such exchange differences should be included in the carrying amount of the related asset.~~

~~32. Exchange differences are not included in the carrying amount of an asset when the entity is able to settle or hedge the foreign currency liability arising on the acquisition of the asset. However, exchange losses are part of the directly attributable costs of the asset when the liability cannot be settled and there is no practical means of hedging, for example when, as a result of exchange controls, there is a delay in obtaining foreign currency. Therefore, under the allowed alternative treatment, the cost of an asset invoiced in a foreign currency is regarded as the amount of reporting currency that the entity ultimately has to pay to settle its liabilities arising directly on the recent acquisition of the asset.~~

Financial Statements of Foreign Operations

Classification of Foreign Operations

~~33. The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and~~

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*

IPSAS 4
Paras 34 – 35 have been moved to the new para 13. Parts of former para 36 (ie paras 36 (b), (c) and (f) were also moved to new para 13.

~~operates in relation to the reporting entity. For this purpose, foreign operations are classified as either “foreign operations that are integral to the operations of the reporting entity” or “foreign entities”.~~

~~34.~~

~~35.~~

~~36. The following are indications that a foreign operation is a foreign entity rather than a foreign operation that is integral to the operations of the reporting entity:~~

- ~~(a) while the reporting entity may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from those of the reporting entity;~~
- ~~(d) costs of labor, material and other components of the foreign operation’s products or services are primarily paid or settled in the foreign operation’s local currency rather than in the reporting currency;~~
- ~~(e) the foreign operation’s revenues are mainly in currencies other than the reporting currency; and~~

~~It is not necessary for all these indicators to be present in order to classify a foreign operation as a foreign entity. The appropriate classification for each operation can, in principle, be established from factual information related to the indicators listed above. In some cases, the classification of a foreign operation as either a foreign entity or an integral operation of the reporting entity may not be clear, and judgment is necessary to determine the appropriate classification.~~

Elimination of the notion of ‘foreign operations integral to the operations’

~~Foreign Operations that are Integral to the Operations of the Reporting Entity~~

~~37. The financial statements of a foreign operation that is integral to the operations of the reporting entity should be translated using the standards and procedures in paragraphs 16 to 32 as if the transactions of the foreign operation had been those of the reporting entity itself.~~

~~38. The individual items in the financial statements of the foreign operation are translated as if all its transactions had been entered into by the reporting entity itself.~~

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*

IPSASB Oslo March 2005

39. — The cost and depreciation of property, plant and equipment is translated using the exchange rate at the date of purchase of the asset or, if the asset is carried at fair value, using the rate that existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when those costs were incurred. The realizable value of an asset is translated using the exchange rate that existed when the net realizable value was determined. For example, when the net realizable value of an item of inventory is determined in a foreign currency, that value is translated using the exchange rate at the date as at which the net realizable value is determined. The rate used is therefore usually the closing rate. An adjustment may be required to reduce the carrying amount of an asset in the financial statements of the reporting entity to its net realizable value even when no such adjustment is necessary in the financial statements of the foreign operation. Alternatively, an adjustment in the financial statements of the foreign operation may need to be reversed in the financial statements of the reporting entity.

40. — For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is unreliable.

Foreign Entities Use of a Presentation Currency other than the Functional Currency

Translation to the Presentation Currency

42. — An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when an economic entity contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

43. — 41. — The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency the financial statements of a

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

~~foreign entity for incorporation in its financial statements, the reporting entity should use~~ the following procedures:

- (a) ~~the assets and liabilities for each statement of financial position presented (ie including comparatives), both monetary and non-monetary, of the foreign entity should~~shall be translated at the closing rate at the date of that statement of financial position;
- (b) revenue and expenses for each statement of financial performance (ie including comparatives) items of the foreign entity shouldshall be translated at exchange rates at the dates of the transactions, ~~except when the foreign entity reports in the currency of a hyperinflationary economy, in which case revenue and expense items should be translated at the closing rate; and~~
- (c) all resulting exchange differences ~~should~~shall be recognized as a separate component of~~classified as net assets/equity until the disposal of the net investment.~~

The former para 42 below was added by the PSC when the PSC had not yet issued an IPSAS dealing with hyperinflation. It has been deleted because it is redundant (see new paragraphs 47 and 48).

~~42. Refer to paragraph 5249 for a discussion of the restatement of financial statements of foreign entities operations that report in the currency of a hyperinflationary economy.~~

~~44.~~ 43. In translating the cash flows, that is the cash receipts and cash payments, of a foreign entity operation for incorporation in its cash flow statement, the reporting entity ~~should~~shall comply with the procedures in IPSAS 2. IPSAS 2 requires that the cash flows of a ~~foreign~~-controlled entity which satisfies the definition of a foreign operation shall ~~should~~ be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the cash flows. IPSAS 2 also outlines the presentation of unrealized gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents held or due in a foreign currency.

