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Agenda Item 6

Date: August 19, 2011
Memo to: Members of the IPSASB
From: Annette Davis
Subject: Revision of IPSASs 6–8

Objective of this Session

- To **discuss** and **provide directions** on whether the temporary control exemption in IPSAS 6, *Consolidated and Separate Financial Statements* be retained, including whether a project to develop an IPSAS based on IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* should commence.
- To **note** revised Project Brief.

Agenda Material

6.1 Issues Paper

6.2 Revised Project Brief – Clean

6.3 Revised Project Brief – Marked-up

Background

1. The IPSASB approved the Project Brief, *Consolidated and Separate Financial Statements, Associates and Joint Arrangements* (Revision of IPSASs 6–8) at its June 2011 meeting. This project will revise IPSASs 6–8 for the IASB's 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. Appendix A includes an extract of the draft minutes from the June 2011 meeting relating to the revision of IPSASs 6–8.

Updated Project Brief

3. At the June 2011 meeting, Members made suggestions to improve the Project Brief. Staff has updated the Project Brief for these comments and it is shown in Agenda Paper 6.2.

4. One suggestion relates to adding another Key Issue on a comparison between IPSASs 6–8 and Government Finance Statistics (GFS). Staff has included this issue in section 4 which describes the implications for any specific persons or groups because of the interaction between this project and the project on *Alignment of IPSASs and Public Sector Statistical Reporting Requirements*.

Appendix A: Extract from draft Minutes from the IPSASB's June 2011 Meeting

Draft Project Brief: Revision of IPSASs 6–8

The IPSASB considered a draft Project Brief on the revision of IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interests in Joint Ventures*. Members and TAs made the following comments.

- Add another Key Issue (KI#4) on structured entities, in particular that a controlling entity may not necessarily 'direct the activities of' a controlled entity.
- Government Finance Statistics (GFS) is different from IPSASs in this area and a Key Issue should be added to compare the differences. It was noted that perhaps it should be Key Issue 1.
- Key Issue 2 relates to whether the term 'control' should continue to be used because Phase 1 of the IPSASB's Conceptual Framework project does not use this term when referring to which entities to include in a group reporting entity. There were differing views as to whether the term control should be used, so the IPSASB agreed that this Key Issue should be not be changed.
- Key Issue 2 also needs redrafting as it is not only the use of the term control that needs to be considered, but also that the definition of control has been redefined.

The staff will update the draft Project Brief for these comments.

The IPSASB approved the Project Brief for issuance.

The results of the vote were: **In Favor 16; Against 1; Abstain 0; Absent 1**. The voting details of the approval are at Appendix 2, item 12.1.

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

Objective of this Memo

- To **discuss** and **provide directions** on whether the temporary control exemption in IPSAS 6, *Consolidated and Separate Financial Statements* be retained, including whether a project to develop an IPSAS based on IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* should commence.

Purpose of this Issues Paper

1. The purpose of this memo is to explore Key Issue 1 of the Project Brief on the Revision of IPSASs 6–8. Key Issue 1 relates to whether the temporary control exemption from consolidation in IPSAS 6 should be retained.

Should the Temporary Control Exemption from Consolidation in IPSAS 6 be retained?

2. IPSAS 6 requires a controlled entity to 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)[1].

3. IPSAS 6 is based on IAS 27, *Consolidated and Separate Financial Statements*. The temporary control 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 includes requirements where a subsidiary is classified as held for sale.

4. The IPSASB has not previously considered this change in the underlying IFRSs for application to public sector entities. IFRS 5 has a wider scope than the temporary control exemption in IPSAS 6, but the Issues Paper focuses on this aspect of IFRS 5 as it is this issue that affects the revision of IPSASs 6–8.

Overview of IFRS 5 and the Held for Sale Classification

5. IFRS 5 was the first standard to be issued under the IASB's joint convergence project with the US FASB. IFRS 5 requires assets and groups of assets and liabilities (disposal groups) that are expected to be sold and meet specific criteria to be measured at the lower of carrying amount and fair value less costs to sell. Such assets should not be depreciated and should be presented separately in the balance sheet. It also requires operations that form a major line of business or area of geographical operations to be classified as discontinued when the assets in the operations are classified as held for sale. IFRS 5 does not cover assets or

[1] See Appendix A for the relevant paragraphs from IPSAS 6.

disposal groups that are being disposed of by methods other than sale, e.g., assets that are abandoned or scrapped.

6. The classification of non-current assets to be disposed of as held for sale applies where the carrying value of an asset or disposal group will be recovered primarily through sale rather than through continuing use[2]. IFRS 5 includes two criteria that must be met before an asset or disposal group can be classified as held for sale, (1) it must be available for immediate sale in its present condition, allowing for terms that are usual or customary for such assets or disposal groups, and (2) its sale must be highly probable. IFRS 5 includes further guidance on these criteria.

