

**DRAFT PROJECT BRIEF:**

**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS,  
ASSOCIATES AND JOINT ARRANGEMENTS  
(REVISION OF IPSASs 6–8)**

**Objective of this Memo**

- To **approve** the draft Project Brief on *Consolidated and Separate Financial Statements, Associates and Joint Arrangements* (Revision of IPSASs 6–8).

**Background**

1. At the IPSASB's April 2010 meeting (Agenda Item 5—Discuss 2010–2013 Work Plan), the IPSASB agreed to add the revision of IPSASs 6–8 to the entity combinations project so that the project could commence as soon as the IASB's projects on the underlying IFRSs were completed. The IASB completed these projects in May 2011 with the issue of:
  - (a) IFRS 10, *Consolidated Financial Statements*;
  - (b) IFRS 11, *Joint Arrangements*;
  - (c) IFRS 12, *Disclosure of Interests in Other Entities*;
  - (d) IAS 27 (revised 2011), *Separate Financial Statements*; and
  - (e) IAS 28 (revised 2011), *Investments in Associates and Joint Ventures*.
2. The IASB has issued these standards as a “package of five,” with effective dates for annual periods beginning on or after January 1, 2013. Earlier application permitted so long as each of the other standards in the package of five is also early applied. Appendix A sets out a diagram giving an overview of the scope of the project.

**Purpose of this Memo**

3. The purpose of this memo is to outline:
  - (a) The significant changes related to the IASB's issue of the “package of five” standards; and
  - (b) The significant changes made in the underlying IFRS which have not yet been considered by the IPSASB. A complete list of all amendments made is listed in the Tracking Table (Agenda Paper 7.4).
4. The IPSASB's objective for standards based upon IFRSs is to maintain alignment with the underlying IFRSs. Therefore all proposed changes will be subject to a “rules of the road” analysis.

*IPSAS 6, Consolidated and Separate Financial Statements*

5. IPSAS 6, *Consolidated and Separate Financial Statements* is based upon the December 2003 version of IAS 27, *Consolidated and Separate Financial Statements*. Subsequent to this version of IAS 27, the IASB issued a revised IAS 27 in January 2008. IAS 27 has also been subject to consequential amendments resulting from other projects.
6. Table 1 below sets out the significant changes made to IAS 27 after December 2003 and before the issue of IFRS 10 and IAS 27 (revised 2011) which have not yet been considered by the IPSASB.

*Table 1: Significant Changes to IAS 27 between January 2004 and April 2011 not reflected in IPSAS 6*

<i>Standard</i>	<i>Subject of Amendment</i>
IFRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i> (issued March 2004)	<ul style="list-style-type: none"> <li>Removal of exemption from consolidation for subsidiaries where control is intended to be “temporary” and new guidance (in IFRS 5) for subsidiaries classified as held for sale</li> </ul>
IAS 27, <i>Consolidated and Separate Financial Statements</i> (revised January 2008)	<ul style="list-style-type: none"> <li>Change of terminology from “minority” interest to “non-controlling” interest and inclusion of additional guidance relating to non-controlling interests</li> </ul>
	<ul style="list-style-type: none"> <li>Inclusion of additional guidance relating to loss of control of a subsidiary</li> </ul>
<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> (Amendments to IFRS 1 and IAS 27) (May 2008)	<ul style="list-style-type: none"> <li>Change in the accounting treatment of dividends received from a subsidiary, jointly controlled entity or associate in profit or loss in its separate financial statements from recognition of revenue only from accumulated profits of the investee arising after the date of acquisition to recognition in profit or loss</li> </ul>

7. IFRS 10 covers only consolidated financial statements. Significant changes include:
  - (a) The definition of control includes three elements: power over an investee, exposure or rights to variable returns of the investee and the ability to use power over the investee to affect the investor’s returns.

- (b) Detailed guidance on how to apply the control principle in a number of situations;
  - (c) Reassessment of control over an investee if there is a change in facts and circumstances; and
  - (d) Relocates disclosures to a separate standard (IFRS 12).
8. IAS 27 (revised 2011) now covers only separate financial statements. The requirements relating to separate financial statements have not changed although there are some wording changes to improve clarity.

### **IPSAS 7, *Investments in Associates***

9. IPSAS 7, *Investments in Associates* is based upon the December 2003 version of IAS 28, *Investments in Associates*. IAS 28 has been subject to consequential amendments resulting from other projects. Significant amendments which have not yet been considered by the IPSASB are set out below in Table 2.