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

~~45.~~ ~~44.~~—For practical reasons, a rate that approximates the ~~actual~~ exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate revenue and expense items ~~of a foreign operation~~. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

~~46.~~ ~~45.~~—The ~~translation of the financial statements of a foreign entity results in the recognition of~~ exchange differences referred to in paragraph 43(c) ~~arising~~result from:

- (a) translating revenue and expenses ~~items~~ at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognized in surplus and deficit and on those recognized directly in net assets/equity.;
- (b) translating the opening net ~~assets/equity~~investment in the foreign entity at an exchange at a closing rate that differs ~~sent~~ from ~~that at which it was~~the previously ~~reported~~closing rate.; and
- ~~(c) — other changes to net assets/equity in the foreign entity.~~

These exchange differences are not recognized ~~as revenue in surplus or expenses deficit for the period~~ because the changes in ~~the~~ exchange rates have little or no direct effect on the present and future cash flows from operations ~~of either the foreign entity or the reporting entity~~. When the exchange differences relate to a foreign operation entity that is consolidated but is not wholly-owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and ~~reported~~recognized as part of, the minority interest in the consolidated statement of financial position.

47. The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

- (a) all amounts (ie assets, liabilities, net assets/equity items, revenue and expenses, including comparatives) shall be translated at the closing rate**

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

at the date of the most recent statement of financial position, except that

- (b) when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

The old para 52 has been moved to after the new para 47

- ~~48.~~ ~~52.~~ When an The financial statements of a foreign entity's functional currency is the that reports in the currency of a hyperinflationary economy, the entity shall should be restated its financial statements in accordance with IPSAS 10, "Financial Reporting in Hyperinflationary Economies" the appropriate standards that address financial reporting in hyperinflationary economies, before they are applying the translation method set out in paragraph 47, except for comparative amounts that are translated into thea reporting currency of a non-hyperinflationary economy (see paragraph 47(b)the reporting entity. When the economy ceases to be hyperinflationary and the foreign entity no longer restates its discontinues the preparation and presentation of financial statements in accordance with IPSAS 10 the appropriate standards addressing financial reporting in hyperinflationary economies, it shouldshall use the amounts expressed in the measuring unit current at the date of discontinuation as the historical costs for translation into the reportingpresentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements of the reporting entity.

Translation of a Foreign Operation

49. Paragraphs 50-55, in addition to paragraphs 42-48, apply when the results 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 consolidated, proportional consolidation or the equity method.

~~46.~~ _____

The old para 46 has been moved to the new para 55

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

Note: In IAS 21, the paras 50 and 51 are in one para. But staff retained in 2 paras as PSC previously made it into 2 paras.

~~50.~~ ~~47.~~—The incorporation of the results and financial statements position of a foreign entity operation ~~in with~~ those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS 6 and International Public Sector Accounting Standard (IPSAS) 8, “Financial Reporting of Interests in Joint Ventures”).

~~51.~~ ~~48.~~—However, ~~an exchange difference arising on a~~ monetary item within an economic entity, whether short-term or long-term, cannot be eliminated against ~~at the~~ corresponding ~~amount liability (or asset) arising on other balances~~ within an economic entity ~~because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through without showing the results of~~ currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of ~~at the~~ reporting entity, such an exchange difference continues to be recognized ~~as revenue in surplus or deficit an expense~~ or, if it arises from the circumstances described in paragraphs ~~27, 36 and 29~~, it is classified as net assets/equity until the disposal of the ~~net investment~~ foreign operation.

Note: In IAS equivalent, paras 52 to 54 are in one paragraph. But staff retained in 3 paras as PSC previously made it into 3 paras

~~52.~~ ~~49.~~—When the financial statements of a foreign entity operation are ~~drawn up to as of a date~~ different reporting date from that of the reporting entity, the foreign entity operation often prepares, ~~for purposes of incorporation in the financial statements of the reporting entity,~~ additional statements as of at the same date as the reporting entity's financial statements. When ~~it is impracticable to do this~~ is not done, IPSAS 6 allows the use of ~~financial statements drawn up to~~ a different reporting date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates.

~~53.~~ ~~50.~~—When there is a difference between the reporting date of the reporting entity and the foreign entity operation, the assets

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

and liabilities of the foreign entityoperation are translated at the exchange rate at the reporting date of the foreign entityoperation.

~~54.~~ ~~51.~~—Adjustments are made ~~when appropriate~~ for significant ~~movements~~changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS 6. The same approach is used in applying the equity method to associates and joint ventures and in applying proportionate consolidation in joint ventures in accordance with International Public Sector Accounting Standard (IPSAS) 7, “Accounting for Investments in Associates” and IPSAS 8.