7. On finalizing IFRS 5, the IASB concluded that providing information on assets and disposal groups that are held for sale is of benefit to users of financial statements. The IASB considers this information should assist users in assessing the timing, amount and uncertainty of future cash flows[3]. The criteria for the classification as held for sale are tightly drawn and the IASB considers these criteria as being significantly more objective than an entity just specifying an intention to sell. The IASB believes that the strict criteria help to achieve comparability of classification between entities[4].

8. IFRS 5 also includes consequential amendments to IAS 28, *Investments in Associates* and IAS 31, *Interests in Joint Ventures* so associates and joint ventures that meet the criteria as held for sale are reclassified and accounted for in accordance with IFRS 5.

Options

9. In order to draft the Exposure Drafts to propose amendments to IPSASs 6–8, Staff asks for direction from the IPSASB relating to the temporary control exemption in IPSAS 6. Staff has identified three options, as follows:

   - **Option A**: Leave the temporary control exemption in IPSAS 6.
   - **Option B**: Remove the temporary control exemption from IPSAS 6 and include no guidance on this topic.
   - **Option C**: Remove the temporary control exemption from IPSAS 6 and commence a project to develop an IPSAS based on IFRS 5.

10. Depending on the option chosen, there may be related effects on IPSAS 7 and IPSAS 8.

Option A: Leave the Temporary Control Exemption in IPSAS 6

11. An advantage with retaining the temporary control exemption in IPSAS 6 is that it enables this project to continue without having to commence a project to develop an IPSAS based on IFRS 5. This would be a pragmatic decision until the IPSASB

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2 See Appendix B for the relevant paragraphs from IFRS 5.
3 IFRS 5, Basis for Conclusions, paragraph BC17.
4 IFRS 5, Basis for Conclusions, paragraph BC18.

has the resources to commence a project related to IFRS 5. Once that project commences, then the temporary control exemption can be reassessed.

12. The IPSASB's objective for standards based upon IFRSs is to maintain alignment with the underlying IFRSs. If Option A is adopted, then the revised IPSAS 6 will not be in alignment with the underlying standards, IFRS 10, *Consolidated Financial Statements* and IAS 27, *Separate Financial Statements*. The IPSASB document *Process for Reviewing and Modifying IASB Documents* includes guidance to help the IPSASB determine whether there are public sector specific reasons to depart from the requirements of an underlying IFRS. Staff does not consider that there is a public sector specific reason to depart from the underlying requirements in IFRSs. This is a disadvantage with Option A.

Option B: Remove the Temporary Control Exemption from IPSAS 6 and include no Guidance on this Topic

13. A disadvantage with removing the temporary control exemption from IPSAS 6 is that it (1) does not maintain alignment with the underlying IFRSs because there is no equivalent IPSAS to IFRS 5, and (2) entities with controlled entities that met the criteria for the temporary control exemption would be required to be consolidated. Given that the existing IPSAS 6 has this exemption it is unclear why this requirement is no longer valid and/or necessary.

Option C: Remove the Temporary Control Exemption from IPSAS 6 and Commence a Project to Develop an IPSAS based on IFRS 5

14. An advantage with removing the temporary control exemption from IPSAS 6 and commencing a project to develop an IPSAS based on IFRS 5 is that (1) the revised IPSAS 6 will be aligned with the underlying IFRSs, (2) the IPSASB would have a more complete set of standards because it would have an IPSAS based on IFRS 5, and (3) the criteria for classifying a controlled entity as held for sale are an improvement on the current temporary control exemption in IPSAS 6 and would therefore improve comparability between entities.

15. A disadvantage with Option C is that it requires a new project to commence when the IPSASB already has a full agenda schedule. The estimated timetable for completion of the revision to IPSASs 6–8 is 2013. It is unlikely that resources and meeting time could be found over the next two years to be able to develop an IPSAS based on IFRS 5 which could be completed at the same time as the revision of IPSASs 6–8 project.

Staff View

16. Staff considers that Option A is the best solution at the present time because it retains the current requirements in IPSAS 6 until a project can be undertaken to develop an IPSAS based on IFRS 5.

Question 1 for the IPSASB:

Which option do you prefer?:

- **Option A**: Leave the temporary control exemption in IPSAS 6.
- **Option B**: Remove the temporary control exemption from IPSAS 6 and include no guidance on this topic.
- **Option C**: Remove the temporary control exemption from IPSAS 6 and commence a project to develop an IPSAS based on IFRS 5.

Next Steps

17. The December 2011 meeting will consider the other three issues highlighted in the Project Brief. The March 2012 meeting will consider a first draft of the Exposure Drafts proposing amendments to IPSASs 6–8 which will reflect the option agreed upon by the IPSASB regarding the temporary control exemption.