*Table 2: Significant Changes to IAS 28 between January 2004 and April 2011 not reflected in IPSAS 7*

<i>Standard</i>	<i>Subject of Amendment</i>
IFRS 5 (issued March 2004)	<ul style="list-style-type: none"><li>• New guidance (in IFRS 5) relating to an investment in an associate being classified as held for sale</li></ul>
IAS 27 (revised January 2008)	<ul style="list-style-type: none"><li>• Inclusion of additional guidance relating to loss of significant influence over an associate</li></ul>

10. The revision of IAS 28 in May 2011 makes the following significant changes:
- (a) Inclusion of joint ventures in its scope; and
  - (b) Relocates disclosures to a separate standard (IFRS 12).

### **IPSAS 8, *Interests in Joint Ventures***

11. IPSAS 8, *Interests in Joint Ventures* is based upon the December 2003 version of IAS 31, *Interests in Joint Ventures*. IAS 31 has been subject to consequential amendments resulting from other projects. Significant amendments which have not yet been considered by the IPSASB are set out below in Table 3.

*Table 3: Significant Changes to IAS 31 between January 2004 and April 2011 not reflected in IPSAS 8*

<i>Standard</i>	<i>Subject of Amendment</i>
IFRS 5 (issued March 2004)	<ul style="list-style-type: none"><li>• New guidance (in IFRS 5) relating to an interest in joint venture being classified as held for sale</li></ul>

IAS 27 (revised January 2008)	<ul style="list-style-type: none"><li>• Inclusion of additional guidance relating to loss of joint control over a joint venture</li></ul>
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12. The issue of IFRS 11 in May 2011 makes the following significant changes:
- (a) Classifies joint arrangements as either joint operations (combining the existing categories of jointly controlled assets and jointly controlled operations), and joint ventures (equivalent to the existing category of jointly controlled entity);
  - (b) Requires the use of the equity method of accounting for interests in joint ventures and thereby eliminating the proportionate consolidation method; and
  - (c) Relocates disclosures to a separate standard (IFRS 12).