~~55.~~ ~~46.~~—Any goodwill arising on the acquisition of a foreign entityoperation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign entityoperation are shall be treated as ~~either:~~

~~(a)~~—~~assets and liabilities of the foreign entityoperation. and translated at the closing rate in accordance with paragraph 41; or~~

~~(b)~~—~~Thus they shall be assets and liabilities of the reporting entity which either are already expressed in the reportingfunctional currency of the foreign operation and shall be translated or are non-monetary foreign currency items which are reported using at the exchangeclosing rate at the date of the transaction in accordance with paragraphs 20(b)43 and 47.~~

The old para 46 has been moved to para 55.

This new para has also eliminated an alternative treatment and changed into a black letter para.

The former paragraphs 53 and 54 were added by the PSC to provide guidance on what is a hyperinflationary economy because when this IPSAS was initially issued, there was no equivalent IPSAS on hyperinflationary economy. Staff have deleted these paragraphs to be consistent with the equivalent IAS.

~~53.—A hyperinflationary economy is one in which the loss of purchasing power of money is at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.~~

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*
IPSASB Oslo March 2005

~~54. Hyperinflation is indicated by characteristics of the economic environment of a country which include the following:~~

- ~~(a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;~~
- ~~(b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;~~
- ~~(c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;~~
- ~~(d) interest rates, wages and prices are linked to a price index; and~~
- ~~(e) the cumulative inflation rate over three years is approaching, or exceeds, 100%.~~

Disposal of a Foreign Operation~~Entity~~

~~55.~~ **55.**—On the disposal of a foreign ~~entity~~operation, the cumulative amount of the exchange differences ~~which have been deferred~~ in the separate component of net assets/equity and which relate to that foreign ~~entity~~operation ~~should~~shall be recognized ~~as in revenuesurplus or as expensesdeficit in the same period in which~~when the gain or loss on disposal is recognized.

~~56.~~ **56.**—An entity may dispose of its interest in a foreign ~~entity~~operation through sale, liquidation, repayment of contributed capital, or abandonment of all, or part of, that entity. The payment of a dividend ~~forms~~is part of a disposal only when it constitutes a return of the investment, for example when the dividend is paid out of pre-acquisition surplus. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences ~~is~~ included in the gain or loss. A write-down of the carrying amount of a foreign ~~entity~~operation 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 write-down.

~~Change in the Classification of a Foreign Operation~~

~~57. When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.~~

~~58. A change in the way in which a foreign operation is financed and operates in relation to the reporting entity may lead to a change in the classification of that foreign operation.~~

~~59. When a foreign operation that is integral to the operations of the reporting entity is reclassified as a foreign entity, exchange differences arising on the translation of non-monetary assets at the date of the reclassification are classified as net assets/equity. When a foreign entity is reclassified as a foreign operation that is integral to the operation of the reporting entity, the translated amounts for non-monetary items at the date of the change are treated as the historical cost for those items in the period of change and subsequent periods. Exchange differences which have been deferred are not recognized as revenue or expenses until the disposal of the operation.~~

~~All Changes in Foreign Exchange Rates~~

Tax Effects of Exchange Differences

~~58.~~ 60. For reporting entities subject to income taxes, guidance on the treatment of tax effects associated with the gains and losses on foreign currency transactions and exchange differences arising on ~~the translation of~~ the results and financial statements position of an entity (including foreign operations) into a different currency can be found in international or national accounting standards dealing with income taxes ~~International Accounting Standard IAS 12, *Income Taxes*.~~

Para amended as directed in Nov 04.

Disclosure

59. In paragraphs 61 and 63-65 references to 'functional currency' apply, in the case of an economic entity, to the functional currency of the controlling entity.

60. 61. The entity ~~should~~shall disclose:

- (a) the amount of exchange differences recognized in surplus or deficit included in the net surplus or deficit for the period ~~except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with international or national accounting standards that deal with the recognition and measurement of financial instruments;~~ and
- (b) net exchange differences classified as ~~in~~ a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period; ~~and~~
- (c) ~~the amount of exchange differences arising during the period which is included in the carrying amount of an asset in accordance with the allowed alternative treatment in paragraph 31.~~

In para 60 (a), reference to IAS 39 has been replaced with the agreed-upon words as directed in Nov 04.

61. 62. When the ~~reporting~~presentation currency is different from the functional currency of the country in which the entity is domiciled, the reason for using a different currency that fact shouldshall be disclosedstated, together with disclosure of the functional currency and the reason for using a different presentation currency.

The old para 62 has now been split into 2 paras.

62. When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for ~~any~~the change in functionalthe reporting currency ~~should also~~shall be disclosed.

