

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Abu Dhabi, UAE

**Meeting Date:** March 11-14, 2013

## Agenda Item 7

For:

☐ Approval

☒ Discussion

☒ Information

### Update of IPSASs 6–8

#### Objective(s) of Agenda Item

1. The objectives of this agenda item are to
  - (a) **Discuss** and **provide feedback** on:
    - (i) The proposed requirements in ED X, *Separate Financial Statements* (Amended [Date]), based on IAS 27, *Separate Financial Statements* (Amended 2011);
    - (ii) The proposed requirements in ED X, *Investments in Associates and Joint Ventures* (Amended [Date]), based on IAS 28, *Investments in Associates and Joint Ventures* (Amended 2011);
  - (b) **Decide** how to proceed in relation to key issues not resolved in the December 2012 meeting;
  - (c) **Note** how certain issues raised in December 2012 have been addressed; and
  - (d) **Confirm** agenda items for the June 2013 meeting.

#### Material(s) Presented

##### For discussion

Agenda Item 7.1 Issues Arising from Exposure Drafts

##### For page by page review

Agenda Item 7.2 Draft ED X, *Separate Financial Statements* (Amended [Date])

Agenda Item 7.3 Draft ED X, *Investments in Associates and Joint Ventures* (Amended [Date])

##### For noting (to inform discussion of issues in agenda item 7.1)

Agenda Item 7.4 Draft ED X, *Consolidated Financial Statements*

Agenda Item 7.5 Draft ED X, *Joint Arrangements*

Agenda Item 7.6 Draft ED X, *Disclosure of Interests in Other Entities*

## Background

2. The objective of this project is to develop IPSASs based on:
  - (a) IFRS 10, *Consolidated Financial Statements*;
  - (b) IFRS 11, *Joint Arrangements*;
  - (c) IFRS 12, *Disclosure of Interests in Other Entities*;
  - (d) IAS 27, *Separate Financial Statements* (Amended 2011); and
  - (e) IAS 28, *Investments in Associates and Joint Ventures* (Amended 2011).

### June 2012

3. At its meeting in June 2012 the IPSASB noted the differences between current IPSASs and the new and revised IFRSs and gave directions on the approach to this project.

### September 2012

4. At its meeting in September 2012 the IPSASB considered opportunities for closer alignment with statistical reporting and a draft of an ED based on IFRS 10, *Consolidated Financial Statements*. Amongst other matters the IPSASB agreed that it wanted more emphasis on the types of situations that commonly occur in the public sector and less emphasis on issues associated with voting rights.

### December 2012

5. At its meeting in December 2012 the IPSASB considered drafts of EDs based on IFRSs 10-12 and issues arising from the development of those EDs. Key issues that were not resolved at that meeting are set out in the issues paper for this meeting (agenda item 7.1). They include determining which, if any, entities should be exempt from the consolidation requirements in ED X, *Consolidated Financial Statements* and the appropriateness of the structured entity definition and structured entity disclosures in ED X, *Disclosure of Interests in Other Entities*.
6. In relation to ED X, *Consolidated Financial Statements* the IPSASB considered whether there should continue to be an exemption for temporarily controlled entities. The IPSASB considered three options:
  - **Option A:** Remove the temporary control exemption. Under this option a controlling entity would consolidate all controlled entities, including temporarily controlled entities;
  - **Option B:** Make the temporary control exemption more restrictive. Under this option a controlling entity would account for temporarily controlled entities at cost or fair value (as per the separate financial statements of the controlling entity); and
  - **Option C:** Require equity accounting of temporarily controlled entities.
7. The IPSASB agreed to further consider Options A and C at its March 2013 meeting. The IPSASB also agreed to consider the possible application of equity accounting to various categories of controlled entities, including entities that have been rescued from financial distress and Government Business Enterprises.

### Two EDs for Detailed Review

8. There are five EDs being developed in this project. The IPSASB has already considered and provided some feedback on three of the EDs. The IPSASB has not previously considered the EDs based on IAS 27, *Separate Financial Statements* (Amended 2011) and IAS 28, *Investments in Associates and Joint Ventures* (Amended 2011). These two EDs are included in the agenda as items 7.2 and 7.3. Issues arising from the development of these EDs are set out in agenda item 7.1.
9. Members are asked to provide direction on the issues arising from these EDs, as set out in agenda item 7.1, and to conduct a page by page review of the EDs at items 7.2 and 7.3. Approval to issue these EDs will be sought in June 2013.

### Three EDs for Noting

10. The other three draft EDs which are based on IFRS 10-12 are set out in agenda items 7.4 to 7.6. Discussion at the meeting will be focused on the outstanding issues (as set out in agenda item 7.1). The EDs themselves are provided for noting (to inform discussion of issues in agenda item 7.1). There will not be a page by page review of these EDs at the meeting. Approval to issue these EDs will be sought in June 2013.

### Project Milestones and Next Meeting

11. The major project milestones are set out below.

Major Project Milestones	Timing
Discussion of issues	June 2012–Mar 2013
Consider Exposure Drafts	Sep 2012–Mar 2013
Approve EDs (4 month comment period proposed)	June 2013
Review of responses to EDs and development of IPSASs	Dec 2013–Mar 2014
Approve Final IPSASs	2014

12. In order to meet the aim of approving the EDs in June 2013, all major issues need to be resolved at this meeting, or at least staff needs to be given sufficiently clear direction to develop the EDs for approval in June 2013.

## **Update of IPSASs 6–8**

### **ISSUES ARISING FROM EXPOSURE DRAFTS**

#### **Objective(s) of Agenda Item and Structure of the Paper**

1. The objectives of this agenda item are to:
  - (a) Consider issues arising from ED X, *Separate Financial Statements* (Amended [Date]) and perform a page by page review of that ED;
  - (b) Consider issues arising from ED X, *Investments in Associates and Joint Ventures* (Amended [Date]) and perform a page by page review of that ED;
  - (c) Consider the implications of recent IASB proposals for ED X, *Joint Arrangements*;
  - (d) Consider exemptions: that is, should any interests in other entities be exempt from the requirements in ED X, *Consolidated Financial Statements*, ED X, *Investments in Associates and Joint Ventures* (Amended [Date]) and ED X, *Joint Arrangements*. This includes consideration of accounting and presentation options for entities exempt from consolidation and equity accounting; and
  - (e) Consider outstanding disclosure issues in relation to ED X, *Disclosure of Interests in Other Entities*.
2. The sections in this issues paper are:
  - (a) ED X, *Separate Financial Statements* (Amended [Date]);
  - (b) ED X, *Investments in Associates and Joint Ventures* (Amended [Date])
  - (c) ED X, *Joint Arrangements*;
  - (d) Exemption Issues;
  - (e) Disclosure Issues;
  - (f) Other Issues; and
  - (g) Appendix 1: Extract from AASB Exposure Draft ED 233 *Australian Additional Disclosures – Investment Entities*.
3. The *Matters for Consideration* are set out at the end of each section.

#### **ED X, Separate Financial Statements (Amended [Date])**

##### Introduction

4. The requirements for separate financial statements are currently located in:
  - (a) IPSAS 6, *Consolidated and Separate Financial Statements* (2006) paragraphs 58 to 61;
  - (b) IPSAS 7, *Investments in Associates* (2006) paragraphs 41 to 42; and
  - (c) IPSAS 8, *Interests in Joint Ventures* (2006) paragraphs 19, 25 and 57 to 58.

5. ED X, *Separate Financial Statements* (Amended [Date]) sets out the proposed requirements for separate financial statements.<sup>1</sup> The ED is based on IAS 27, *Separate Financial Statements* (Amended 2011) and incorporates public sector modifications.
6. Consistent with the IASB's changes to IAS 27 in 2011, this ED proposes to:
  - (a) Remove all requirements relating to consolidated financial statements (these requirements will now be located in a separate IPSAS based on IFRS 10); and
  - (b) Combine all the requirements regarding separate financial statements in one standard, being a revised version of IPSAS 6.

#### Accounting Requirements

7. The proposed ED deals only with the requirements for separate financial statements. The key requirement is set out in paragraph 10 of the ED:
  10. **When an entity prepares separate financial statements, it shall account for investments in controlled entities, joint ventures and associates either:**
    - (a) **at cost, or**
    - (b) **in accordance with IPSAS 29.****The entity shall apply the same accounting for each category of investments.**
8. This differs from the requirements in IPSAS 6, *Consolidated and Separate Financial Statements* (2006) which is based on an earlier version of IAS 27 (2003) and which permits the use of the equity method in separate financial statements.
9. Staff notes that the IASB has recently indicated that it intends to reconsider whether to allow the use of the equity method in separate financial statements. Despite the fact that the IASB is reconsidering this issue, staff recommends that the ED permit only cost or fair value (see Matter for Consideration 1 below).

#### Further IASB Amendments and Projects

##### *Investment Entities*

10. Since issuing IAS 27, *Separate Financial Statements* (Amended 2011) the IASB has amended that Standard to specify the accounting treatment for investment entities in separate financial statements<sup>2</sup>. IAS 27 (Amended 2011) requires that a parent that measures its investment in an investment entity subsidiary at fair value through profit or loss in accordance with IFRS 9, *Financial Instruments*, shall account for that investment in the same way in its separate financial statements. Because the IPSASB has decided not to adopt the IASB's concept of investment entities, this amendment is not relevant to this project.

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<sup>1</sup> The IPSASB has not yet decided on the final numbering of the standards in this project. For the sake of convenience these agenda papers assume that IPSASs 6 and 7 will be reissued and three new IPSASs based on IFRSs 10 to 12 will be issued.

<sup>2</sup> Refer IASB's *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) issued October 2012 and effective for annual periods beginning on or after 1 January 2014.

*Use of the Equity Method in Separate Statements*

11. An earlier version of IAS 27 (and related standards) permitted an entity, in its separate financial statements, to measure certain investments using the equity method.
  - (a) IAS 27 (as revised in 2000) required that investments in subsidiaries be measured at cost, using the equity method, or as available-for-sale financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*;
  - (b) IAS 28 (as revised in 2000) permitted the same choices for accounting for investments in associates in separate financial statements; and
  - (c) IAS 31 (as revised in 2000) did not indicate a preference for any particular treatment for accounting for interests in jointly controlled entities in a venturer's separate financial statements.
12. In 2003 the IASB decided to limit the measurement options for investments presented in an entity's separate financial statements. It decided to require the use of cost or fair value in accordance with IAS 39 and to remove the equity method as one of the measurement options. Some of the reasons given by the IASB for making this change were:
  - (a) The focus in separate statements is on the performance of the assets as investments. Cost and fair value can provide relevant information for this; and
  - (b) To the extent that the equity method provides information about the profit and loss of a subsidiary or an associate, that information would be available in the consolidated financial statements.
13. As a result of its recent agenda consultation the IASB has agreed to initiate a new project to reconsider the use of the equity method in separate financial statements.<sup>3</sup> The IASB agreed to reconsider this issue because corporate law in some countries, particularly Latin America, requires listed entities to present separate financial statements using the equity method of accounting to measure investments in subsidiaries etc. The IASB understands that allowing this option would probably reduce compliance costs without a loss of information.
14. Staff proposes that the IPSASB monitor the IASB's project. Staff does not recommend adding back the option to use the equity method to account for interests in other entities in separate financial statements for the following reasons:
  - (a) The IASB's reasons for removing the use of the equity method are still valid;
  - (b) Public sector entities applying IPSASs may not encounter the same regulatory difficulties. If public sector entities are subject to such regulatory requirements they will be able to comment on this in the forthcoming consultation process; and
  - (c) It would be premature to anticipate the outcome of the IASB's due process.

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<sup>3</sup> Refer IASB *Feedback Statement: Agenda Consultation 2011*, (December 2012).

Recommendations on ED X, Separate Financial Statements (Amended [Date])

15. It is recommended that the IPSASB:
- (a) Note that because the IPSASB has decided not to adopt the IASB's concept of investment entities, the amendments made by the IASB to IAS 27 as part of its investment entities project are not relevant to the draft IPSAS based on IAS 27 (Amended 2011);
  - (b) Agree to monitor the IASB's project to reconsider the use of the equity method in separate financial statements, but not to propose the reinstatement of this method at this stage;
  - (c) Note that if the IPSASB decides to exempt certain types of entities from the consolidation requirements in ED X, *Consolidated Financial Statements*, it will also need to specify the accounting requirements for the separate financial statements of such entities in ED X, *Separate Financial Statements* (Amended [Date]); and
  - (d) Agree that the content of ED X, *Separate Financial Statements* (Amended [Date]) as set out in agenda item 7.2 is appropriate and that approval to issue the ED should be sought in June 2013.

**Matter(s) for Consideration**

1. Does the IPSASB agree with the above recommendations in respect of ED X, *Separate Financial Statements* (Amended [Date])?

**ED X, Investments in Associates and Joint Ventures (Amended [Date])**

Introduction

16. The requirements for accounting for associates and joint ventures in consolidated financial statements are currently located in:
- (a) IPSAS 7, *Investments in Associates* (2006); and
  - (b) IPSAS 8, *Interests in Joint Ventures* (2006).
17. ED X, *Investments in Associates and Joint Ventures* (Amended [Date]) is based on IAS 28, *Investments in Associates and Joint Ventures* (Amended 2011). For the purposes of developing the agenda papers, it has been assumed that this ED will replace IPSAS 7, *Investments in Associates* (2006). Alternatively, the IPSASB could decide to withdraw IPSAS 7 and issue a new IPSAS. The numbering of the standards in this project will be considered in June 2013.

Accounting Requirements

18. ED X, *Investments in Associates and Joint Ventures* (Amended [Date]):
- (a) Defines associates;
  - (b) Requires that associates be accounted for using the equity method; and

- (c) Explains the application of the equity method to associates and joint ventures.<sup>4</sup>
19. The draft ED contains some exemptions for intermediate controlled entities and investments held by venture capital organisations, mutual funds, unit trusts and similar entities (ED X, paragraphs 17 to 19). These exemptions are based on those in IAS 28 (Amended 2011) and IFRS 11. In contrast to IPSASs 7 and 8 the draft ED does not include any exemptions for temporarily held investments in associates and joint ventures. The IPSASB will consider the nature of any further exemptions at this meeting (refer to the Exemptions Issues section of this paper). If necessary, the EDs will be revised to reflect the IPSASB's decisions.

#### Further IASB Amendments and Projects

20. The IASB has recently issued two EDs proposing amendments to IAS 28 (Amended 2011). This section of the paper considers whether the IASB's proposals are relevant in the context of this project, and if so, whether the IASB's proposals should be incorporated in the IPSASB's EDs now or later.