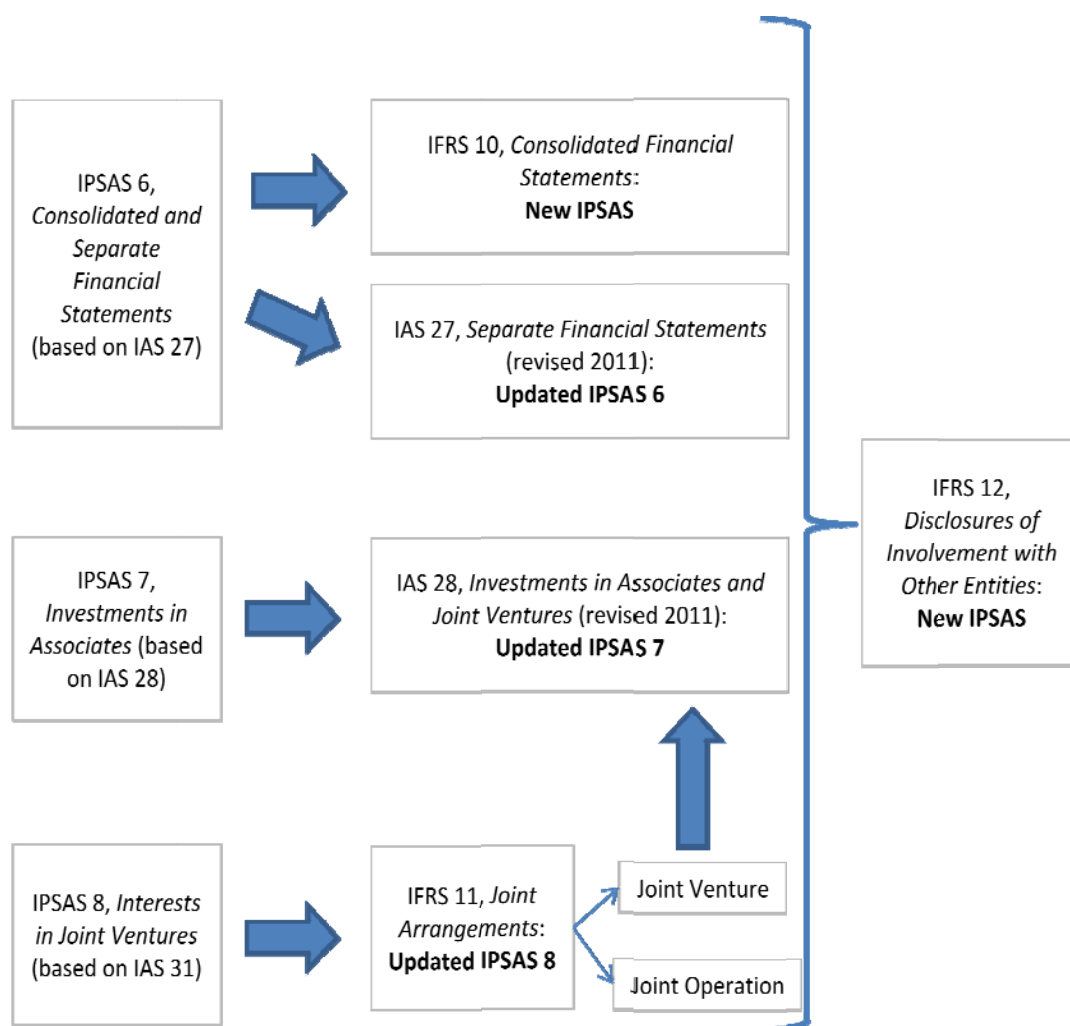
*Next Steps*

13. Once the Project Brief has been approved, this project will be shown as a separate item in the Work Plan.

*Question 1 for the IPSASB:*

Do you approve the Project Brief, *Consolidated and Separate Financial Statements, Associates and Joint Arrangements* (Revision of IPSASs 6–8)?

Appendix A: Diagram of Relationship between IPSASs 6–8 and New and Revised IFRSs





## INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

### PROJECT BRIEF AND OUTLINE

- 1. Subject—Consolidated and Separate Financial Statements, Associates and Joint Arrangements (Revision of IPSASs 6–8)**
  - 1.1 In May 2011, the IASB issued the following standards for which the IPSASB has equivalent standards:
    - 1.2.1 IFRS 10, *Consolidated Financial Statements*;
    - 1.2.2 IFRS 11, *Joint Arrangements*;
    - 1.2.3 IFRS 12, *Disclosure of Interests in Other Entities*;
    - 1.2.4 IAS 27 (revised 2011), *Separate Financial Statements*; and
    - 1.2.5 IAS 28 (revised 2011), *Investments in Associates and Joint Ventures*.
  - 1.2 The IASB has issued these as a “package of five,” with effective dates for annual periods beginning on or after January 1, 2013. Earlier application permitted so long as each of the other standards in the package of five is also early applied.
  - 1.3 To maintain alignment with IFRSs, this project will:
    - 1.3.1 Update IPSAS 6, *Consolidated and Separate Financial Statements* and relocate guidance relating to consolidated financial statements in a separate standard;
    - 1.3.2 Update IPSAS 7, *Investments in Associates*;
    - 1.3.3 Update IPSAS 8, *Interests in Joint Ventures*; and
    - 1.3.4 Locate all disclosures relating to interests in other entities in a separate standard.
- 2. Project Rationale and Objectives**
  - 2.1 One of the objectives of the IPSASB is to maintain alignment with IFRSs for its standards that are based on an underlying IFRS. The issue of new and revised underlying standards by the IASB means that is an appropriate time to revise the relevant IPSASs.
    - (a) **Issues Identified**
  - 2.2 Should the temporary control exemption from consolidation in IPSAS 6 be retained?
  - 2.3 Should the scope of the project include consideration of whether the term control should continue to be used?

- 2.4 Should the scope of the project include consideration of whether all controlled entities should be consolidated?

**(b) Objectives to be achieved**

- 2.5 The ultimate objective of the project is to revise IPSASs 6–8 and issue a separate IPSAS on consolidated financial statements and a new IPSAS on disclosure of interests in other entities.

**(c) Link to IFAC and IPSASB Strategic Plans**

- i. Link to IPSASB Strategy*
- 2.6 One of the IPSASB's strategic priorities for the period 2010–2012 is public sector critical projects which could be either public sector specific or IASB convergence projects. The revision of IPSASs 6–8 is an IASB convergence project to maintain alignment with IFRSs.
- ii. Link to IFAC Strategic Plan*
- 2.7 The IFAC Strategic Plan for 2011–2014 includes a strategy on IFAC's commitment to the development, adoption and implementation of international standards, including those for the public sector. Revising IPSASs 6–8 supports this strategy by further developing these standards.