~~63. When there is a change in the classification of a significant foreign operation, an entity should disclose:~~

~~(a) the nature of the change in classification;~~

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*

IPSASB Oslo March 2005

~~(b) — the reason for the change;~~

~~(c) — the impact of the change in classification on net assets/equity; and~~

~~(d) — the impact on net surplus or deficit for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.~~

~~64. — When goodwill and fair value adjustments arising on the acquisition of a foreign entity are recognized, an entity should disclose the method selected to translate those adjustments in accordance with paragraph 46.~~

~~65. — Disclosure is also encouraged of an entity's foreign currency risk management policy.~~

63. When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with International Public Sector Accounting Standards only if they comply with all the requirements of each applicable Standard including the translation method set out in paragraphs 43 and 47.

The requirements in paragraph 63 – 65 were also in the IASB's General Improvements ED. The requirements were incorporated from the former SIC-30, "Reporting Currency – Translation from Measurement Currency to Presentation Currency" when a different translation method is used or other supplementary information, such as an extract from the full financial statements, is displayed in a currency other than functional currency.

64. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 63. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with International Public Sector Accounting Standards and the disclosures set out in paragraph 65 are required.

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

65. When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 63 are not met, it shall:

- (a) clearly identify the information as supplementary information to distinguish it from the information that complies with International Public Sector Accounting Standards;**
- (b) disclose the currency in which the supplementary information is displayed; and**
- (c) disclose the entity's functional currency and the method of translation used to determine the supplementary information.**

Transitional Provisions

IASB made the transitional provision section part of the effective date section. Staff have not reflected that because it is not the IPSASB's usual style in its Standards.

66. This Standard requires entities to:

- (a) classify some translation differences as a separate component of equity; and**
- (b) on disposal of a foreign operation, to transfer the cumulative translation difference for that foreign operation to the statement of financial performance as part of the gain or loss on disposal.**

67. A reporting entity need not comply with the requirements for cumulative translation differences that existed at the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards. If a first-time adopter uses this exemption:

- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of first adoption to IPSASs; and**

(b) the gain and loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of first adoption to IPSASs, and shall include later translation differences.

As instructed in the Berlin meeting, paragraph 66 and 67 were added because IPSASs should include provisions in IFRS 1, “First-time Adoption of International Financial Reporting Standards” if it allows more generous relief to users.

Paragraph 67 differs from paragraph 22 of IFRS 1 because IFRS 1 allows an entity to treat the cumulative translation differences (CTD) as zero on the date of transition to IFRSs. IASB has defined ‘date of transition to IFRSs’ as “the beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statements”. However, IPSAS 1 allows entities to not present comparatives when it first adopts IPSASs.

~~66. On the first occasion that an entity applies this Standard, the entity should, except when the amount is not reasonably determinable, classify separately and disclose the cumulative balance, at the beginning of the period, of exchange differences deferred and classified as net assets/equity in previous periods.~~

In para 68 below, the IASB has provided a new transitional provision for entities that had previously adopted IASs/IFRS.

New
transitional
provision
introduced

68. An entity shall apply paragraph 55 prospectively to all acquisitions occurring after the beginning of the financial reporting period in which this International Public Sector Accounting Standard is first applied. Retrospective application of paragraph 55 to earlier acquisitions is permitted. For an acquisition of a foreign operation treated prospectively but which occurred before the date on which this Standard is first applied, the entity shall not restate prior years and accordingly may, when appropriate, treat goodwill and fair value adjustments arising on that acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity’s functional currency or are non-

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

Item 11.5 *Marked-up IPSASs 7, 8 and 4*

IPSASB Oslo March 2005

monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.

69. All other changes resulting from the application of this International Public Sector Accounting Standard shall be accounted for in accordance with the requirements of IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors”.

Effective Date

70. ~~67.~~—An entity shall apply ~~T~~this International Public Sector Accounting Standard ~~becomes effective~~ for annual ~~financial statements covering~~ periods beginning on or after ~~1 July 2001~~DD MM YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before DD MM YYYY, it shall disclose that fact

71. ~~68.~~—When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, 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 4 (issued 2000)

72. This Standard supersedes IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” issued in 2000.

This section, Amendments to Other Pronouncements, is new. Only the relevant paragraphs in IPSASs that were impacted as a result of proposals in this Standard are shown in mark-up.

Readers should note that the terms 'should' have been replaced with 'shall'.

Appendix

Amendments to Other Pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after DD MM YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

- A1. In IPSAS 2, "Cash Flow Statements", paragraphs 36 and 37 are amended to read as follows:

36. Cash flows arising from transactions in a foreign currency ~~should~~shall be recorded in an entity's ~~reporting~~functional currency by applying to the foreign currency amount the exchange rate between the ~~reporting~~functional currency and the foreign currency at the date of the cash flow.

37. The cash flows of a foreign controlled entity ~~should~~shall be translated at the exchange rates between the ~~reporting~~functional currency and the foreign currency at the dates of the cash flows.