#### *ED/2012/3 Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28).*

21. The IASB issued ED/2012/3 in November 2012 (comments are due by 22 March 2013). ED/2012/3 is intended to clarify how an investor should account for other net asset changes of the investee.
22. Paragraph 3 of IAS 28 defines the equity method to be a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. Under the equity method, all post-acquisition changes in the net assets of an investee should be recognised by the investor. However, IAS 28 paragraph 10 (as currently worded) does not provide any guidance on accounting for post-acquisition changes in the net assets of the investee that are not recognised in profit or loss or other comprehensive income (OCI) of the investee, and that are not distributions received. The IASB has received feedback that some people view IAS 28 paragraphs 3 and 10 as being inconsistent with each other, or at least unclear.
23. Some aspects of the IASB's proposed amendments are relevant for ED X, *Investments in Associates and Joint Ventures* (Amended [Date]).
- (a) The clarifications regarding accounting for changes in other comprehensive income are not relevant. IAS 1 *Presentation of Financial Statements* (Revised 2007) introduced the concept of other comprehensive income. IPSAS 1 is based on an earlier version of IAS 1 and does not refer to other comprehensive income.
- (b) The clarifications regarding accounting for distributions and other changes in net assets resulting from changes in ownership interests are relevant.
24. The IASB's proposals regarding application of the equity method when there are changes in ownership interests are based on the following principles:

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<sup>4</sup> The IPSASB has already considered and agreed the accounting requirements for joint arrangements, including joint ventures and joint operations (December 2012) set out in ED X, *Joint Arrangements*. ED X, *Joint Arrangements* requires that an entity with joint control or significant influence over a joint venture account for that joint venture using the equity method. However, the application of the equity method to joint ventures is explained in ED X, *Joint Arrangements*.



- (a) Where an investor's ownership interest in the investment is reduced, whether directly or indirectly, the impact of the change should be accounted for as a partial disposal and recognised in profit or loss of the investor; and
  - (b) Where an investor's ownership interest in the investment increases, whether directly or indirectly, the impact of the change should be accounted for as an incremental purchase of the investment and recognized at cost.
25. In drafting ED X, *Investments in Associates and Joint Ventures* (Amended [Date]) staff recommends including the proposed amendments other than those relating to other comprehensive income. Reasons for including relevant amendments in the IPSASB's ED are:
- (a) The proposed amendments would result in more detailed and clearer guidance.
  - (b) Including the proposed amendments in the ED means that they would have been subject to appropriate due process with IPSASB constituents. If the IPSASB waits until the IASB finalizes the wording of the proposed amendments, the IPSASB would then have to consider whether further due process with IPSASB constituents was required.
  - (c) Not including the proposed amendments could lead to an unnecessary difference between IFRSs and IPSASs.
26. Staff acknowledges that the IASB is still going through due process in relation to its proposals and the wording of the final amendments may differ from that proposed. In addition, there was an alternative view on the proposals<sup>5</sup>. However, on balance, staff considers that it would be more helpful for the IPSASB's constituents to incorporate the IASB's proposals in the IPSASB's ED. The IPSASB would need to monitor the IASB's decisions and consider the significance of any changes to the proposals.

*ED/2012/6 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28)*

27. The IASB issued ED/2012/6 in December 2012 (comments are due by 23 April 2013). The ED is intended to address a conflict between the guidance in IFRS 10 and IAS 28 (Amended 2011). IFRS 10 requires recognition of a full gain or loss on the loss of control of a subsidiary, whereas IAS 28 (Amended 2011) requires recognition of a partial gain or loss in transactions between an investor and its associate or joint venture. Table 1 below summarizes the current requirements in IFRS 10 and IAS 28, and the proposals in ED/2012/6.

**Table 1 Proposals in IASB's ED/2012/6**

<b>IFRS 10, Consolidated Financial Statements</b>	<b>IAS 28, <i>Investments in Associates and Joint Ventures</i> (Amended 2011)</b>
Currently requires recognition of the full gain or loss on loss of control of a subsidiary. (Paragraph B98)	Currently requires recognition of a partial gain or loss on 'upstream' and 'downstream' transactions and contributions of assets to a joint venture.  The gains and losses are recognized only to the extent of unrelated investors' interests in the

<sup>5</sup> If the IASB decides to pursue a short-term solution, one IASB member would prefer that an investor recognize its share of other net asset changes in the investor's profit or loss rather than in equity (as proposed by ED/2012/3).

IFRS 10, Consolidated Financial Statements	IAS 28, <i>Investments in Associates and Joint Ventures</i> (Amended 2011)
	associate or joint venture. That is, gains and losses within the group are not recognized. (Paragraphs 28 and 30)
ED/2012/6 proposes to amend IFRS 10 so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business, as defined in IFRS 3, <i>Business Combinations</i> , between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.  The consequence is that the full gain or loss would be recognized on the loss of control of a subsidiary that constitutes a business, as defined in IFRS 3, including cases in which the investor retains joint control of, or significant influence over, the investee.	ED/2012/6 proposes to amend IAS 28 (Amended 2011) so that (a) The current requirements for the recognition of a partial gain or loss for transactions between an investor and its associate or joint venture apply only to the gain or loss resulting from the sale or contribution of assets <i>that do not constitute a business</i> , as defined in IFRS 3; and (b) The gain or loss resulting from the sale or contribution of assets <i>that constitute a business</i> , as defined in IFRS 3, between an investor and its associate or joint venture is recognised in full (i.e. the investor's interest in the gains or losses resulting from these transactions is not eliminated).

28. Staff does not recommend including the amendments set out in ED/2012/6 ED X, *Investments in Associates and Joint Ventures* (Amended [Date]). This is because there is no IPSAS based on IFRS 3 *Business Combinations*. The IPSASB has an active project on Public Sector Combinations but it will be some time until this leads to standards level requirements. Staff considers that it would be more appropriate to consider this issue in the context of drafting standards level requirements for public sector combinations. In the interim, public sector entities considering whether to recognize a partial or full gain or loss on certain transactions would need to develop their accounting policy in accordance with the requirements of IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. IPSAS 3 refers to pronouncements of the IASB as a source of guidance in such circumstances.

#### Research Project on Equity Method

29. The IASB has recently agreed that the equity method of accounting should be a priority research project. The IASB *Feedback Statement: Agenda Consultation 2011* (December 2012) said:

The equity method of accounting for some investments is often criticised. Some question whether it provides helpful information to users, while others note the complexities and inconsistencies it creates when it interacts with other requirements in IFRS—such as goodwill impairment, share based payments and joint arrangements. The research project will involve a fundamental assessment of the equity method in terms of its usefulness to investors and difficulties for preparers.

30. Because this is a research project, rather than being an active agenda project, no timelines for the project have been published. Research projects normally lead to discussion papers and may lead to an issue being moved to the IASB's active agenda.
31. In addition, the outcome of the project is uncertain. Possible outcomes could be at two extremes, from (i) the removal of the equity method from all standards to (ii) no change to current requirements. Given the uncertainty about the direction of this project, staff considers that the

project to update IPSASs 6-8 should be based on the present version of IAS 28 (Amended 2011) and the IASB research project should be monitored.

Recommendations on ED X, Investments in Associates and Joint Ventures (Amended [Date])

32. It is recommended that the IPSASB:
- (a) Agree to incorporate the amendments in ED/2012/3 *Equity Method: Share of Other Net Asset Changes* (Proposed amendments to IAS 28) in ED X, *Investments in Associates and Joint Ventures* (Amended [Date]) to the extent that they are relevant;
  - (b) Agree not to incorporate the amendments in ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Proposed amendments to IFRS 10 and IAS 28) in ED X, *Investments in Associates and Joint Ventures* (Amended [Date]) on the grounds that it would be more appropriate to consider the recognition of full or partial gains and losses in the context of drafting standards level requirements for public sector combinations;
  - (c) Agree to monitor the IASB's research project on the usefulness of the equity method of accounting; and
  - (d) Agree that the content of ED X, *Investments in Associates and Joint Ventures* (Amended [Date]) as set out in agenda item 7.3 is appropriate and that approval to issue the ED should be sought in June 2013.

**Matter(s) for Consideration**

2. Does the IPSASB agree with the above recommendations in respect of ED X, *Investments in Associates and Joint Ventures* (Amended [Date])?

**ED X, Joint Arrangements**

Introduction

33. The IPSASB considered a first draft of ED X, *Joint Arrangements* in December 2012 and was supportive of the requirements in the draft ED. The only issues being raised for consideration at this meeting are:
- (a) What to do about further IASB amendments and projects; and
  - (b) Exemptions from the requirements of the ED (refer to the Exemptions Issues section of this paper).

Further IASB Amendments

34. The IASB issued ED/2012/7 *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11) in December 2012. Comments are due to the IASB by 23 April 2013.
35. The objective of the proposed amendment is to introduce guidance on the accounting, by a joint operator, for the acquisition of an interest in a joint operation, as defined in IFRS 11, *Joint Arrangements*, in which the activity of the joint operation constitutes a business, as defined in IFRS 3, *Business Combinations*.
36. Paragraph 20 of IFRS 11 requires a joint operator to recognise, in relation to its interest in a joint operation, among other things:

- (a) Its assets, including its share of any assets held jointly; and
  - (b) Its liabilities, including its share of any liabilities incurred jointly.
37. In addition, paragraph 21 of IFRS 11 specifies that a joint operator shall account for those assets and liabilities in accordance with the Standards that are applicable. However, neither IFRS 11 nor the previous IASB Standard, IAS 31 *Interests in Joint Ventures*, provided guidance on the accounting by a joint operator for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.
38. The IASB has noted that due to the lack of guidance in IAS 31, significant diversity has arisen in practice in venturers' accounting for the acquisition of interests in jointly controlled operations or assets in which the activity of the jointly controlled operations or assets constitutes a business, as defined in IFRS 3. Such diversity relates to:
- (a) A premium that is paid in addition to the fair value of the identifiable net assets; for example, a premium paid for synergies. Such a premium is either recognised as a separate asset, i.e. goodwill, or is allocated to the identifiable assets on the basis of their relative fair values;
  - (b) Deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets and liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill, are either recognised on the acquisition of the interests in the jointly controlled operations or assets in which the activity constitutes a business, or are not recognised because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12 *Income Taxes*; and
  - (c) Acquisition-related costs, which are either capitalised or recognised as an expense.
39. The IASB has stated that it is concerned that this significant diversity in practice may continue after the application of IFRS 11. As a result, the IASB has proposed to amend IFRS 11 and IFRS 1 *First-time Adoption of International Financial Reporting Standards* so that a joint operator accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business applies the relevant principles for business combinations accounting in IFRS 3 and other Standards, and discloses the relevant information required by those Standards for business combinations.
40. The proposed amendment applies both to the acquisition of an interest in an existing joint operation, and also to the acquisition of an interest in a joint operation when an existing business is contributed to the joint operation on its formation. Consequently, the scope of the proposed amendment is, in terms of a limited scope project, limited to those fact patterns that are subject to significant diversity in practice, as observed by the IFRS Interpretations Committee.
41. Staff does not consider that it would be appropriate to incorporate the proposals in IASB ED/2012/7 in ED X, *Joint Arrangements* on the grounds that it would be more appropriate to consider guidance on the accounting by a joint operator for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business in the context of drafting standards level requirements for public sector combinations.

### Recommendation on ED X, Joint Arrangements

42. It is recommended that the IPSASB:
- (a) Agree not to incorporate the amendments in ED/2012/7 *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11) in ED X, *Joint Arrangements*; and
  - (b) Agree that the content of ED X, *Joint Arrangements* as set out in agenda item 7.5 is appropriate and that approval to issue the ED should be sought in June 2013.

### **Matter(s) for Consideration**

3. Does the IPSASB agree with the recommendations in respect of ED X, *Joint Arrangements*?

### **Exemption Issues**

#### Background

43. IPSAS 6, *Consolidated Financial Statements* (2006) exempts certain temporarily controlled entities from the consolidation requirements in that standard. IPSAS 7, *Investments in Associates* (2006) contains similar exemptions for interests in temporarily held associates. The IPSASB has decided not to exempt temporarily controlled entities or temporary associates from the consolidation and equity accounting requirements in the proposed new standards. In December 2012 the IPSASB indicated that it would like to consider further whether there are any types of interests that should be excluded from the requirements in the standards and possible accounting requirements for any such entities. The IPSASB agreed to consider the possible application of equity accounting to various categories of controlled entities, including entities that have been rescued from financial distress and Government Business Enterprises.

#### "Certain Controlled Entities" that Might be Exempt from Consolidation

44. This section of the paper addresses the issue of whether any categories of controlled entities should be exempt from consolidation. The IPSASB has discussed this issue at previous meetings but has not yet formed a definite view on whether any categories entities should be exempt from consolidation requirements. Relevant decisions made by the IPSASB are:
- (a) Temporary control: The IPSASB has agreed not to retain the current exemption in IPSAS 6 (2006) for entities subject to temporary control (or the related exemption in IPSAS 7 (2006) for temporary significant influence).
  - (b) Investment Entities: The IPSASB has indicated that it does not regard the concept of investment entities as being useful for the public sector and agreed not to consider providing exemptions from consolidation for investment entities. The IASB definition of investment entities focuses on entities whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. The IASB exception is available only to those entities that measure and evaluate the performance of substantially all of their investments on a fair value basis.
  - (c) Entities rescued from financial distress and GBEs: The IPSASB has agreed to further consider whether there are sound reasons for excluding either of these categories of entities from consolidation and if so, how they should be accounted for. The next two sub-sections of

the paper consider (i) possible reasons for not consolidating controlled entities that have been rescued from financial distress and (ii) whether it would be possible to clearly identify such entities. Each of these categories is considered separately below.