**3. Outline of the Project**

**(a) Project Scope**

- 3.1 The scope of this project is to:
- 3.1.1 Update IPSAS 6 and relocate guidance into a new standard to reflect the IASB's issue of IFRS 10 and IAS 27 (revised 2011);
  - 3.1.2 Update IPSAS 7 to reflect the IASB's issue of IAS 28 (revised 2011);
  - 3.1.3 Update IPSAS 8 to reflect the IASB's issue of IFRS 11; and
  - 3.1.4 Develop a new standard to locate all disclosures related to interests in other entities to reflect the IASB's issue of IFRS 12.

**(b) Major Problems and Key Issues that should be addressed**

- 3.2 In addition to the Key Issues set out below, a "rules of the road" analysis will be undertaken on the proposed changes to help determine whether the changes need to be adapted to apply in the public sector. That process may identify further key issues.

*Key Issue #1—Should the temporary control exemption from consolidation in IPSAS 6 be retained?*

- 3.3 IPSAS 6 requires that a controlled entity be excluded from the consolidated financial statements where there is evidence that (a) control is intended to be

temporary because the controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer (the “temporary control” exemption).

- 3.4 This exemption was removed from IAS 27 with the issue of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* in March 2004. IFRS 5 also includes requirements where a subsidiary is classified as held for sale. It is unclear as to whether or not there is a public sector specific reason for retention of the temporary control exemption in IPSAS 6 or whether there is a need for a standard based on IFRS 5.

*Key Issue #2—Should the scope of the project include consideration of whether the term control should continue to be used?*

- 3.5 IPSAS 6 uses control as the basis for determining which entities are consolidated. A key issue will be to determine whether the project should include consideration of whether the term control should continue to be used. This is an issue because (a) Phase 1 of the IPSASB’s Conceptual Framework project does not use the term control when referring to which entities to include in the group reporting entity and (b) IFRS 10 includes a significant amount of guidance on the assessment of control.

*Key Issue #3—Should the scope of the project include consideration of whether all controlled entities should be consolidated?*

- 3.6 IPSAS 6 requires all controlled entities to be consolidated unless the temporary control exemption applies. A key issue will be to determine whether the project should include consideration of whether all controlled entities should be consolidated. This is an issue because of the interaction with Key Issue 1 above relating to the temporary control exemption and the proposed project on Government Business Enterprises (GBEs) which may consider how GBEs should be included in consolidated financial statements (see Agenda Paper 7.1.4).

#### **4. Describe the Implications for any Specific Persons or Groups**

##### **(a) Relationship to IASB**

- 4.1 This project is based upon IFRSs. The IASB is expected to issue an Exposure Draft (ED) in mid-2011 proposing amendments to IFRS 11. The ED will propose a definition for investment entities. For those entities that meet the definition, they will be required to measure investments in entities that they control at fair value, with changes in fair value recognized in profit or loss rather than consolidating these investments.

##### **(b) Relationship to Other Standards, Projects in Process or Planned**

- 4.2 The issue of the package of five standards includes consequential amendments to a number of other standards. These consequential amendments will be considered as a part of this project. Apart from these amendments, there do not appear to be implications for other IPSASs. As the project develops, potential implications



may be identified and will be dealt with as they arise. Projects being undertaken by the IASB and IFRIC will also be monitored as the project develops.

## **5. Development Process, Project Timetable and Project Output**

### **(a) Development Process**

- 5.1 The development of outputs will be subject to the IPSASB's formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

### **(b) Project timetable**

<b>Major Project Milestones</b>	<b>Expected Completion</b>
Approve Project Brief	June 2011
Discussion of issues and development of Exposure Drafts (EDs) (July–June 2012)	
Approve EDs (4 month comment period)	June 2012
Review of responses to EDs and development of IPSASs	
Approve Final IPSASs	2013

### **(c) Project output**

- 5.2 The initial output will be Exposure Drafts. The ultimate output will be revised and new IPSASs.

## **6. Resources Required**

### **(a) Task Force/Subcommittee**

- 6.1 A Task Based Group will assist in exploring the issues.

### **(b) Staff**

- 6.2 It is envisaged that 0.5 Full Time Equivalent (FTE) will be required to resource the project.

### **(c) Factors that might add to complexity and length**

- 6.3 Factors that might add to the complexity and length of the project include:
- 6.3.1 The interaction between this project and the proposed project on GBEs.
  - 6.3.2 The interaction between this project and the development of the Conceptual Framework.

**7. Important Sources of Information that Address the Matter being Proposed**

7.1 Potential sources of information regarding entity combinations include:

7.1.1 IFRSs 10–12 and revised IAS 27 and IAS 28.

7.1.2 The IASB's project on Investment Entities.