- A2. IPSAS 10, "Financial Reporting in Hyperinflationary Economies" is amended as described below:

Paragraph 1 is amended to read as follows:

1. An entity which prepares and presents financial statements under the accrual basis of accounting ~~should~~shall apply this Standard to the ~~primary~~individual financial statements, including the consolidated financial statements, of any entity ~~that reports~~whose functional currency is ~~in~~ the currency of a hyperinflationary economy.

Paragraph 11 is amended to read as follows:

11. The financial statements of an entity ~~that reports~~whose functional currency is ~~in~~ the currency

of a hyperinflationary economy ~~should~~shall be stated in terms of the measuring unit current at the reporting date. The corresponding figures for the previous period required by International Public Sector Accounting Standard IPSAS 1, “Presentation of Financial Statements”, and any information in respect of earlier periods, ~~should~~shall also be stated in terms of the measuring unit current at the reporting date. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of International Public Sector Accounting Standard IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” apply.

Paragraph 20 is amended to read as follows:

20. A general price index may not be available for the periods for which the restatement of property, plant and equipment is required by this Standard. In these ~~rare~~ circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the ~~reporting~~functional currency and a relatively stable foreign currency.

Paragraph 26 is deleted.

Paragraph 33 is amended to read as follows:

33. Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” apply.

Paragraph 38 is amended to read as follows:

38. The following disclosures ~~should~~shall be made:

- (a) the fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the ~~reporting~~functional currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and

...

Comparison with IAS 21

International Public Sector Accounting Standard IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” is drawn primarily from International Accounting Standard IAS 21, “The Effects of Changes in Foreign Exchange Rates” (revised in 2003). The main differences between IPSAS 4 and IAS 21 are as follows:

- Commentary additional to that in IAS 21 has been included in IPSAS 4 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 4 uses different terminology, in certain instances, from IAS 21. The most significant examples are the use of the terms “entity”, “revenue”, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 4. The equivalent terms in IAS 21 are “enterprise”, “income”, “income statement”, “balance sheet” and “equity”.
- IPSAS 4 contains a different set of definitions of technical terms from IAS 21 (paragraph 910).
- ~~IPSAS 4 paragraph 31 requires exchange differences arising from a severe devaluation or depreciation of a currency under certain circumstances to be capitalized in the related asset. IAS 21 contains the additional requirement that such capitalization cannot exceed the lower of the replacement cost and recoverable amount of the asset. The Committee intends to address this issue in a future Standard on impairment.~~
- IPSAS 4 contains an additional transitional provision allowing an entity, when first adopting IPSASs to deem cumulative translation differences existing at the date of first adoption of IPSASs as zero. (paragraph 67) This transitional provision is adapted from IFRS 1, “First-time Adoption of International Financial Reporting Standards”.

Former para 31 was deleted as the PSC has addressed issues on hyperinflation & impairment.



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor Tel: (212) 286-9344
New York, New York 10017 Fax: (212) 286-9570
Internet: <http://www.ifac.org>

DATE: 7 FEBRUARY 2005
MEMO TO: MEMBERS OF IFAC IPSASB
FROM: LI LI LIAN
SUBJECT: **STATUS OF IASB PROJECTS AS AT MID-FEBRUARY 2005**

ACTION REQUIRED

The Board is asked to **note** the update on the IASB work program.

BACKGROUND

This memorandum provides an update of the developments in the IASB's work program since the PSC's meeting in New York in November 2004. The information contained in this update is drawn from IASB Updates (October 2004 – January 2005) and a review of the IASB web site www.iasb.org as at February 7, 2005.

This update does not provide an IASB timetable as the IASB no longer publishes a timetable of when its documents are anticipated to be issued.

Some of the projects on the work program of the IASB have not been dealt with in this memo because they appear less relevant to the public sector. Staff have also identified the Interpretations that have been issued and those that the IFRIC intends to issue during the first half of 2005. The issues currently being discussed by IFRIC are identified in Appendix 1. An update on IFRIC's progress on service concession arrangements is in agenda items 11B (second distribution).

DOCUMENTS ISSUED RECENTLY

Documents issued by the IASB and IFRIC since the last meeting are:

| | Date of Issue | Document |
|---|----------------------|---|
| 1 | 11 Nov 2004 | IFRIC Amendment to the scope of Interpretation SIC-12, "Consolidation—Special Purpose Entities" |
| 2 | 25 Nov 04 | IFRIC 2, "Members' Shares in Co-operative Entities and Similar Instruments" |
| 3 | 25 Nov 04 | IFRIC Draft Interpretation D10, "Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment" (comment period closed 11 February 2005) |
| 4 | 2 Dec 04 | IFRIC 3, "Emission Rights" |
| 5 | 2 Dec 04 | IFRIC 4, "Determining whether an Arrangement contains a Lease" |
| 6 | 9 Dec 04 | IFRS 6, "Exploration For and Evaluation of Mineral Reserves" |

| | Date of Issue | Document |
|----|----------------------|---|
| 7 | 16 Dec 04 | IFRIC: Draft Interpretation D11 <i>Changes in Contributions to Employee Share Purchase Plans</i> (comment period closes 1 March 05) |
| 8 | 16 Dec 04 | IFRIC 5 <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i> |
| 9 | 16 Dec 04 | IASB: Amendment to IAS 19 <i>Employee Benefits</i> |
| 10 | 17 Dec 04 | IASB: IFRSs amending IAS 39 dealing with initial recognition of financial assets and financial liabilities |