45. Any exemptions would need to be for clearly identifiable categories of entities.

#### Entities Rescued from Financial Distress

46. The main reasons given for not consolidating entities that have been rescued from financial distress are that the nature of the activities differs from those of the controlling public sector entity and that consolidating the information would make it difficult to assess the financial performance and financial position of the controlling entity. These arguments are most frequently used in relation to a national government obtaining control of a large financial institution. The assets and liabilities of the financial institution consist mainly of financial assets and financial liabilities which could be both different in nature larger than the financial assets and financial liabilities of the controlling entity. These arguments are less compelling when a government:
- (a) Has existing investments in similar entities. For example, in many jurisdictions governments already have investments in financial institutions. If such a government acquired control of a large private financial institution at a time of financial crisis this would the scale of the government's involvement with the sector, but it would not be a fundamental change in the nature of the government's activities;
  - (b) Rescues entities other than financial institutions. Governments may also monitor the performance of other entities and if those entities are in financial distress may intervene in a range of ways, including obtaining control. For example, governments may intervene to prevent the failure of state or local governments or private hospitals;
  - (c) Intervenes for reasons other than financial distress. Financial distress is only one reason, and not necessarily the most important reason, for nationalization. Common reasons for nationalization include prevention of unfair exploitation and large-scale labor layoffs, fair distribution of income from national resources, and to keep a means of generating wealth in public control. These interventions could give rise to liabilities or control. These does not seem to be a clear reason for accounting for some interventions in a different manner to other interventions; and
  - (d) Presents separate financial statements. Separate financial statements allow users to assess the financial performance and position of the controlling government as a separate entity.
47. Cost benefit reasons may also be cited. A cost benefit assessment would involve a subjective evaluation of the costs of obtaining the information required for consolidation, including aligning accounting policies, against the benefits of presenting information that shows all the assets and liabilities controlled by the economic entity and provides users with information on the economic entity's risk exposure. Research on systemic banking crises for the period 1970-2009 has shown that direct fiscal costs to support the financial sector were smaller in 2007-2009 as a consequence of swift policy action and significant indirect support from expansionary monetary and fiscal policy, the widespread use of guarantees on liabilities, and direct purchases of assets.<sup>6</sup> However, the

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<sup>6</sup> Laeven, L. and Valencia F., Resolution of Banking Crises: The Good, the Bad, and the Ugly, August 2012

research also concluded that these policies increased the burden of public debt and the size of government contingent liabilities, raising concerns about fiscal sustainability in some countries. Significant nationalisations of banks occurred in 13 of the countries studied (financial institutions other than banks were not included in the analysis). Interventions were classified into five categories: extensive liquidity support, significant restructuring costs, significant asset purchases, significant guarantees on liabilities and significant nationalizations.

48. The temporary nature of control in these instances has also been cited as an argument in support of an exemption for such entities. The issue is whether users would obtain greater benefits from financial statements that consolidate all controlled entities or from financial statements that are prepared in respect of a stable reporting entity over time. Given that the IPSASB has already indicated that it will not provide an exemption for temporary control it is not expected that this would be regarded as a compelling reason.
49. If the IPSASB decides to exempt controlled entities that have been rescued from financial distress, it would need to decide how to operationalize the exemption. Some examples of measures that have been used in various jurisdictions to identify financially distressed entities are listed below. These measures might help the IPSASB to identify key characteristics of controlled entities rescued from financial distress. However, these measures have been developed to identify entities that need to be monitored – there may not have been any subsequent intervention by a government, or that intervention may not have given rise to control for financial reporting purposes. There is usually a continuum of possible interventions including monitoring, support and supervision, directives and actual take-over of powers and functions. So, these characteristics would identify a broader category of entities than the IPSASB is interested in.
  - (a) Data on structurally distressed Italian Local Governments is gathered every year by the Italian Ministry of Interior. The Italian Law acknowledges a local government (namely a Municipality or a Province) as “financially destabilized” when it is not able to assure the provision of essential services and functions”, or when its creditors’ rights cannot be satisfied according to other permitted procedures, namely by adopting the accorded procedures to preserve a balanced budget or to integrate off-balance-sheet debts into the annual budget (Albo, 2011).<sup>7</sup> When more than half of ten parameters are out of the acceptable ranges, local governments are subject to controls by a central authority.
  - (b) In the United States the State of Washington monitors local governments and has ten indicators of fiscal stress. These ten indicators are:
    - (i) General Fund revenue per capita;
    - (ii) Cash balance –5% or less of expenditures;
    - (iii) Revenue elasticity –revenue growth vs. change in personal income;
    - (iv) Proportion of expenditures used for capital or debt –15% or more warning sign;
    - (v) Proportion of revenue restricted for specific uses;
    - (vi) Property tax burden –overlapping property taxes exceed 2% of property value;

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<sup>7</sup> Albo F. (2011), “La dichiarazione di dissesto finanziario negli enti locali. Prospettive di riforma”, in *Azienditalia*, Vol. 18, No. 1, pp. 5-12.

- (vii) General fund operating gap;
  - (viii) Economic condition –unemployment, per capita income, population growth;
  - (ix) Tax base condition –major tax revenue per capita 50% below state average; and
  - (x) Service demand –high proportion of Health & Human Service clients, school dropouts.
- (c) In South Africa national government intervention into provincial affairs is guided by Section 100 of the Constitution and Section 6 of the Public Finance Management Act of 1999, while intervention by provinces into municipalities is governed by Section 139 of the Constitution and Section 136 of the Municipal Finance Management Act of 2003 (MFMA). The framework for intervention at provincial level is less developed and objective compared to that of local government.
50. Government intervention can take a number of forms including:
- (a) Grants, cash advances or loans;
  - (b) Tax deferrals;
  - (c) Guarantees of debt;
  - (d) Acquisition of equity; and
  - (e) Acquisition of an entity and the subsequent conversion of that entity into a government business enterprise.
51. Generally only (d) and (e) would give rise to control for financial reporting purposes.
52. Governments may intervene in an entity's activities for a number of reasons, including financial distress. In its broadest sense an economic intervention is any action taken by a government or an international institution in a market economy or market-based mixed economy in an effort to impact the economy beyond the basic regulation of fraud and enforcement of contracts and provision of public goods.<sup>8</sup> Economic intervention can be aimed at a variety of political or economic objectives, such as promoting economic growth, increasing employment, raising wages, raising or reducing prices, promoting equality, managing the money supply and interest rates, increasing profits, or addressing market failures.
53. At one end of the spectrum of intervention there is the general form of regulation typically imposed on utilities and insurance entities. At the other end of the spectrum of intervention there is nationalization, with nationalization sometimes occurring because of an entity's financial distress and concerns about the impact of that entity's failure on the economy. In most cases a government does not intervene to prevent the collapse of entities in financial distress. When the government does not intervene the outcome is influenced by contracts, market mechanisms and bankruptcy law. The exception has been entities that are regarded as "too large to fail". These have predominantly been financial institutions although other large entities could also fall into this category (for example, the failure of a large construction company could have a significant flow on effect on an economy).

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<sup>8</sup> [http://en.wikipedia.org/wiki/Economic\\_interventionism](http://en.wikipedia.org/wiki/Economic_interventionism)



### Recommendation on Financial Distress

54. It is recommended that the IPSASB:

- (a) Agree not to provide exemptions from consolidation where a public sector entity has obtained control of an entity in financial distress;
- (b) Note the following conceptual reasons for not developing such an exemption:
  - (i) It would be a violation of the basic principle that an entity should account for all of its assets, liabilities, income and expenses;<sup>9</sup>
  - (ii) No clear conceptual reason for limiting the exemption to financial institutions;
  - (iii) No clear conceptual reason for providing an exemption for smaller controlled entities;
  - (iv) No clear conceptual reason for limiting the exemption to entities that are too big to fail – the government may rescue other entities in financial distress; and
  - (v) No clear conceptual reason for limiting the exemption to economic interventions between a national government and a large private sector entity. IPSASs are applied by many different types of public sector entities, many of which could conceivably acquire control of another entity in financial distress.
- (c) Note the following difficulties likely to be encountered if the IPSASB attempted to develop such an exemption:
  - (i) The difficulty of clearly explaining the phrase “rescued from financial distress”;
  - (ii) If the exemption were limited to interventions authorised by legislation or a decree, it could lead to inconsistent treatment between jurisdictions and over time; and
  - (iii) The difficulty of distinguishing between interventions as a response to financial distress and interventions for other reasons of national interest;
- (d) Note that if it were to provide any exemptions from consolidation it would need to consider whether similar exemptions should be provided in respect of the equity accounting requirements for investments that are subject to significant influence.

#### **Matter(s) for Consideration**

- 4. Does the IPSASB agree with the above recommendation not to provide an exemption from consolidation where a public sector entity has obtained control of another entity in situations of financial distress?

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<sup>9</sup> This is the view of some members of the Australian Accounting Standards Board (AASB) on the IASB’s decision to exempt investment entities from the consolidation requirements in IFRS 10 (refer Appendix 1 to this paper for more details). The AASB has delayed its adoption of this exception to IFRS 10 and is proposing additional disclosures to meet user needs.

### Government Business Enterprises

55. At the December 2012 IPSASB meeting the IPSASB agreed to consider further whether to exempt a controlling entity from consolidating GBEs.
56. IPSAS 1, *Presentation of Financial Statements* states that a GBE is 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.
57. The reasons given for not consolidating GBEs are similar to those mentioned above in respect of entities rescued from financial distress. It may be argued that:
- (a) The nature of GBEs' activities differs from the rest of the economic entity. That is, the objectives of GBEs are to generate (and possibly maximize) profit whereas the objectives of other public sector entities are typically to provide services to achieve social policy aims;
  - (b) Consolidating GBEs would make it difficult to assess the financial performance and financial position of the economic entity; and
  - (c) There would be a better balance between costs and benefits. If GBEs use standards other than IPSAS (for example, many GBEs use IFRSs or equivalent national standards for private sector entities) there are costs associated with applying uniform accounting policies.
58. There would also be difficulties in justifying an exemption for GBEs. The IPSASB would need to consider how to justify the different treatment of GBEs and other public corporations that do not meet conditions (c) or (d) of the GBE definition.<sup>10</sup> For example, a government could have interests in two transport agencies, only one of which meets the definition of a GBE. In this case providing an exemption from consolidation for GBEs would result in treating similar activities differently.

### Recommendation on GBEs

59. It is recommended that the IPSASB agree not to exempt GBEs from consolidation.

#### **Matter(s) for Consideration**

5. Does the IPSASB agree with the above recommendation not to exempt GBEs from consolidation?

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<sup>10</sup> The IPSASB would also need to subsequently consider the impact of its decisions on disclosure requirements in various standards.

Options for Presentation of Information about “Certain Controlled Entities”

60. The previous section of this paper recommended that the IPSASB agree not to exempt controlled entities rescued from financial distress or GBEs from consolidation.
61. If the IPSASB agrees with these recommendations, it could still consider various presentation options within the consolidated financial statements that would assist users that might want to separately identify information about certain controlled entities. Three consolidation presentation options are considered. Some of these presentation options would have cost implications. All references to “certain controlled entities” in these options should be read as entities that the IPSASB might decide to exempt from consolidation (for example, entities rescued from financial distress and/or GBEs).
62. If the IPSASB does not agree with the recommendations in the previous section then, as indicated at the December 2013 meeting, it may consider equity accounting for certain controlled entities. Equity accounting is therefore presented as a fourth presentation option. If the IPSASB considers that equity accounting for certain controlled entities might be appropriate, staff considers that, for the sake of completeness, the IPSASB should also consider the merits of equity accounting versus fair value accounting for such investments.
63. This section of the paper:
  - (a) Identifies three options for presenting consolidated financial information in respect of “certain controlled entities” and an equity accounting option;
  - (b) Illustrates each of these four presentation options;
  - (c) Applies the objectives, user needs, qualitative characteristics and constraints developed in Phase 1 of the Conceptual Framework project to each of the presentation options; and
  - (d) Contrasts arguments used to support equity accounting and fair value.
64. All four options could be used to meet the needs both of those users who would prefer consolidated information for all controlled entities and those who would prefer that certain controlled entities not be consolidated.

**Table 2 Accounting and Presentation Options for “Certain Controlled Entities”**

<p><b>Option 1 Consolidate – more information on certain controlled entities in an extra column</b></p> <p>Present two columns on the face of the financial statements. In the first column consolidate all controlled entities. In the second column do not consolidate certain controlled entities. Instead, account for these controlled entities as investments at fair value through surplus or deficit.</p>
<p><b>Option 2 Consolidate – more information on certain controlled entities in separate line items</b></p> <p>Consolidate all controlled entities. Present information on certain entities as separate line items on the face of the financial statements. The total assets, total liabilities, net assets/equity, revenue and expenses of these entities could be shown separately from the total assets, total liabilities, net assets/equity, revenue and expenses of the remainder of the consolidated reporting entity.</p>

**Table 2 Accounting and Presentation Options for “Certain Controlled Entities”**

**Option 3 Consolidate – more information on certain controlled entities in the notes**

Consolidate all controlled entities. In the notes to the financial statements present sufficient information on certain controlled entities to allow users to assess the impact of these entities on the consolidated financial statements and “deconsolidate” if they so wish.

**Option 4 Equity account certain controlled entities plus note disclosure**

Equity account for certain controlled entities in the consolidated financial statements. . In the notes to the financial statements present sufficient information on certain controlled entities to allow users to consolidate these entities if they so wish.

The note disclosures for Option 4 would be the same as the note disclosures under Option 3.

Examples Illustrating Presentation Options

65. The illustrative examples set out in Table 3 below provide a comparison of the above presentation options. The examples are based on data from the 2012 *Public Accounts of Canada* Volume 1: Summary Report and Consolidated Financial Statements.
66. With regard to Options 3 and 4 it should be noted that, even with good note disclosure, it can be time consuming and challenging to deconsolidate or consolidate a certain group of entities.

**Table 3 Illustrative Examples of Presentation Options**

**Statement of financial position (currency unit millions)**

Accounting Options	Consolidate all – and give more information on “certain controlled entities”				Equity account “certain controlled entities”
Presentation Options:	Option 1: Extra column		Option 2: Separate lines	Option 3: Consolidation plus note disclosure of “certain controlled entities”	Option 4: Equity account plus note disclosure of ‘certain controlled entities”
	Consolidate all controlled entities	Do not consolidate “certain controlled entities”			
Assets					
Financial assets	675,900	744,461	291,721	675,900	283,316
Non-financial assets	76,669	76,669	67,959	76,669	67,959
Assets of certain controlled entities			392,889		
Equity accounted investments					34,263
Total assets	752,569	821,130 <sup>11</sup>	752.569	752,569	385,538

<sup>11</sup> The total assets figure in this column is larger than the “Consolidate all controlled entities column” because all inter-entity balances have been eliminated in the first column. The difference is largely due to the elimination of inter-entity advances.

**Statement of financial position (currency unit millions)**

Accounting Options	Consolidate all – and give more information on “certain controlled entities”				Equity account “certain controlled entities”
Presentation Options:	Option 1: Extra column		Option 2: Separate lines	Option 3: Consolidation plus note disclosure of “certain controlled entities”	Option 4: Equity account plus note disclosure of ‘certain controlled entities”
	Consolidate all controlled entities	Do not consolidate “certain controlled entities”			
Liabilities					
Liabilities	1,355,368	1,402,991		1,355,368	967,714
Core Government			1,005,818		
Certain controlled entities			329,550		
Total liabilities	1,335,368	1,402,991 <sup>12</sup>	1,335,368	1,335,368	967,714

<sup>12</sup> The total liabilities figure in this column is larger than the “Consolidate all controlled entities column” because all inter-entity balances have been eliminated in the first column. The difference is largely due to the elimination of inter-entity advances.