Appendix A: Extract from IPSAS 6

Scope of Consolidated Financial Statements

20. **Consolidated financial statements shall include all controlled entities of the controlling entity, except those referred to in paragraph 21.**

21. **A controlled entity shall be excluded from consolidation when there is evidence that (a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition, and (b) management is actively seeking a buyer.**

22. Such controlled entities are classified and accounted for as financial instruments. IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures* provides guidance on financial instruments.

23. An example of temporary control is where a controlled entity is acquired with a firm plan to dispose of it within twelve months. This may occur where an economic entity is acquired, and an entity within it is to be disposed of because its activities are dissimilar to those of the acquirer. Temporary control also occurs where the controlling entity intends to cede control over a controlled entity to another entity – for example a national government may transfer its interest in a controlled entity to a local government. For this exemption to apply, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject to temporary control. An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so, and there is no realistic possibility of withdrawal from that plan.

24. When a controlled entity previously excluded from consolidation in accordance with paragraph 21 is not disposed of within twelve months, it shall be consolidated as from the acquisition date (guidance on the acquisition date can be found in the relevant international or national accounting standard dealing with business combinations). Financial statements for the periods since acquisition are restated.

25. Exceptionally, an entity may have found a buyer for a controlled entity excluded from consolidation in accordance with paragraph 21, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The entity is not required to consolidate such a controlled entity if the 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.

Appendix B: Extract from IFRS 5

Classification of non-current assets (or disposal groups) as held for sale or as held for distribution to owners

6 **An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.**

7 For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be *highly probable*.

8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

8A An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out in paragraphs 6–8 are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

9 Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). This will be the case when the criteria in Appendix B are met.

10 Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IAS 16 *Property, Plant and Equipment*.

11 When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset (or disposal group) as held for sale at the acquisition date only if the one-year requirement in paragraph 8 is met (except as permitted by paragraph 9) and it is highly probable that any other criteria in paragraphs 7 and 8 that are not met at that date will be met within a short period following the acquisition (usually within three months).

12 If the criteria in paragraphs 7 and 8 are met after the reporting period, an entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the reporting period but before the authorisation of the financial statements for issue, the entity shall disclose the information specified in paragraph 41(a), (b) and (d) in the notes.

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 and whether the revised definition of control is appropriate?

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

2.5 How should the project address the consolidation of structured entities?

(b) Objectives to be achieved

2.6 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

2.7 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

2.8 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 and whether the revised definition of control is appropriate?

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.

3.6 If use of the term control is appropriate, then the revised definition of control that is used in IFRS 10 needs to be explored to determine whether it is appropriate for use by public sector entities.

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

3.7 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).

Key Issue #4—How should the project address the consolidation of structured entities?

3.8 IPSAS 6 does not include guidance on how to determine whether structured entities are controlled by the controlling entity, e.g., where a controlling entity does not "direct the activities of" a controlled entity. A key issue will be to determine how to address this issue. This Key Issue also is relates to Key Issue 3.

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.

(c) Other—Government Finance Statistics (GFS)

4.3 One aspect of the IPSASB's strategy is to consider convergence with the statistical basis of accounting where appropriate. Consolidation is one area where there are differences between IPSASs and GFS. The IPSASB has a separate project on *Alignment of IPSASs and Public Sector Statistical Reporting Requirements*. It is unclear at this stage which project will include a comparison of the differences between the two bases.

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

Major Project Milestones	**Expected Completion**
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.

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)

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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 and whether the revised definition of control is appropriate?

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

2.5 How should the project address the consolidation of structured entities?

(b) Objectives to be achieved

2.6 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.

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(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

2.7 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.

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ii. Link to IFAC Strategic Plan

2.8 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.

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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 and whether the revised definition of control is appropriate?

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.

3.6 If use of the term control is appropriate, then the revised definition of control that is used in IFRS 10 needs to be explored to determine whether it is appropriate for use by public sector entities.

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

3.7 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).

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Key Issue #4—How should the project address the consolidation of structured entities?

3.8 IPSAS 6 does not include guidance on how to determine whether structured entities are controlled by the controlling entity, e.g., where a controlling entity does not "direct the activities of" a controlled entity. A key issue will be to determine how to address this issue. This Key Issue also is relates to Key Issue 3.

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.

(c) Other—Government Finance Statistics (GFS)

4.3 One aspect of the IPSASB's strategy is to consider convergence with the statistical basis of accounting where appropriate. Consolidation is one area where there are differences between IPSASs and GFS. The IPSASB has a separate project on *Alignment of IPSASs and Public Sector Statistical Reporting Requirements*. It is unclear at this stage which project will include a comparison of the differences between the two bases.

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

Major Project Milestones	Expected Completion
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.