DOCUMENTS ANTICIPATED TO BE ISSUED IN 1ST HALF OF 2005

Documents anticipated to be issued by the IASB and IFRIC in the first half of 2005 are:

| | Document |
|----|--|
| 1 | IASB: IFRS to amend IAS 39 on cash flow hedge accounting of forecast intragroup transactions |
| 2 | IASB: IFRS to amend IFRS 4, “Insurance Contracts” and IAS 39 on financial guarantee contracts and credit insurance |
| 3 | IASB: ED to amend IAS 37, “Provisions, Contingent Liabilities and Contingent Assets” |
| 4 | IASB: ED to amend IAS 19, “Employee Benefits” |
| 5 | IASB: ED to amend IAS 20, “Government Grants and Disclosure of Government Assistance” |
| 6 | IASB: ED to amend IAS 12, “Income Taxes “ |
| 7 | IASB: ED on application of the purchase method (Business Combinations Phase II) |
| 8 | IASB: ED to amend IAS 27, “Consolidated and Separate Financial Statements” |
| 9 | IFRIC: 3 Draft Interpretations on service concession arrangements |
| 10 | IFRIC: Draft Interpretation on whether it is necessary to demonstrate that an entity has received goods and services for an issue of equity instruments for it to be within the scope of IFRS 2, “Share-based Payment” |
| 11 | IFRIC: Draft Interpretation on treasury share transactions and group transactions that are related to share-based payments (IFRS 2) |

TECHNICAL PROJECTS

(i) Provisions, Contingent Liabilities and Contingent Assets

The PSC issued IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” based on IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”. The IASB intends to amend IAS 37 and it may have implications for IPSAS 19 and the IPSASB’s discussion of the social policy obligations project. The IASB reviewed the first draft of the ED amending IAS 37 and decided to:

- withdraw paragraphs 48 and 49 of IAS 37, because they conflict with the requirement to measure certain obligations by considering the expected value of the cash flows associated with the conditional obligation.
- amend the measurement section of IAS 37 to clarify (i) that a provision should be measured, both initially and subsequently, at the amount that an entity would rationally pay to settle or to transfer the present obligation on the balance sheet date and (ii) that the measurement should reflect a current discount rate.
- amend paragraph 54 of IAS 37 (which deals with reimbursements) to clarify that a right to reimbursement should be recognized separately as an asset and should not be offset against the related provision.

Staff anticipates the IASB issuing the ED amending IAS 37 in the first half of 2005.

(ii) Revenue – Framework and IAS 18, “Revenue”

The PSC issued IPSAS 9, “Revenue from Exchange Transactions” based on IAS 18, “Revenue”. It also issued an Invitation to Comment (ITC), “Revenue from Non-exchange Transactions (including Taxes and Transfers)”. The IASB and the USA’s Financial Accounting Standards Board (FASB) are working together on the revenue project. Their discussion on this issue may have implications for IPSAS 9 and may impact the IPSASB’s consideration on non-exchange revenue. A discussion paper is anticipated to be issued this year to seek public comment on proposed concepts and principles before developing EDs of amendments the “Framework for the Preparation and Presentation of Financial Statements” and IAS 18.

The IASB continued its discussion on the issues that will be addressed in the Discussion Paper. The IASB discussed whether, in concept, revenue might arise at contract generation (ie when the contract has been authorized by all relevant parties) in fully prepaid contracts and, if so, the conceptual reliability threshold that should apply to recognition of that revenue. The IASB tentatively decided that:

- in the context of fully prepaid contracts, an increase in net assets that occurs at contract generation gives rise to revenue that should be recognized if it can be measured reliably. The selection of a measurement attribute for performance obligations determines whether an increase in net assets has occurred at contract generation, and that the IASB has yet to determine what that measurement attribute should be; or
- the reliability threshold for estimates affecting revenue should be the same as the reliability threshold for other estimates affecting profits.

The IASB will next discuss the revenue recognition issue for partially prepaid contracts.

(iii) Consolidation

The PSC issued IPSAS 6, “Consolidated Financial Statements and Accounting for Controlled Entities” based on IAS 27, “Consolidated Financial Statements and Accounting for Controlled Entities”. The IASB’s discussion on this issue may have implications for IPSAS 6.