**Statement of financial position (currency unit millions)**

Accounting Options:	Consolidate all – and give more information on “certain controlled entities”				Equity account “certain controlled entities”
Presentation Options:	Option 1: Extra column		Option 2: Separate lines	Option 3: Consolidation plus note disclosure of “certain controlled entities”	Option 4: Equity account plus note disclosure of “certain controlled entities”
	Economic entity including “certain controlled entities”	Economic entity excluding “certain controlled entities”			

**Net assets/equity**

Accumulated deficit as reported	(582,799)	(581,861)		(582,799)		(582,176)	
Accumulated deficit of core government			(646,138)				
Equity of temporarily controlled entities and GBEs			63,339				
Elimination adjustments	(300)	(300)	(300)	(300)			
<b>Accumulated deficit</b>	<b>(583,099)</b>	<b>(582,161)</b>	<b>(583,099)</b>	<b>(583,099)</b>		<b>(582,176)</b>	

**Statement of financial performance (currency unit millions)**

Accounting Options:	Consolidate all – and give more information on “certain controlled entities”				Equity account “certain controlled entities”
Presentation Options:	Option 1: Extra column		Option 2: Separate lines	Option 3: Consolidation plus note disclosure of “certain controlled entities”	Option 4: Equity account plus note disclosure of “certain controlled entities”
	Economic entity including “certain controlled entities”	Economic entity excluding “certain controlled entities”			
Revenue	240,685	245,203		240,685	245,203
Core government revenue			211,221		
Revenue of certain controlled entities			29,464		
<b>Total revenue</b>	<b>240,685</b>	<b>245,203</b>	<b>240,685</b>	<b>240,685</b>	<b>245,203</b>
Expenses	(267,843)	(271,423)		(267,843)	(271,423)
Core government expenses			(242,776)		
Expenses of certain controlled entities			(25,067)		
<b>Total expenses</b>	<b>(267,843)</b>	<b>(271,423)</b>	<b>(267,843)</b>	<b>(267,843)</b>	<b>(271,423)</b>
Deficit as reported	(27,158)	(26,220)	(27,158)	(27,158)	(26,220)
Adjustments	15	15	15	15	
<b>Deficit</b>	<b>(27,143)</b>	<b>(26,205)</b>	<b>(27,143)</b>	<b>(27,143)</b>	<b>(26,220)</b>



**Statement of changes in net assets (currency unit millions)**

Accounting Options:	Consolidate all – and give more information on “certain controlled entities”				Equity account “certain controlled entities”
Presentation Options:	Option 1: Extra column		Option 2: Separate lines	Option 3: Consolidation plus note disclosure of “certain controlled entities”	Option 4: Equity account plus note disclosure of “certain controlled entities”
	Economic entity including “certain controlled entities”	Economic entity excluding “certain controlled entities”			
Deficit	(27,143)	(26,205)	(27,143)	(27,143)	(26,220)
Other changes in equity					
Other comprehensive loss	(2,292)	(2,292)	(2,292)	(2,292)	(2,292)
Transition to IFRS	(3,337)	(3,337)	(3,337)	(3,337)	(3,337)
Accumulated deficit at beginning of year	(550,327)	(550,327)	(550,327)	(550,327)	(550,327)
Accumulated deficit at end of year	(583,099)	(582,161)	(583,099)	(583,099)	(582,176)
Comprised of:					
Accumulated loss attributable to core government			(646,408)		
Equity attributable to certain controlled entities			63,309		

**Notes to the financial statements (currency unit millions)**

Accounting Options:	Consolidate all – and give more information on “certain controlled entities”						Equity account “certain controlled entities”		
Presentation Options:	Option 1: Extra column		Option 2: Separate lines	Option 3: Consolidation plus note disclosure of “certain controlled entities” <sup>13</sup>			Option 4: Equity account plus note disclosure of “certain controlled entities”		
	Economic entity including “certain controlled entities”	Economic entity excluding “certain controlled entities”							
				Third parties	Certain controlled entities	Total	Third parties	Certain controlled entities	Total
<b>Assets</b>									
Financial assets				384,179	76,951	461,130	384,179	76,951	461,130
Non-financial assets				8,710	-	8,710	8,710	-	8,710
Total assets				392,889	76,951	469,840	392,889	76,951	469,840
Liabilities				329,550	105,727	435,277	329,550	105,727	435,277
Equity as reported						34,563			34,563
Eliminations						(300)			(300)

<sup>13</sup> The note disclosures under Options 3 and 4 are the same. The information on certain controlled entities is to allow users to deconsolidate them in Option 3, or consolidate them in Option 4.

**Notes to the financial statements (currency unit millions)**

Accounting Options:	Consolidate all – and give more information on “certain controlled entities”						Equity account “certain controlled entities”		
Presentation Options:	Option 1: Extra column		Option 2: Separate lines	Option 3: Consolidation plus note disclosure of “certain controlled entities” <sup>13</sup>			Option 4: Equity account plus note disclosure of “certain controlled entities”		
	Economic entity including “certain controlled entities”	Economic entity excluding “certain controlled entities”							
				Third parties	Certain controlled entities	Total	Third parties	Certain controlled entities	Total
Equity						34,263			34,263
Revenues				29,464	4,518	33,982	29,464	4,518	33,982
Expenses				(25,067)	(3,580)	(28,647)	(25,067)	(3,580)	(28,647)
Surplus as reported						5,335			5,335
Adjustments and others						15			15
Surplus						5,350			5,350
Other changes in equity:									
Other comprehensive loss						(2,292)			(2,292)
Transition to IFRS						(3,337)			(3,337)
Dividends						(2,028)			(2,028)

**Notes to the financial statements (currency unit millions)**

Accounting Options:	Consolidate all – and give more information on “certain controlled entities”						Equity account “certain controlled entities”		
Presentation Options:	Option 1: Extra column		Option 2: Separate lines	Option 3: Consolidation plus note disclosure of “certain controlled entities” <sup>13</sup>			Option 4: Equity account plus note disclosure of “certain controlled entities”		
	Economic entity including “certain controlled entities”	Economic entity excluding “certain controlled entities”							
				Third parties	Certain controlled entities	Total	Third parties	Certain controlled entities	Total
Capital						(656)			(656)
						(2,963)			(2,963)
Accumulated surplus at beginning of year						37,226			37,226
Accumulated surplus at end of year						34,263			34,263

## Pros and Cons of Presentation Options

67. In Table 4 below the pros and cons of each presentation option are considered alongside the qualitative characteristics of, and constraints on, information included in GPFRs. The qualitative characteristics are those approved by the IPSASB in December 2012 and set out in Chapter 4 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. Staff acknowledges that these assessments are subjective but hopes that they assist members in comparing the merits of the various presentation options.

**Table 4 Qualitative Characteristics**

Qualitative Characteristics and Constraints	Consolidate all – and give more information on “certain controlled entities”						Equity account “certain controlled entities”	
	Option 1: Extra columns		Option 2: Separate lines		Option 3: Note disclosure		Option 4: Equity account plus note disclosure	
	Pros	Cons	Pros	Cons	Pros	Cons	Pros	Cons
<b>Relevance:</b>  Capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. Information has confirmatory value if it confirms or changes past (or present) expectations.	Consolidation of all controlled entities provides users with relevant information about the reporting entity as a whole, including all the assets that the reporting entity controls and an overview of the financial risks to which the reporting entity is exposed. Information for users with different views about the usefulness of consolidating certain entities is available on the face of the statements.	Some users are more interested in the parent reporting entity and how the parent entity is likely to perform. Providing both consolidated and unconsolidated information may be confusing for users. Disclosure is not a substitute for appropriate accounting. Some would argue that consolidating entities from different statistical sectors undermines the relevance of the consolidated information.	Same as Option 1.	Some users are more interested in the parent reporting entity (eg, central government operations) and how the parent entity is likely to perform. Users interested in consolidated line item totals would need to add two line items together. Some user effort required to obtain unconsolidated data.	Same as Option 1 but the additional information is available in the notes.	Some would argue that consolidating entities from different statistical sectors is not relevant.	Equity accounting would provide information on the net position of all controlled entities. Equity accounting would provide more complete information than accounting for the investment at cost.	Equity accounting would provide only limited information about the whole reporting entity and its risk exposures. Some would argue that consolidating entities from different statistical sectors undermines the relevance of the consolidated information.

Issues Arising from EDs (Update of IPSASs 6 to 8)  
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Qualitative Characteristics and Constraints	Consolidate all – and give more information on “certain controlled entities”						Equity account “certain controlled entities”	
	Option 1: Extra columns		Option 2: Separate lines		Option 3: Note disclosure		Option 4: Equity account plus note disclosure	
	Pros	Cons	Pros	Cons	Pros	Cons	Pros	Cons
<b>Faithful representation:</b>  Depicting phenomena completely, in a neutral manner, free from material error.  Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.	Consolidated financial statements including the controlling entity and all controlled entities present a true and fair view of the financial affairs of the reporting entity.	Providing both consolidated and unconsolidated information may result in users questioning which information faithfully represents the affairs of the reporting entity.	Same as Option 1.		Same as Option 1.	Providing both consolidated and unconsolidated information may result in users questioning which information faithfully represents the affairs of the reporting entity.	Equity accounting would give a faithful representation of the total net position of the reporting entity.	Does not reflect all the assets and liabilities of the economic entity.
<b>Understandability:</b> Enabling users to comprehend the meaning of information by, for example, presenting information in a manner that responds to the needs and knowledge base of users and nature of the information	With both consolidated and unconsolidated information presented users have access to the information that is most understandable to them for their purposes and in their circumstances (be	Presenting both consolidated and unconsolidated information may result in users being provided with too much information which could undermine overall understandability.  Consolidating	Users wanting information about controlled entities distinguished from information about the controlling entity have access to this information in a clear manner.	Too much information and sub-categories on the face of the financial statements could undermine users understanding of all the information presented.	Users might be required to use note disclosures to make adjustments to the reported information to obtain the information that best meets their needs.	Depending on the quality of the note disclosure users might find it difficult to prepare consolidated information.	Users may find it easier to understand the impact of equity accounting (rather than consolidating) certain entities on the financial statements.  If the different accounting	Equity accounting some controlled entities and not others may undermine users’ understanding of reported information.  Consolidating entities from

Issues Arising from EDs (Update of IPSASs 6 to 8)  
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Qualitative Characteristics and Constraints	Consolidate all – and give more information on “certain controlled entities”						Equity account “certain controlled entities”	
	Option 1: Extra columns		Option 2: Separate lines		Option 3: Note disclosure		Option 4: Equity account plus note disclosure	
	Pros	Cons	Pros	Cons	Pros	Cons	Pros	Cons
presented.	it the consolidated or the unconsolidated information).	entities from different statistical sectors may undermine the understandability of the consolidated information reported.					treatment is linked to differences in types of entities it may be more understandable.	different statistical sectors may undermine the understandability of the consolidated information reported.
<b>Timeliness:</b> Providing information before it loses its capacity to be useful for accountability and decision-making purposes.	The necessary information is likely to be collected as part of normal reporting cycles, therefore, the information is likely to be available in a timely manner.	If additional time were required to prepare both sets of information (consolidated and unconsolidated) it could adversely affect timeliness.	The necessary information is likely to be collected as part of normal reporting cycles, therefore, the information is likely to be available in a timely manner.	If additional time were required to prepare this information it could adversely affect timeliness.	The necessary information is likely to be collected as part of normal reporting cycles, therefore, the information is likely to be available in a timely manner.	Having to disclose information sufficient for users to be able to perform a consolidation may be just as time consuming as including the information on temporarily controlled entities in reporting entity's group consolidation.	Less information is required than for consolidation, so timeliness may be slightly better.	Information is still required to align accounting policies and make adjustments for unrealised gains and losses.
<b>Comparability:</b> Enabling users to identify similarities in, and differences between, two sets of phenomena through, for example, consistency but not uniformity.	Consolidation of all controlled entities results in consistent accounting for all controlled entities which facilitates users comparing results of one reporting entity with results of other reporting entities as a whole.	Comparability may be undermined by users having multiple sets of information to consider and compare.	Same as Option 1.		Same as Option 1.		The types of entities that are exempt from consolidation would need to be reasonably consistent over time and between entities for comparability.	Comparability will be more difficult if entities change from being consolidated to equity accounted between periods. Consolidating some entities whilst equity accounting others may

Issues Arising from EDs (Update of IPSASs 6 to 8)  
IPSASB Meeting (March 2013)

Qualitative Characteristics and Constraints	Consolidate all – and give more information on “certain controlled entities”						Equity account “certain controlled entities”	
	Option 1: Extra columns		Option 2: Separate lines		Option 3: Note disclosure		Option 4: Equity account plus note disclosure	
	Pros	Cons	Pros	Cons	Pros	Cons	Pros	Cons
								undermine comparability.
<b>Verifiability:</b> Assuring users that information in GPFs faithfully represents the phenomena that it purports to represent implying that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either: (i) the information represents the economic and other phenomena that it purports to represent without material error or bias; or (ii) an appropriate recognition, measurement, or representation method has been applied without material error or bias.		With both consolidated and unconsolidated information presented users may question which information most faithfully represents the affairs of the reporting entity.						If some controlled entities are consolidated and others are equity accounted users may question which information faithfully represents the affairs of the reporting entity.
<b>Materiality:</b> Information is material if its omission or misstatement could influence the discharge of	With both consolidated and unconsolidated information presented no material information is	Given the nature of the relationship between the controlling and controlled entities some may consider the	No material information is omitted.		No material information is omitted.		Equity accounting provides material information about an entity's <u>net</u>	Equity accounting does not provide material information about the composition of



Issues Arising from EDs (Update of IPSASs 6 to 8)  
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Qualitative Characteristics and Constraints	Consolidate all – and give more information on “certain controlled entities”						Equity account “certain controlled entities”	
	Option 1: Extra columns		Option 2: Separate lines		Option 3: Note disclosure		Option 4: Equity account plus note disclosure	
	Pros	Cons	Pros	Cons	Pros	Cons	Pros	Cons
accountability, or the decisions that users make on the basis of GPFRs and is judged in the context of the reporting entity based on both the nature and amount of the item in question.	omitted.	unconsolidated information to be materially misstated as it would not include all material information about the reporting entity as a whole.					<u>position</u> .	assets and liabilities within the reporting entity.
<b>Cost-benefit:</b> The benefits of financial reporting should justify the costs imposed by financial reporting.	Entities will already have unconsolidated information available.	There may be additional costs with presenting two sets of information.	Entities are likely to have the necessary information for separate line item disclosures.	There may be additional costs with presenting additional line items.	Entities are likely to have the necessary information to make separate disclosures about certain categories of controlled entities.	There may be additional costs with presenting additional note disclosures. Users wanting to eliminate the impact of certain controlled entities from the consolidated statements will incur costs (time/effort).	Equity accounting is likely to impose less cost than full consolidation.	Some would argue that the information provided by equity accounting is of less benefit than that provided by consolidation. Users that would prefer full consolidation would incur costs if they try to compile consolidated information.
<b>Balance between qualitative characteristics:</b> Qualitative characteristics work together to contribute to the usefulness of information.	Both consolidated and unconsolidated information is useful for different purposes and users will be able to assess performance and position of both the controlling entity and the reporting entity as a whole. With both	Presenting both consolidated and unconsolidated information could undermine some of the qualitative characteristics such as understandability.	With information about certain controlled entities distinguished from information about the controlling entity users will be able to assess performance and position of both certain controlled entities and the reporting entity as a whole. With all controlled	Presenting both consolidated and unconsolidated information could undermine some of the qualitative characteristics such as understandability.	Same as Option 2.		(a)	If some controlled entities are consolidated but others are not: (b) there is a risk of abuse of exemptions from general principles of control; and (c) accounting treatments may change

Issues Arising from EDs (Update of IPSASs 6 to 8)  
IPSASB Meeting (March 2013)

Qualitative Characteristics and Constraints	Consolidate all – and give more information on “certain controlled entities”						Equity account “certain controlled entities”	
	Option 1: Extra columns		Option 2: Separate lines		Option 3: Note disclosure		Option 4: Equity account plus note disclosure	
	Pros	Cons	Pros	Cons	Pros	Cons	Pros	Cons
	consolidated and unconsolidated information presented; (a) there is no need for an exemption from consolidation; (b) there is little risk of abuse of exemptions from general principles of control; and (c) accounting treatments are unlikely to change simply because of changes in intention or failure to meet bright-line rules.		entities consolidated: (a) there is no need for an exemption from consolidation and (b) there is no risk of abuse of exemptions from general principles; and (c) accounting treatments will not change simply because of changes in intention or failure to meet bright-line rules.					simply because of changes in intention or failure to meet bright-line rules.

Recommendations on Presentation Options

68. The consolidation presentation options discussed above are relevant only if the IPSASB considers that it is important to present information on certain controlled and consolidated entities separately.
69. It is recommended that if the IPSASB considers that it is important to present information on certain controlled entities separately that the IPSASB:
- (a) Identify which group of controlled entities it considers should be separately presented;
  - (b) Agree to require separate presentation by way of Option 2, (being consolidate and present information about certain controlled entities on separate lines) on the grounds that:
    - (i) It would be easier for users to access information on the face of the financial statements (Options 1 and 2) than in the notes (Option 3);
    - (ii) It would be easier for users to assess the relative amounts associated with certain controlled entities if this information were presented in separate line items.

**Matter(s) for Consideration**

6. If the IPSASB considers that it is important to present information on certain controlled and consolidated entities separately does the IPSASB support Option 2 (being consolidate and present information about certain controlled entities on separate lines)?

70. If the IPSASB does not support consolidation of all controlled entities and is considering requiring the use of the equity method for certain controlled entities then the next section of this paper is relevant.

Equity Accounting or Fair Value Accounting for Certain Investments

71. The IPSASB decided in December 2012 to give further consideration to the use of the equity method for certain categories of controlled entities. Although the IPSASB did not wish to pursue the option of accounting for such entities as investments, in order to fully consider the merits of equity accounting, it is relevant to consider which method, equity accounting or fair value, would best meet the qualitative characteristics.
72. It is worth noting that in deciding not to require the consolidation of investment entities the IASB decided to follow a fair value approach.
73. For consideration, in the table below are arguments that might be used in support of equity accounting or using fair value when accounting for investments in certain controlled entities. Staff has tried to identify a range of views – they are not necessarily the views of staff.

**Table 5 Arguments for Fair Value and Equity Accounting**

<b><i>Arguments for fair value</i></b>	<b><i>Arguments for equity accounting</i></b>
Fair value reporting provides the most relevant and decision useful information to investors in most (if not all) circumstances.	In the case of investments in entities with ownership instruments that are not traded in an active market or whose ownership instruments are traded in a market that has become illiquid, equity accounting may provide more reliable information than fair value. This argument could apply to a number of public sector investments.
Consolidation or equity accounting would not produce more additional useful information for users than fair value accounting would provide.	
Fair value information supplemented by additional disclosure about the composition of investments in <i>certain controlled entities</i> should provide users with sufficient information about exposure to these entities for accountability and decision-making purposes.	
Accounting for investments at fair value better aligns accounting with the investor's intentions. If control is intended to be temporary, value realization is a primary consideration in assessing whether to hold the investment or dispose of the investment. Short term investors are most likely to be interested in investment returns rather than operating performance of an investment. Fair value provides users with the most meaningful information to evaluate the performance of a temporary investment and to compare alternatives.	Even though it may be intended that control is temporary, sometimes it is not possible to dispose of investments within a short timeframe. If control is held for a longer period of time a longer-term view must be taken and other information (other than just fair value) becomes relevant (such as information on assets, cash flow stability or earnings and earning capacity). In which case equity accounting may provide more relevant information and a more faithful representation of the controlling entity's interest in these entities.
If control is intended to be temporary the value of the investment is likely to be realized through sale in the form of a return of the investment together with a proportionate share of any capital appreciation, investment income, or both. Therefore the most useful information to enable users to understand the status of the investment is the change in its fair value.	

<b>Arguments for fair value</b>	<b>Arguments for equity accounting</b>
Line by line consolidation (or equity accounting) may obscure a user's ability to make appropriate decisions by overemphasizing the assets and operations of the investee as opposed to the fair value of the investment. Fair value accounting provides more transparent information about investments in <i>certain controlled entities</i> by facilitating a clear distinction between the core activities of the reporting entity and activities of <i>certain controlled entities</i> .	Equity accounting is likely to achieve the same net asset position and net surplus as would consolidation but without the disadvantages of full consolidation (disadvantages such as the potential cost imposed by consolidation and the drawback of consolidating activities unrelated to the primary activities of the reporting entity).
Investments may be disposed of gradually (rather than in their entirety). If <i>certain controlled entities</i> are consolidated, as ownership percentages change, the reporting entity will have to change its accounting for these investments (from consolidation to equity accounting to accounting at fair value) which would reduce comparability over time. Applying fair value accounting throughout the life of an investment enhances comparability over time. It also reduces the cost of changing accounting methods over time.	Investments in <i>certain controlled entities</i> may be disposed of gradually (rather than in their entirety). If such entities are consolidated, as ownership percentages in those investments change, the reporting entity will have to change its accounting for these investments (from consolidation to equity accounting to accounting at fair value) which would reduce comparability over time. Applying equity accounting throughout the life of an investment in these entities may enhance comparability over time.
Equity accounting provides more transparent information about investments in certain controlled entities by facilitating a clear distinction between the core activities of the reporting entity and activities of certain entities.	Equity accounting provides more transparent information about investments in <i>certain controlled entities</i> by facilitating a clear distinction between the core activities of the reporting entity and activities of certain entities.
Equity accounting may be more expensive than fair value accounting in some circumstances. For example, if the reporting entity holds shares in a controlled entity whose shares are listed in a stock exchange. Generally however, equity accounting would be less expensive than consolidation.	Equity accounting may be less costly to apply than fair value accounting, particularly for controlled entities whose shares are traded in a market that has become illiquid.
Some entities rescued from financial distress are financial institutions and are listed entities rather than trading companies. Fair value provides the most relevant information about	Some entities rescued from financial distress are financial institutions. A large proportion of the items on the statements of financial position of such entities will already be

<b>Arguments for fair value</b>	<b>Arguments for equity accounting</b>
these types of entities.	measured at fair value as appropriate depending on the nature of the items and the business model of the entities in question. As such relevant fair value movements are already captured in the surplus and equity of the entity. Equity accounting for investments in these entities will therefore already capture relevant movements in fair value.
If fair value is used, there is no need to form a judgment about the existence of significant influence.	
The use of fair value for investments makes the entity's statement of financial position more transparent. If investments are valued at prevailing market prices it is easier to explain to users how assets were valued.	
The use of fair value for investments makes it easier for investors to compare the performance and worth of investments (both over time and between entities).	
<p>More consistent with GFSM 2001.</p> <p>GFSM 2001 paragraph 7.119 states that "If possible, shares and other equities should be valued at their current prices on stock exchanges or other organized financial markets, including the shares of public corporations that are actively traded.</p>	<p>More consistent with IPSAS 22.</p> <p>IPSAS 22, paragraph 25, requires that the GGS recognize its investments in in the Public Financial Corporations Sector and the Public-Non-Financial Corporation Sector at the carrying amount of the net assets of its investees.</p>

#### Recommendation on Fair Value versus Equity Accounting

74. It is recommended that the IPSASB:

- (a) Note that staff recommended consolidation of all controlled entities. In that case neither fair value nor equity accounting for any controlled entities in the consolidated financial statements would be appropriate;
- (b) Note that if the IPSASB disagrees with the staff recommendation regarding consolidation then both equity accounting and fair value accounting are options; and

- (c) Note that if the IPSASB decides to require an accounting treatment for certain controlled entities other than consolidation, staff considers that the arguments for fair value are more compelling than the arguments for equity accounting.

#### Matter(s) for Consideration

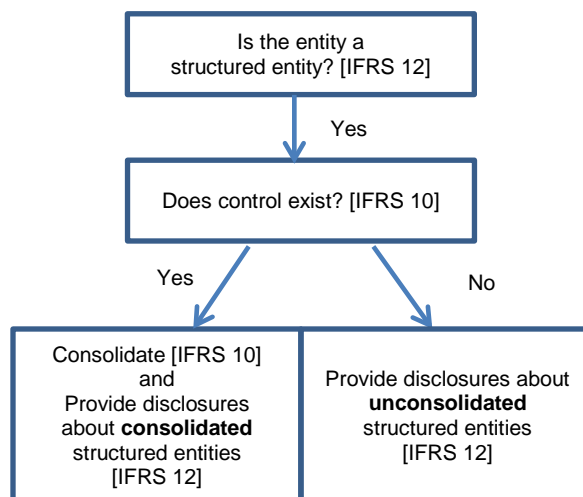
7. Does the IPSASB agree that, if it were to require an accounting treatment for certain controlled entities other than consolidation, the arguments for fair value are more compelling than the arguments for equity accounting?

## Disclosure Issues

### Background

75. In December 2012 the IPSASB considered the appropriateness and usefulness of the disclosures in IFRS 12, *Disclosure of Interests in Other Entities* in the public sector context. The IPSASB expressed reservations about the usefulness of the disclosures in IFRS 12 regarding structured entities and requested more research on the types of structured entities that are likely to be consolidated in the public sector. The IPSASB also indicated that it would like to consider further when disclosure of exposure to financial and operating risk would be appropriate and the extent to which information is already disclosed in accordance with IPSASs.
76. The following diagram explains the link between the consolidation requirements in IFRS 10, *Consolidated Financial Statements* and the disclosure requirements in IFRS 12, *Disclosure of Interests in Other Entities*.

Diagram 1 Structured Entities



77. Because IFRS 10 and IFRS 12 are relatively new standards, there are few examples of how the standards have been applied in practice, and even fewer examples where their application in the public sector has been considered. However, there are a number of similarities between the guidance in IFRS 10 and SIC-12 which means that discussions on SIC-12 may still be useful.
78. In order to try and answer the IPSASB's question about the circumstances in which public sector entities would meet the definition of structured entities and be consolidated, this section of the paper:
- (a) Briefly explains and contrasts the previous IFRSs requirements regarding special purpose entities;
  - (b) Identifies circumstances in which special purpose entities are commonly formed;
  - (c) Identifies public sector examples of special purpose entities;
  - (d) Considers how similar structured entities are to special purpose entities;
  - (e) Considers the types of risks that a sponsor or originating entity is exposed to; and
  - (f) Considers the disclosures in various IPSASs and whether these disclosures would address the reasons why the IFRS 12 structured entity disclosures were developed.
79. This exercise has involved some conjecture and may not have identified the full range of entities that could meet the definition of a structured entity under IFRS 12.<sup>14</sup> However, staff hopes that the discussion in this section of the paper gives the IPSASB sufficient information to consider the appropriateness of the IFRS 12 structured entity disclosure requirements for public sector entities.

#### Previous IFRSs Requirements Regarding Special Purpose Entities

80. An SPE is a legal entity created at the direction of a sponsoring entity (which may also be referred to as the sponsor, originator, seller, or administrator). In the private sector the sponsor is typically a major bank, finance company, investment bank or insurance company. In the public sector the sponsor can be a government itself or a government owned entity engaged in banking, financing, etc.
81. SIC-12 is an interpretation of IAS 27 (as amended in 2008). It was written as an anti-abuse measure to prevent entities from manipulating financial statements through the creation of special purpose entities. Application of SIC-12 resulted in the consolidation of many SPEs. SIC-12 described an SPE as an entity created to accomplish a narrow and well-defined objective. It gave examples of SPEs and discussed the forms they may take. It noted that the IFRS dealing with consolidation at that time, being IAS 27, *Consolidated and Separate Financial Statements* did not provide explicit guidance on the consolidation of SPEs. SIC-12 required that an entity consolidate an SPE "when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity."

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<sup>14</sup> Part of the conjecture relates to the lack of publicly available material to determine whether special purpose entities or special purpose vehicles created by governments would have met the definition of an SPE in SIC-12, *Consolidation—Special Purpose Entities*.



82. SIC-12 stated that control may arise through the predetermination of the activities of an SPE (operating on “autopilot”) or otherwise. It effectively used a risks and rewards approach to identify when an entity controlled an SPE. It stated that an entity may control an SPE when:
- (a) In substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE’s operation;
  - (b) In substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an “autopilot” mechanism, the entity has delegated these decision making powers;
  - (c) In substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
  - (d) In substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities. (SIC-12, paragraph 10)
83. When applying SIC-12 in practice, the focus tended to be on whether a party had the majority of the risks and rewards, not least because this was relatively easy to assess by looking at which party provided credit enhancement and was entitled to any excess spread or other residual cashflows from the SPE. ‘Risks and rewards’ in this context was generally considered as exposure to the variability in the cashflows of the SPE. For example, in a securitisation transaction the party holding rights to the express spread and providing the credit enhancement would have a majority of risks and rewards even if the more senior notes were all issued to third parties.<sup>15</sup>

#### Circumstances in which Special Purpose Entities are Commonly Formed

84. SIC-12 stated that SPEs could include entities established to effect a lease, research and development activities or a securitisation of financial assets. In some jurisdictions SPEs may also be referred to as Special Purpose Vehicles (SPVs). The legal form of an SPE and the way in which it operates is governed by the legislative requirements in a jurisdiction. SPEs can be created through a variety of entities, such as trusts, corporations, limited partnerships, and limited liability corporations.
85. Generally SPEs are created for a very specific and limited use. It may be separated from the sponsoring or parent entity for legal and tax reasons and is usually created to isolate the parent entity from risk. In addition to isolating the parent entity from risks, the SPE itself may be protected from the risk of the parent entity becoming insolvent.
86. An SPE may be established by a sponsoring entity but may be controlled by several entities working together.
87. SPEs may also be referred to as special purpose vehicles or financial vehicle corporations (FVC). In Europe the an “FVC” is defined by the European Central Bank as entity whose principal activity meets both of the following criteria:
- (a) It carries out securitisation transactions and is insulated from the risk of bankruptcy or any other default of the originator.