The IASB recently announced that it was nearing the end of its deliberations on how the concept of control would be applied generally (ie for entities other than special purpose entities (SPEs)). The IASB plans to publish an ED of proposed amendments to IAS 27 based on the developments in this project by mid-2005. However, the IASB also noted that the publication of the ED will not proceed until it had considered the likelihood that the control model developed in this project would be adapted and applied to SPEs.

The IASB also discussed an issue that arose as a consequence of a previous tentative decision that an investor’s potential voting rights are relevant in assessing whether the investor controls the investee. For example, if Entity A has 100% ownership interest in Entity B, but Entity C holds currently exercisable options over all of the equity instruments in Entity B, then Entity C rather than Entity A would, in the absence of other factors, control Entity B. No decisions made so far on this issue.

(iv) Financial Instruments

IPSAS 15, “Financial Instruments: Disclosure and Presentation” was issued in December 2001. It was based on IAS 32, “Financial Instruments: Disclosure and Presentation”. The IASB’s discussion on the issues mentioned below may have implications for IPSAS 15. The IPSASB’s work plan includes a discussion of the strategy related to financial instruments in 2007.

The IASB reviewed the issues raised by comment letters responding to ED 7, “Financial Instruments: Disclosures”. As noted in previous IASB Updates, ED 7 proposes to replace IAS 30, “Disclosures in the Financial Statements of Banks and Similar Financial Institutions”. Unlike IAS 30, the proposed requirements in ED 7 will apply to all entities that have financial instruments. The proposals in this ED will impact IAS 32, “Financial Instruments: Presentation and Disclosure” (equivalent IPSAS 15) because ED 7 proposes to locate all the disclosure requirements from IAS 32 into the future IFRS ED 7. The IASB also tentatively decided to require certain capital disclosures (eg disclosure on how an entity manages its capital, and qualitative information about the entity’s objectives, policies and processes for managing capital) that were proposed in ED 7 be moved to IAS 1, “Presentation of Financial Statements”. This means that IAS 1 is likely be amended to require disclosure about capital.

There is no further update on the IASB’s working group on financial instruments as the working group will first meet in late March 2005. As noted in previous IASB Updates, the IASB’s working group’s role is to help the IASB analyze accounting issues relating to financial instruments, particularly on IAS 39, “Financial Instruments: Recognition and Measurement”. The working group will focus on improving, simplifying and ultimately replacing IAS 39, and will examine broader questions of the application and extent of fair value accounting—a topic on which the IASB has not reached any conclusion.

(vi) IAS 20, “Government Grants and Disclosure of Government Assistance”

The PSC issued an ITC on non-exchange revenue (which includes taxes and grants) in January 2004. The IASB’s discussion on this IAS may impact the IPSASB’s consideration on non-exchange revenue. The IASB had previously decided to amend IAS 20 by applying the accounting model for government grants contained in IAS 41, “Agriculture” to all government grants. Staff anticipates that the ED amending IAS 20 will be issued in the first half of 2005. There is no further update on this project as the IASB has not further discussed or reviewed this project since the last PSC meeting.

(vi) Performance Reporting

The Performance Reporting Project falls within both the IPSASB’s second priority to converge IPSASs with IFRSs and third priority to converge IPSASs with statistical bases of reporting.

The IASB and the Financial Accounting Standards Board, USA (FASB) are jointly working on the performance reporting project. The first step of this project is the issuance of two public discussion documents this year. Both the IASB and FASB are coordinating the timing of their deliberations of the issues within the joint project, but they are individually deliberating and voting on those issues. Although both Boards previously conducted projects on performance reporting independently, they are looking at this project with a fresh start.

Unlike the previous IASB project that mainly focused on the income statement, the new performance reporting project will deal with all the financial statements within the suite of general purpose financial statements: balance sheet, income statement, cash flows statement, statement of changes in equity and the notes to the financial statements. Consequently, both Boards are now considering a new name for the project to reflect the new scope of the project.

The objective of the project is to establish standards for the presentation of information in financial statements that would improve the usefulness of that information in assessing the financial performance of a business entity. The project will focus on form and content, classification and aggregation, and display of specified items and summarized amounts on the face of the required financial statements (for both interim and annual periods). That includes determining whether to require the display of certain items determined to be key measures or necessary for the calculation of key measures. The project is not addressing other forms of performance reporting outside of financial statements, such as in management discussion and analysis (MD&A) in regulatory filings or the reporting of so-called pro-forma earnings in press releases or other communications. It also does not address disclosures about an entity’s segments or matters of recognition or measurement of items in financial statements.