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<sup>15</sup> Discussion based on PwC *Structured Finance Consolidation—Special Purpose Entities* 2 30/05/2012

- (b) It issues securities, securitization fund units, other debt instruments and/or financial derivatives and/or legally or economically own assets underlying the issue of securities, securitization fund units, other debt instruments and/or financial derivatives that are offered for sale to the public or sold on the basis of private placements.

88. Circumstances in which SPEs have commonly been formed include one or more of the following:<sup>16</sup>

- (a) To securitize assets such as loans (or other receivables). Asset securitizations typically involve issuing bonds that are backed by the cashflows of income-generating assets (ranging from credit card receivables to residential mortgage loans). For example, a bank may wish to issue a mortgage-backed security whose payments come from a pool of loans. However, to ensure that the holders of the mortgage-backed securities have the first priority right to receive payments on the loans, these loans need to be legally separated from the other obligations of the bank. This is done by creating an SPE, and then transferring the loans from the bank to the SPE.
- (b) To securitize liabilities. Liability securitisations typically involve issuing bonds that assume the risk of a potential insurance liability (ranging from a catastrophic natural event to an unexpected claims level on a certain product type).
- (c) To manage specific assets and associated permits and contract rights. An SPE may pay for transferred assets by issuing securities to investors in the capital markets. The interest and principal due under the securities may be paid from the revenue stream from the assets purchased by the SPE.
- (d) To facilitate transfer of the assets referred to in (a) above. Many permits required to operate certain assets (such as power plants) are either non-transferable or difficult to transfer. By having an SPE own the asset and all the permits, the SPE can be sold as a self-contained package, rather than attempting to assign over numerous permits.
- (e) To share risks (including finance risks): Entities may use SPEs to legally isolate a high risk project/asset from the parent entity and to allow other investors to take a share of the risk. The nature of the parent's risks depend on whether the parent has provided any guarantees, for example guarantees concerning the performance of financial assets transferred.
- (f) To raise finance for a specific project and to isolate the parent entity from the risks of that project.
- (g) To structure finance. A structured entity might be established to combine otherwise unrelated credit components (exposure to one or more corporate entities), interest rate components (fixed, floating, inflation-linked, etc) and maturity components that are not currently available "packaged together" in the marketplace;
- (h) To shelter new inventions and other developments;
- (i) To circumvent regulatory restrictions, such as regulations relating to nationality of ownership of specific assets;

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<sup>16</sup> Sources include [http://en.wikipedia.org/wiki/Special\\_purpose\\_entity](http://en.wikipedia.org/wiki/Special_purpose_entity) (accessed 19 February 2013) and Basel Committee on Banking Supervision, The Joint Forum Report on Special Purpose Entities, September 2009

- (j) To achieve certain taxation outcomes. For example, if a country has different tax rates for capital gains and gains from property sales there may be taxation advantages in having a single property owned by a separate entity; and
  - (k) To avoid reporting assets and liabilities in consolidated financial statements. This has been easier to achieve in some jurisdictions than others. In the case of entities reporting in accordance with IFRSs, both SIC-12 (and subsequently IFRS 10) have limited the ability of entities keep assets and liabilities off the financial statements of the originator.
89. SPEs have been used in the public sector for many of the purposes identified above. They have also been used for combinations of these purposes such as in the establishment of public private partnerships. Few examples can be found that separate SPEs from PPP.

#### Structured Entities and Risk<sup>17</sup>

90. Structured entities and the securitisation transactions that employ them can be viewed as a way of disaggregating the risks of an underlying pool of exposures and reallocating those risks to those parties most willing to take on those risks. Originating or sponsoring institutions can use structured entities for risk management purposes, such as to transfer credit, interest rate, market, event, or insurance risks to other parties.
91. Several factors will determine the level of risk that is transferred from an originator to a structured entity. These factors include:
- (a) Whether the originator has retained a position in the capital structure of the new entity and, if so, what position;
  - (b) Triggers such as market value triggers that require certain actions from the originator; and
  - (c) Reputational risk and franchise risk. These risks could lead originators to provide non-contractual support to investors in structured entities;
92. The originating entity will have a view on the nature and amount of risk it has transferred through a structured entity. However, both the originating entity and the investors in the structured entity may misestimate the degree of risk transfer associated with certain structures and there is some evidence (The Joint Forum Report on Special Purpose Entities, 2009) that some sponsoring entities have not adequately monitored aggregate risk exposures. Two recommendations in that report related to better monitoring and reporting of risk exposures. These two recommendations were:
- (a) Firms should monitor on an on-going basis the quality of transferred exposures in relation to the risk profile of the firm's remaining portfolios and the impact on its balance sheet components, and supervisors should where appropriate assess systemic implications of risk dispersion to transferees.

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<sup>17</sup> Much of the discussion in this subsection is based on *The Joint Forum Report on Special Purpose Entities*, issued by the Basel Committee on Banking Supervision in September 2009. It has been assumed that most of the comments made in that paper in respect of special purpose entities would also apply to the newer concept of structured entities.

- (b) Firms should have the capability to aggregate, assess and report all their SPE exposure risks in conjunction with all other firm-wide risks.
93. The nature and amount of risk transferred depend on the type of arrangement. In some cases the originator may have minimal or non-existent residual risk whereas in other cases the arrangement may not have reduced the originator's risk exposures at all. The level of retained risk also depends on whether the originator holds an interest in ownership instruments of the arrangement.
94. If adverse situations occur an originator may be obliged to bring the assets and liabilities of the arrangement back onto its financial statements. In addition there may be reasons why an originator would voluntarily do this (such as the realization of other risks that could be detrimental to the originator). If this occurs, the originator may experience funding and liquidity problems, adverse changes in its financial statement ratios, and increase the expectations of other parties to the arrangement that it will take similar action in respect of other arrangements.

#### Similarities between Structured Entities and SPEs

95. In the IASB's opinion, the type of entity characterized as a structured entity is unlikely to differ significantly from a special purpose entity as described in SIC-12, *Consolidation—Special Purpose Entities* (Basis for Conclusions on IFRS 12, paragraph BC82). The IASB deliberately included guidance in IFRS 10 similar to that in SIC-12 to give effect to its intention that the term 'structured entity' should capture a set of entities similar to SPEs in SIC-12.
96. IFRS 10 is based on a single control model, being the view that all assets and liabilities under the control of an investor should be consolidated regardless of how those assets and liabilities have been structured in other entities. The approach taken in IFRS 10 (to have a single definition of control that is applied in all circumstances) was partly in response to the way in which structured entities had changed.
97. The definition of control in IFRS 10 is applied to all potentially controlled entities, including structured entities. The proposed definition of control in ED X, *Consolidated Financial Statements* (based on the definition in IFRS 10) is:
- Control: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature and amount of those benefits through its power over the other entity.
98. IFRS 10 requires an investor to consider the purpose and design of the SPE, including a consideration of the risks the SPE was expected to be exposed to, the risks it was designed to pass on to the parties involved with the SPE and whether the investor is exposed to some or all of those risks or potential returns.
99. Aspects of IFRS 10 that may be particularly relevant when assessing whether there is control of a structured entity include:

#### Power

- (a) Power is not limited to voting rights that come from holding equity instruments. Power can also come from other contractual arrangements or a combination of voting rights and contractual arrangements.

- (b) Power must be exercisable, not necessarily exercised. So an entity that appears to have a passive interest may have control if it has powers that are still to be exercised.
- (c) Other parties may also have rights that need to be considered, but it is still possible for an entity to have control over a structured entity even when other parties have protective rights, including special rights to veto certain decisions.

#### Returns

- (d) The concept of returns in IFRS 10 is broad and, in addition to dividends and other distributions, may also include upfront fees, access to cash, servicing fees and cost savings. Returns can include fees or revenue in respect of assets transferred by the potential controlling to the structure entity (for example, a servicing fee in respect of loan receivable and revenue from a land development).

#### Power

- (e) An entity must have the ability to use its power over the structured entity to affect its return from its involvement with the structured entity. Decision making rights on their own (eg as an agent) do not necessarily give rise to control – there must also be exposure or rights to variable returns.

100. The proposed definition of a structured entity in ED X *Disclosure of Interests in Other Entities* (based on the definition in IFRS 12) is:

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.

101. The definition of structured entities is likely to capture a number of the arrangements that were previously referred to as “special purpose entities” in SIC 12 *Consolidation—Special Purpose Entities*.<sup>18</sup> However, there may be some differences between structured entities and special purpose entities.
102. The global financial crisis which started in 2007 saw the emergence of new types of structured entities. Assets and liabilities of reporting entities were transferred to, or securitised in, special purpose vehicles. Troubled debts of financial institutions were restructured and sold to structured entities, although in some cases the transferor-entity continued to be involved in those structured entities. Some reporting entities (particularly governments!) also provided social and financial support to troubled entities during the financial crisis although they did not have a legal or constructive obligation to do so. Involvement in those non-conventional entities exposed reporting entities to risks, both financial and reputational. Users, particularly existing and potential investors and lenders, expressed concerns that it had become increasingly difficult to analyse properly an entity's returns and exposure to risks when some assets and liabilities were parked in separate vehicles.

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<sup>18</sup> The guidance previously found in SIC-12 was not incorporated in IPSAS 6. However, in the absence of guidance in IPSASs, entities applying IPSASs could consider the hierarchy of guidance referred to in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

103. One key difference between SIC-12 and IFRS 10 is that whereas SIC-12 considered whether a party had effectively predetermined the policies of an SPE at inception, the focus of IFRS 10 appears to be on which party exercises the limited decisions that remain to be taken during the life of the transaction. This may result in a party such as a servicer or asset manager being deemed to have 'power' in relation to an SPE, even if the only relevant activity is deciding what to do when an asset defaults. The servicer would only consolidate however if it also had exposure to variable returns (using the IFRS 10 terminology) from its involvement with the SPE and the ability to use its power to affect the amount of those returns.
104. IFRS 12 requires disclosures in respect of both consolidated and unconsolidated structured entities. The intention of these disclosures is to assist users in forming assessments about the current and potential future impact of these entities on the financial position and performance of the economic entity. Because of the way they are structured these entities may have a greater impact on an entity's financial performance and financial position than would normally be obvious from the financial statements.

#### Relevant Disclosures in IPSASs

105. IFRS 12 requires disclosures about both consolidated and unconsolidated structured entities. In respect of:
- (a) Consolidated structured entities it requires an entity to disclose whether it is required, either through a contractual agreement or a special relationship (e.g., the entity being a sponsor), to provide support to a structured consolidated entity. This is a new requirement, although IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* (paragraph 100) already requires an entity to provide information on contingent liabilities, including an estimation of the financial effect of the contingent liability. This disclosure provides users with information about the risks associated with the interest in such entities, and the level of support provided by an entity to structured entities.
  - (b) Unconsolidated structured entities it requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, the entity's interest in those unconsolidated structured entities. The IASB developed these disclosures in response to requests from users, regulators and others to improve the disclosure requirements for what are often described as 'off balance sheet' activities, particularly securitisation vehicles and asset-backed financings.
106. In December 2012 the IPSASB indicated that, in conjunction with considering the usefulness of these disclosures in the public sector, it would like to consider the extent to which some of the risks associated with structured entities might be disclosed in accordance with existing IPSASs.
107. IPSASs that require disclosures about operating and financial risks include:
- (a) IPSAS 1, *Presentation of Financial Statements*;
  - (b) IPSAS 18, *Segment Reporting*;
  - (c) IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;
  - (d) IPSAS 27, *Agriculture*;

- (e) IPSAS 30 *Financial Instruments: Disclosures*; and
- (f) IPSAS 32, *Service Concession Arrangements: Grantor*.

108. A summary of the relevant requirements is set out below. The purpose of providing this summary is to assist the IPSASB is considering how the disclosures required by IFRS 12 would interact with these other requirements and the extent to which they would provide information over and above that which is currently required.

<b>Table 6</b>	<b>IPSASs Requiring Risk Disclosures</b>
IPSAS 1.16	Notes that "General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties.
IPSAS 1.129	States that notes include information about <ul style="list-style-type: none"> <li>(i) Contingent liabilities (see IPSAS 19), and unrecognized contractual commitments; and</li> <li>(ii) Non-financial disclosures, e.g., the entity's financial risk management objectives and policies (see IPSAS 30).</li> </ul>
IPSAS 1.140	140. An entity shall disclose in the notes information about (a) the key assumptions concerning the future, and (b) other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of: <ul style="list-style-type: none"> <li>(a) Their nature; and</li> <li>(b) Their carrying amount as at the reporting date.</li> </ul> This disclosure is not required for amounts measured at fair value.
IPSAS 18.22	One of the factors to be considered when deciding whether financial information should be reported on a geographical basis is "Special needs, skills, or risks associated with operations in a particular area"
IPSAS 19	Requires: <ul style="list-style-type: none"> <li>(c) Recognition of provisions in certain circumstances, including provisions for onerous contracts;</li> <li>(d) Disclosure Of classes of provisions, including uncertainty surrounding the best estimate of a provision;</li> <li>(e) Disclosure of contingent liabilities.</li> </ul> It does not apply to executory contracts unless they are onerous.

Table 6	IPSASs Requiring Risk Disclosures
IPSAS 19.22	<p>A provision shall be recognized when:</p> <ul style="list-style-type: none"> <li>(a) An entity has a present obligation (legal or constructive) as a result of a past event;</li> <li>(b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and</li> <li>(c) A reliable estimate can be made of the amount of the obligation.</li> </ul>
IPSAS 19.50-52	<p>50. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.</p>
IPSAS 19.98(b)	<p>Disclose, for each class of provision:</p> <p>An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 58</p>
IPSAS 27.47(d)	<p>Requires disclosure of “Financial risk management strategies related to agricultural activity.”</p>
IPSAS 30.1	<p>The objective of this Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate:</p> <ul style="list-style-type: none"> <li>(a) The significance of <i>financial instruments</i> for the entity’s financial position and performance; and</li> <li>(b) The nature and extent of risks arising from <i>financial instruments</i> to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.</li> </ul>
IPSAS 30	<p>Definitions</p> <p>An equity instrument is “Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.”</p> <p>A financial asset is: “Any asset that is:</p> <ul style="list-style-type: none"> <li>(a) Cash;</li> <li>(b) An equity instrument of another entity;</li> <li>(c) A contractual right: <ul style="list-style-type: none"> <li>(i) To receive cash or another financial asset from another entity; or</li> <li>(ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or</li> <li>(iii) A contract that will or may be settled in the entity’s own equity instruments and is.....(refer to the Glossary of Defined Terms for the full definition).</li> </ul> </li> </ul>



Table 6	IPSASs Requiring Risk Disclosures
IPSAS 32.31 IPSAS 32.32	<p>The grantor shall present information in accordance with IPSAS 1.</p> <p>Requires disclosure of:</p> <ul style="list-style-type: none"> <li>(a) A description of the arrangement;</li> <li>(b) Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);</li> <li>(c) The nature and extent (e.g., quantity, time period, or amount, as appropriate) of: <ul style="list-style-type: none"> <li>(i) Rights to use specified assets;</li> <li>(ii) Rights to expect the operator to provide specified services in relation to the service concession arrangement;</li> <li>(iii) Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;</li> <li>(iv) Rights to receive specified assets at the end of the service concession arrangement;</li> <li>(v) Renewal and termination options;</li> <li>(vi) Other rights and obligations (e.g., major overhaul of service concession assets); and</li> <li>(vii) Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and</li> </ul> </li> <li>(d) Changes in the arrangement occurring during the reporting period.</li> </ul>

109. In developing the disclosures in IFRS 12 the IASB specifically considered objections that its proposed disclosures would duplicate the disclosures required by IFRS 7, *Financial Instruments: Disclosures* (the standard on which IPSAS 30 is based). Regarding IFRS 7, the IASB agreed with respondents that both requirements will often result in disclosure of the same underlying risks. What is different is how the disclosure requirements describe an entity's risk exposure. IFRS 7 requires qualitative and quantitative disclosures about the credit, liquidity, market and other risks associated with financial instruments. IFRS 12 adopts a different perspective and requires an entity to disclose its exposure to risk from its interest in a structured entity. (IFRS 12, paragraph BC72) The IASB concluded that although the disclosures in IFRS 7 and IFRS 12 regarding unconsolidated structured entities might overlap to some extent, they complement each other. (IFRS 12, paragraph BC74) variable interest entities in their analysis.
110. The IASB also noted support for the disclosures from users in the United States who considered that recently introduced disclosure requirements in the US had provided them with information that was not previously available to them, but which they regarded as important for a thorough understanding of an entity's exposure to risk. (IFRS 12, paragraph BC75)

111. The IASB also considered whether the disclosures about unconsolidated structured entities were relevant if a joint venture or an associate meets the definition of a structured entity. The IASB noted that an entity should capture most, and in some cases all, of the disclosures required for interests in unconsolidated structured entities by providing the disclosures for interests in joint ventures and associates. (IFRS 12, paragraph BC77)
112. In the private sector the IASB's disclosure requirements are intended to lead to disclosure of an entity's risks to significant financial outflows. These outflows would not normally be in the nature of ongoing funding. In the public sector a government will frequently have exposure to ongoing funding obligations. Given that users of the financial statements are aware of government's support of core public sector entities, disclosure of this ongoing obligation would not provide useful information. This paper therefore proposes that the reference to "financial or other support" in ED, *Disclosure of Interests in Other Entities* be limited to "profit-oriented structured entities". The proposed definition of profit-oriented structured entities is:
- A profit-oriented structured entity is an entity that is a Government Business Enterprise or similar entity that is concerned with, or focused, on financial gain. The term excludes entities where it is obvious, in the context of a particular jurisdiction, that the relevant national, state or local Government is committed to providing ongoing financial support to the entity.
113. Staff is aware that limiting the disclosures in this way is a new idea which may require further fine-tuning. Nevertheless staff considers that this idea is worth exploring, because it provides a way of limiting the structured entity disclosures in the ED based on IFRS 12 to the types of entities where the disclosures would have the most information value.

#### Recommendation on Appropriateness of Structured Entity Disclosures

114. It is recommended that the IPSASB:
- (a) Note that the IASB developed the structured entity disclosures in IFRS 12 after detailed consultation with a range of users and other interested parties;
  - (b) Note that users had expressed a need for more information about structured entities;
  - (c) Note that structured entities in the public sector could take many of the same forms, and be as complex as, structured entities with private sector originators;
  - (d) Agree that if the IPSASB were to consider omitting disclosures on structured entities or developing different disclosures it would need to undertake extensive outreach to give legitimacy to its proposals;
  - (e) Agree to proceed to develop an ED incorporating the structured entity disclosures in IFRS 12, but limiting the disclosures to profit-oriented structured entities;
  - (f) Agree to seek respondents' feedback on the usefulness of these disclosures in the public sector; and
  - (g) Agree to seek specific feedback in the ED on the applicability of the definition of structured entities in the public sector.

**Matter(s) for Consideration**

8. Does the IPSASB agree with the above recommendations on structured entity disclosures?

**Other Issues**

115. As a result of comments received from members regarding the draft EDs included in the December 2012 agenda materials staff has made further changes to the three EDs previously considered by the IPSASB. In particular, the IPSASB requested that, in response to comments made by members, staff review the use of the terms “variable benefits” and “binding arrangements”
116. The purpose of this section of the paper is to advise members of key changes that have been made in response to comments received and to give members the opportunity to provide feedback out of session if they consider that further work is required before approval of the EDs is sought at the IPSASB’s June 2013 meeting. Copies of Draft EDs previously considered by the IPSASB are provided for noting at this meeting.

Variable Benefits

117. The IPSASB requested that the use of the term “variable benefits” be reviewed to see if it deals appropriately with situations where there are fixed benefits. The member that raised this point was concerned that, in the public sector, many of the “benefits” are not reciprocal – that is the entity exists to provide benefits to third parties with no direct benefit back to the parent entity. This can be the case in respect of regulatory functions where the government receives a broad benefit such as orderly/informed markets. It may also be the case where the provision of social services by an entity benefit both the individual receiving the service and also the public sector entity on whose behalf the service was provided.
118. There are two parts of the draft ED that address this issue:
- (a) Paragraph 16 notes that non-financial benefits can include congruence of activities with desired outcomes. Paragraph 17.1 goes on to state that “The existence of congruent objectives alone is insufficient for an entity to conclude that it controls another entity. In order to have control the entity would also need to have the ability to use its power over the other entity to direct that other entity to work with the entity to further the entity’s objectives.”
  - (b) Paragraph AG56 explains how benefits that appear to be fixed, may be variable benefits for the purpose of the Standard. Staff proposes to include another example in paragraph AG56 to link this paragraph back to the guidance in paragraphs 16 and 17.1.

AG56. Variable benefits are benefits that are not fixed and have the potential to vary as a result of the performance of another entity. Variable benefits can be only positive, only negative or both positive and negative (see paragraph 15). An entity assesses whether benefits from another entity are variable and how variable those benefits are on the basis of the substance of the arrangement and regardless of the legal form of the benefits. For example:

- (a) In the context of non-financial benefits an entity may receive benefits as a result of the activities of another entity furthering its objectives. Although the benefits from these activities may be constant in amount, the benefits may be variable benefits for the purpose of this

Standard because they expose the entity to the performance risk of the other entity. If the other entity were unable to perform those activities then the entity would incur additional costs, either from undertaking the activities itself or by providing additional funds or other forms of assistance to enable the other entity to continue providing those activities.

- (b) In the context of financial benefits an entity can hold a bond with fixed interest payments. The fixed interest payments are variable benefits for the purpose of this Standard because they are subject to default risk and they expose the entity to the credit risk of the issuer of the bond. The amount of variability (i.e., how variable those benefits are) depends on the credit risk of the bond. Similarly, fixed performance fees for managing another entity's assets are variable benefits because they expose the entity to the performance risk of the other entity. The amount of variability depends on the other entity's ability to generate sufficient revenue to pay the fee.

#### **Matter(s) for Consideration**

9. Does the IPSASB agree with the proposal to include an additional example of variable benefits in ED X, *Consolidated Financial Statements*, paragraph AG56?

#### Binding Arrangements

119. In a number of IPSASs the term binding arrangements has been used instead of the term contracts. The main reason for making this change throughout IPSASs is that in some jurisdictions certain entities do not have the power to enter into contracts in their own right, but they nevertheless have the ability to enter into binding agreements.
120. The IPSASB has previously agreed that the use of the term “binding arrangements” throughout the EDs should be reviewed to ensure that the intended meaning is clear and that usage is consistent. This was in response to a comment from a member that the term has been used in different contexts in different IPSASs.
121. The narrowest use of the term is found in IPSAS 29 *Financial Instruments: Recognition and Measurement* where it is used in relation to rights that are (i) similar to contracts and (ii) in respect of willing parties. The issue to be considered in this project is whether the IPSASB's intention is to limit the term to arrangements where there are willing parties or whether the term is also intended to encompass other types of rights, such as those created through legislation.
122. The definition of binding arrangements used in the EDs is based on that used in IPSAS 32, *Service Concession Arrangements: Grantor*. It reads:

Binding arrangement: For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

123. Staff has reviewed the use of the term “binding arrangements” in ED X, *Consolidated Financial Statements* and ED X, *Joint Arrangements* and is proposing some changes to clarify when regard should be had to rights arising from legislation. Staff considers that the appropriateness of the term binding contracts (and its definition) depends on the context and has provided some examples, together with proposed clarifications below.

- (a) ED X, *Consolidated Financial Statements* paragraph 11 states that “An entity may have rights conferred by legislation, founding documents or binding arrangements (including rights from contracts or other legal rights).” This sentence explicitly acknowledges that legislation can create rights, so it does not seem necessary to also import that meaning into the term “binding arrangements”.
- (b) ED X, *Consolidated Financial Statements* paragraph AG8 states that “Voting rights may not be the dominant factor in deciding who controls the other entity. If there are voting rights they may be limited in scope. The relevant activities of another entity may be directed by means of statutory arrangements, binding arrangements (including rights from contracts or other legal rights) or provisions in founding documents such as articles of association or a constitution.” This paragraph explicitly acknowledges that statutory arrangements can give rise to rights, so it does not seem necessary to also import that meaning into the term “binding arrangements”.
- (c) ED X, *Consolidated Financial Statements* paragraph AG15.1 is shown below. This paragraph acknowledges the possibility that legislation may give rise to rights that, in turn, give rise to power. Therefore no further change is proposed.
- AG15.1. In considering whether it has power, an entity will need to consider the mechanism(s) by which it has obtained power. Ways in which an entity may have obtained power, either individually or in combination with other arrangements, include:
- (a) Legislative or executive authority;
  - (a) Administrative arrangements;
  - (b) Binding arrangements (including rights from contracts or other legal rights);
  - (c) Founding documents (for example, articles of association); and
  - (d) Voting or similar rights.
- (d) ED X, *Consolidated Financial Statements* paragraph AG38 is shown below. For consistency with paragraphs 11 and AG15.1 it is proposed to include, in paragraph AG38(c), a reference to rights obtained by way of legislative or executive authority.
- AG38. An entity can have power even if it holds less than a majority of the voting rights of another entity. An entity can have power with less than a majority of the voting rights of another entity, for example, through:
- (a) The power to appoint or remove a majority of the members of the board of directors (or other governing body), and control of the other entity is by that board or by that body (see paragraph AG38.1);
  - (b) A binding arrangement (including rights from contracts or other legal rights) between the entity and other vote holders (see paragraph AG39);
  - (c) Rights arising from other binding arrangements (including rights from contracts or other legal rights) or rights arising from legislative or executive authority (see paragraph AG40);
  - (d) The entity’s voting rights (see paragraphs AG38.1 and AG41–AG45);
  - (e) Potential voting rights (see paragraphs AG47–AG50); or
  - (f) A combination of (a)–(e).<sup>19</sup>
- (e) ED X, *Consolidated Financial Statements* paragraphs AG39 and AG40 are shown below. No change is proposed to paragraph AG39 because it is referring to arrangements with other vote holders and staff considers that this should be limited to arrangements that have been

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<sup>19</sup> Only those changes relating to binding arrangements are shown here. Agenda item 7.4 shows all mark-ups to the text of IFRS 10.

voluntarily entered into. Staff proposes that paragraph AG40 be expanded by inserting reference to the possibility of rights arising from legislation. This is consistent with the proposed change to paragraph AG38(c).

***Binding Arrangement with Other Vote Holders***

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

***Rights from Other Binding Arrangements and Legislative or Executive Authority***

AG40. Other decision-making rights, in combination with voting rights, can give an entity the current ability to direct the relevant activities. For example, the rights specified in a binding arrangement (including rights from contracts or other legal rights) and rights arising from legislative or executive authority in combination with voting rights may give an entity the current ability to direct the operating or financing policies or other key activities of another entity that significantly affect the benefits received by the entity. However, an entity would not control another entity if that other entity were able to determine its policy or program to a significant extent, (for example, by failing to comply with the binding arrangement and accepting the consequences, or by changing its constitution or dissolving itself).

- (f) ED X, *Consolidated Financial Statements* paragraph AG52 and the proposed change is shown below.

AG52. In addition, an entity shall consider binding arrangements (including rights from contracts or other legal rights) such as call rights, put rights, ~~and liquidation rights~~ and rights arising from legislative or executive authority established at the inception of the other entity. When ~~these~~ binding arrangements involve activities that are closely related to the other entity, then these activities are, in substance, an integral part of the other entity's overall activities, even though they may occur outside the legal boundaries of the other entity. Therefore, explicit or implicit decision-making rights embedded in binding arrangements that are closely related to the other entity need to be considered as relevant activities when determining power over the other entity.

124. ED X, *Consolidated Financial Statements* paragraph AG74 and the proposed change is shown below.

AG74. Such a relationship need not involve a binding arrangement (including rights from contracts or other legal rights). Such relationships could also arise from legislative or executive authority. A party is a de facto agent when the entity has, or those that direct the activities of the entity have, the ability to direct that party to act on the entity's behalf. In these circumstances, the entity shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable benefits through the de facto agent together with its own when assessing control of another entity.

125. ED X, *Joint Arrangements* includes extensive discussion of binding arrangements. Staff considers that the best way to incorporate the idea that legislative or executive authority could give rise to joint arrangements is in paragraph AG2. This is because paragraph AG2 already refers to statutory mechanisms. The proposed changes to paragraph AG2 are shown below.