To assist both Boards, a working group (also known as the Joint International Group, JIG) was formed. The working group will act as a resource in identifying the issues to be considered and as a sounding board in developing proposed solutions. There are 24 members in the working group. It had its first meeting on 13 and 14 January 2005. The discussion in that meeting included:

- the relevance of the following financial statements:
 - a balance sheet (also referred to as statement of financial position);
 - a cash flow statement; and

- and separate statements showing the changes to assets and liabilities for a period of time that differentiates between transactions with owners in their capacity as owners and non-owners;
- the prominence of the financial statements mentioned above;
- the costs and benefits that may arise from requiring different comparative periods than those already required;
- the types of presentation currently allowed for the cash flow statement;
- the meaning of ‘performance’ and how it can be defined; and
- the notion of ‘recycling’ items and, the basis for determining the types of transactions and events that should be recycled and when recycling should occur.

(vii) Business Combinations

The former IAS 22, “Business Combinations” (now replaced by IFRS 3, “Business Combinations”) was part of the first phase of the Standards Program to develop an equivalent IPSAS. Consideration of IAS 22 by the IPSASB was deferred until the IASB had completed its review on business combinations. It has been further deferred pending more resources allocated to the IFRS convergence program.

The IASB continued its deliberations on the development of an ED emanating from Phase II of the Business Combinations project. Phase II deals with the application of the acquisition method procedures (previously known as purchase method) and is a joint project with FASB. Consequently, the working principles in IASB’s ED on acquisition method will be broadly similar to FASB’s ED but with certain exceptions due: (i) to differing decisions reached by both Boards in phase I in their individual business combinations standards; and (ii) ‘inherited’ differences that originate from other Standards. (Both FASB and IASB developed separate phase I projects that led to Statement of Financial Accounting Standards SFAS 141, “Business Combinations” and IFRS 3, “Business Combinations”). Recent tentative decisions made by the IASB are to:

- converge the definition of business combination with the FASB’s definition;
- include guidance identifying the acquirer of a business combinations in IFRS 3 to converge with SFAS 141;
- amend the definition of goodwill in IFRS 3 as follows: “Goodwill is future economic benefits arising from assets that are ~~not capable of being~~ individually identified and separately recognised”; and
- incorporate guidance in two FASB’s Emerging Issues Task Force (EITF) Issues into the forthcoming ED on acquisition method procedures

The ED is anticipated to be issued by mid-2005.

Other issues that the IASB will consider in forthcoming phases of the Business Combinations project are:

- accounting for business combinations in which separate entities or operations of entities are brought together to form a joint venture; and
- possible applications for ‘fresh start’ accounting. ‘Fresh-start’ accounting derives from the view that a new entity emerges as a result of a business combination.

OTHER MATTERS

The IASB and the Accounting Standards Board of Japan (ASBJ) announced their agreement to launch a joint project to reduce differences between International Financial Reporting Standards

(IFRSs) and Japanese accounting standards. Phase 1 of this project is the first step towards the final goal of convergence of their standards. Both Boards believe that this effort will promote further international convergence to high quality accounting standards and will contribute to the development of global capital markets. For further information, please refer to the press releases from the IASB or the ASBJ.

Li Li Lian
TECHNICAL MANAGER

Appendix 1: IFRIC Update

IFRICs Issued

1. IFRIC 1, “Changes in Existing Decommissioning, Restoration and Similar Liabilities” issued in May 2004
2. IFRIC 2, “Members’ Shares in Co-operative Entities and Similar Instruments”
3. IFRIC 3, “Emission Rights”
4. IFRIC 4, “Determining whether an Arrangement contains a Lease”
5. IFRIC 5, “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”
6. IFRIC, “Amendment to SIC-12 Consolidation – Special Purpose Entities”

Draft Interpretations Issued – comment period closed

1. D1, “Emission Rights” (issued in May 2003, comment period closed on 14 July 2003)
2. D5, “Applying IAS 29 Financial Reporting in Hyperinflationary Economies for the First time” (issued on 11 March 2004, comment period closed on 14 May 2004)
3. D6, “Multi-employer Plans” (issued on 6 May 2004, comment period due on 9 July 2004)
4. D9, “Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions” (issued 8 July 04, comment period closed 30 September 2004)
5. D10, “Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment” (issued 25 November 2004, comment period due on 11 February 2005)

Draft Interpretations Issued – comment period outstanding

1. D11, “Changes in Contributions to Employee Share Purchase Plans” (issued on 16 December 2004, comment period due on 1 March 2005)

Other issues currently being considered by IFRIC

1. Service Concession Arrangements – in respect to IAS 1, “Presentation Financial Statements”, IAS 16, “Property, Plant and Equipment”, IAS 17, “Leases”, IAS 18, “Revenue”, IAS 39, “Financial Instruments: Recognition and Measurement” and SIC-29, “Disclosure – Service Concession Arrangements”
2. Sale and leasebacks with repurchase agreements – in respect to IAS 17, “Leases”
3. Money purchase plans with minimum guarantee – in respect to IAS 19, “Employee Benefits”
4. Construction contracts: combining and segmenting contracts – in respect of IAS 11, “Construction Contracts”
5. Share-based payments transactions – in respect to IFRS 2, “Share-based payment”