AG2.[B2] ~~Binding Contractual~~ arrangements can be evidenced in several ways. An ~~binding enforceable contractual~~ arrangement is often, but not always, in writing, usually in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to binding arrangements, either on their own or in conjunction with contracts between the parties. The discussion of binding arrangements in this Standard is also relevant to enforceable arrangements created by legislative or executive authority.

**Matter(s) for Consideration**

10. Does the IPSASB agree with the proposed changes to the discussion of binding arrangements and other rights arising from legislative or executive authority in ED X, *Consolidated Financial Statements* and ED X, *Joint Arrangements*?
11. Does the IPSASB agree that a similar approach to the discussion of binding arrangements and other rights arising from legislative or executive authority should be taken in the other draft EDs?

Matters for Noting

126. Staff wishes to bring a number of other more minor issues to the attention of the IPSASB. These issues will be noted again in the agenda papers for June but they are provided here for information.

*Draft ED X, Consolidated Financial Statements*

- (a) Paragraph 4(a)(i) has been changed in response to feedback at the December 2012 meeting. The exemption for an intermediate controlled entity now also requires that in the case of a partly owned controlled entity, the other owners do not object to the controlling entity not presenting consolidated financial statements. This is consistent with the current requirements in IPSAS 6. The exemption from applying the equity method set out in ED X, *Investments in Associates and Joint Ventures*, paragraph 17 (a) has been worded consistently with the exemption from consolidation.
- (b) There was a suggestion that paragraph 4(a)(iii) which sets out one of the conditions required in order to qualify for an exemption from the consolidation was not necessary. This condition requires that “(iii) It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market.” This condition has been kept in the ED to cover that possibility that a public sector subsidiary might be in the process of being prepared for listing.
- (c) The definition of benefits in paragraph 4.8 has been slightly changed. Previously the last sentence of this definition read “Benefits can be positive or negative, or a combination of positive or negative.” This has changed to read “Benefits can have positive or negative aspects”. The change was made as a result of feedback received at the December 2012 meeting. Note that paragraph AG56 states that “Variable benefits can be only positive, only negative or both positive and negative (see paragraph 15).”
- (d) Paragraph 21.7 which deals with the consistency of reporting date has been amended to say that the controlling entity may need to “obtain” additional information without specifying whether the controlling entity or controlled entity is responsible for preparing that information.
- (e) In the Application Guidance the examples concerning childcare centers have been moved from the section on economic dependence to the section on variable benefits (see Example 34).
- (f) Implementation Guidance containing two flowcharts has been included.
- (g) The Basis for Conclusions now includes a paragraph explaining that the IPSASB decided not to adopt the IASB’s exemption for investment entities.

**Matter(s) for Consideration**

12. If IPSASB members have any editorial or drafting comments on the draft EDs in relation to the matters noted above, or any other matters, please provide feedback directly to staff so the comments can be considered before the June 2013 meeting.



## **Appendix 1 Extract from AASB Exposure Draft ED 233 Australian Additional Disclosures – Investment Entities (proposed amendments to AASB 1054)**

**ALTERNATIVE VIEW 1 OF  
PROFESSOR JAYNE M. GODFREY  
MR JOHN P. O'GRADY  
MR BRETT A. RIX  
MR KEVIN M. STEVENSON**

- AV1.1 In our opinion the exception to consolidation for investment entities that requires controlled investees to be measured at fair value through profit or loss rather than consolidated, is a violation of the basic principle that an entity should account for all of its assets, liabilities, income and expenses.
- AV1.2 At the most fundamental level we do not see the provision of fair value information for investments as a substitute for, or an alternative to, consolidated information. Without the detailed consideration of that part of the financial position and financial performance of an entity represented by its controlled entities, fair value movements mean very little and compress too much information. A corollary of the logic employed in the exception, reduced to the absurd, would be, for example, that a single company holding assets for capital appreciation or dividends should only report its share price and need not prepare financial statements.
- AV1.3 For Australia, the exception to consolidation would require deconsolidation of controlled entities when Australia has been well-served by the control principle and has been relatively free of criticism of off-balance-sheet accounting.
- AV1.4 Additionally, we do not believe that the approach towards defining investment entities is rigorous. This will, in our opinion, lead to uncertainty in application and inconsistency of reporting between similar entities. It may even promote structuring.
- AV1.5 Therefore, if the fair values of controlled investments held by investment entities are relevant, we see no reason why they could not be provided as supplementary disclosures in financial statements, consistent with the disclosure requirements in *AASB 7 Financial Instruments: Disclosures* for financial instruments with carrying amounts that differ from their fair value, thereby embracing all of an entity's elements. This would avoid further complicating accounting through the provision of exceptions to principles.

## Appendix 1 Continued

**ALTERNATIVE VIEW 2 OF**  
**MR VICTOR J. CLARKE**  
**MS ANNA V. CRAWFORD**  
**MS KRIS E. PEACH**

- AV2.1 Our preference is to issue the IASB's investment entity requirements unamended immediately. In our view, requiring Australian additional disclosures does not address fundamental concerns about the loss of information resulting from not consolidating controlled investees and, accordingly, only imposes significant additional costs on Australian investment entities relative to their international counterparts.
- AV2.2 In addition, whilst acknowledging the concerns of the holders of Alternative View 1 that the approach toward defining investment entities is not rigorous, which may lead to judgements in application, inconsistency of reporting between similar entities and possibly structuring, we consider the following to be sufficiently mitigating factors:
- (a) users have advised the IASB that they prefer fair value recognition of controlled investees rather than consolidation accounting for these entities;
  - (b) the number and scope of entities intended to be covered by the exception to consolidation (largely managed investment schemes, private equity funds and similar entities) is a relatively small portion of entities applying IFRSs in Australia;
  - (c) any ultimate parent that is not itself an investment entity must still consolidate investment entities and consequently any controlled investees; and
  - (d) whilst individually not agreeing with every element of every standard issued by the IASB and endorsed by the AASB, this does not detract from IFRSs or Australian Accounting Standards as a whole providing a rigorous financial reporting framework.
- AV2.3 Most importantly, we do not consider the risk of exploitation by some entities is a sufficient reason to justify non-approval of an IASB issued standard, resulting in non-IFRS compliance for Australian investment entities.
- AV2.4 Notwithstanding the above views, if our preferred view of issuing the IASB's investment entity requirements unamended does not receive sufficient AASB member support to ensure issue of the Standard in Australia, we can accept the Australian additional disclosures proposed in Exposure Draft ED 233 *Australian Additional Disclosures – Investment Entities* as a compromise to maintain the primacy of IFRS compliance and that the adverse consequences to Australian entities are reduced. Accordingly, we voted in favour of the issue of ED 233.

**IPSAS 6— SEPARATE FINANCIAL STATEMENTS (Amended [Date])  
[BASED ON IAS 27 (Amended 2011)]**

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## Objective

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

## Scope

2. This Standard shall be applied in accounting for investments in controlled entities~~subsidiaries~~, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.
3. This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with International Public Sector Accounting Financial Reporting Standards.

3.1 This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).

3.2 The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.

## Definitions

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

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

Separate financial statements are those presented by a controlling entity~~parent~~ (i.e., an entity~~investor~~ with control of another entity~~subsidiary~~) or an investor with joint control of, or significant influence over, another entity, in which the investments are accounted for at cost or in accordance with IPSAS 29, IFRS 9~~Financial Instruments: Recognition and Measurement~~.

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

5. ~~The following terms are defined in Appendix A of IFRS 10 *Consolidated Financial Statements*, Appendix A of IFRS 11 *Joint Arrangements* and paragraph 3 of IAS 28 *Investments in Associates and Joint Ventures*:~~

- ~~associate~~
- ~~control of an investee~~
- ~~group~~
- ~~joint control~~
- ~~joint venture~~
- ~~joint venturer~~

- parent
- significant influence
- subsidiary.

6. Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances set out in paragraph 8. Separate financial statements need not be appended to, or accompany, those statements.
7. Financial statements in which the equity method is applied are not separate financial statements. Similarly, the financial statements of an entity that does not have a controlled entity subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements.
8. An entity that is exempted in accordance with paragraph 4(a) of IPSAS X [IFRS 10] from consolidation or paragraph 17 of IPSAS 7 [IAS 28] (~~as Amended in [Date] 2014~~) from applying the equity method may present separate financial statements as its only financial statements.

## Preparation of Separate Financial Statements

9. **Separate financial statements shall be prepared in accordance with all applicable IPSASs/IFRSs, except as provided in paragraph 10.**
10. **When an entity prepares separate financial statements, it shall account for investments in controlled entities/subsidiaries, joint ventures and associates either:**
  - (a) **at cost, or**
  - (b) **in accordance with IPSAS 29/IFRS 9.**

**The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with IFRS 9 is not changed in such circumstances.**

11. If an entity elects, in accordance with paragraph 18 of IPSAS 7 [IAS 28] (~~as Amended in [Date] 2014~~), to measure its investments in associates or joint ventures at fair value through surplus or deficit/profit or loss in accordance with IPSAS 29/IFRS 9, it shall also account for those investments in the same way in its separate financial statements.
12. **An entity shall recognize a dividend or similar distribution from a controlled entity subsidiary, a joint venture or an associate in surplus or deficit/profit or loss in its separate financial statements when its right to receive the dividend or similar distribution is established.**
13. When a controlling entity/parent reorganizes the structure of its economic entity/group by establishing a new entity as its controlling entity/parent in a manner that satisfies the following criteria:
  - (a) The new controlling entity/parent obtains control of the original controlling entity/parent either (i) by issuing equity instruments in exchange for existing equity instruments of the original controlling entity/parent or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;

- (b) The assets and liabilities of the new economic entitygroup and the original economic entity group are the same immediately before and after the reorganization; and
- (c) The owners of the original controlling entityparent before the reorganization have the same absolute and relative interests in the net assets of the original economic entitygroup and the new economic entitygroup immediately before and after the reorganization,

and the new controlling entityparent accounts for its investment in the original controlling entityparent in accordance with paragraph 10(a) in its separate financial statements, the new controlling entityparent shall measure cost at the carrying amount of its share of the net asset/equity items shown in the separate financial statements of the original controlling entityparent at the date of the reorganization.

- 14. Similarly, an entity that is not a controlling entityparent might establish a new entity as its controlling entityparent in a manner that satisfies the criteria in paragraph 13. The requirements in paragraph 13 apply equally to such reorganizations. In such cases, references to “original controlling entityparent” and “original economic entitygroup” are to the “original entity”.

## Disclosure

- 15. An entity shall apply all applicable IPSASs/IFRSs when providing disclosures in its separate financial statements, including the requirements in paragraphs 16 and 17.
- 16. When a controlling entityparent, in accordance with paragraph 4(a) of IPSAS X [IFRS 10], elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:
  - (a) The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name ~~and principal place of business (and country of incorporation, if different)~~ of the entity whose consolidated financial statements that comply with IPSASs/International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable.
  - (b) A list of significant investments in controlled entities/subsidiaries, joint ventures and associates, including:
    - (i) The name of those controlled entities, joint ventures and associates/investees.
    - (ii) The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity)the principal place of business (and country of incorporation, if different) of those investees.
    - (iii) Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined(and its proportion of the voting rights, if different) held in those investees.
  - (c) A description of the method used to account for the controlled entities, joint ventures and associates/investments listed under (b).
- 17. When a controlling entityparent (other than a controlling entityparent covered by paragraph 16) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the controlling entityparent or investor shall identify the financial statements prepared in accordance with IPSAS X [IFRS 10], IPSAS X [IFRS 11] or IPSAS 7 [IAS 28] (as

Amended ~~in~~ [Date]) to which they relate. The controlling entity~~parent~~ or investor shall also disclose in its separate financial statements:

- (a) The fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law, legislation or other authority.
- (b) A list of significant controlled entities~~investments in subsidiaries~~, joint ventures and associates, including:
  - (i) The name of those controlled entities, joint ventures and associates~~investees~~.
  - (ii) The jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity)~~principal place of business (and country of incorporation, if different) of those investees~~.
  - (iii) Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined~~(and its proportion of the voting rights, if different) held in those investees~~.
- (c) A description of the method used to account for the controlled entities, joint ventures and associates~~investments~~ listed under (b).

Note to IPSASB:

If the IPSASB decides to permit further exemptions from the consolidation requirements of IPSAS X, *Consolidated Financial Statements*, then the IPSASB will need to consider whether the disclosures required by paragraph 17 above are sufficient.

## Effective Date ~~and transition~~

- 18. An entity shall apply this Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this Standard for a period beginning before [Date], it shall disclose that fact and apply IPSAS X [IFRS 10], IPSAS X [IFRS 11], and IPSAS X, [IFRS 12] *Disclosure of Interests in Other Entities* and IPSAS 7 [IAS 28] (~~as~~ Amended ~~in~~ [Date]) at the same time.
- 18.1. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

## References to IFRS 9

- ~~19. If an entity applies this Standard but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39 Financial Instruments: Recognition and Measurement.~~

## Withdrawal of IPSAS 6 (2006)~~IAS 27 (2008)~~

- 20. This Standard is issued concurrently with IPSAS X [IFRS 10]. Together, the two Standards~~IFRSs~~ supersede IPSAS 6~~IAS 27~~ *Consolidated and Separate Financial Statements* (~~2006 as amended in 2008~~).

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS X).*

The Basis for Conclusions will need to be revised if any significant changes are made to the requirements of the Standard.

### Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 6, *Separate Financial Statements (Amended [Date])*.

### Investment Entities

- BC2. IPSAS 6 (Amended [Date]) is based on IAS 27, *Separate Financial Statements (Amended 2011)*. It does not include the amendments to that Standard as a result of *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* issued by the IASB in October 2012. These amendments introduced requirements specific to investment entities. The IPSASB did not consider that it was necessary or appropriate to create an exemption from consolidation for investment entities in the public sector.

### Use of the Equity Method in Separate Statements

- BC3. IPSAS 6, *Consolidated and Separate Financial Statements (2006)* permitted an entity, in its separate financial statements, to measure investments in controlled entities, jointly controlled entities and associates:
- (a) Using the equity method;
  - (b) At cost; or
  - (c) As a financial instrument in accordance with IPSAS 29.
- BC4. In 2003 the IASB limited the measurement options for investments presented in an entity's separate financial statements by removing the equity method as one of the measurement options. Some of the reasons given by the IASB for making this change were:
- (a) The focus in separate financial statements is on the performance of the assets as investments. Cost and fair value can provide relevant information for this; and
  - (b) To the extent that the equity method provides information about the profit and loss of a subsidiary or an associate, that information would be available in the consolidated financial statements.
- BC5. The IPSASB noted that, at the time of issuing this ED, the IASB had agreed to initiate a new project to reconsider the use of the equity method in separate financial statements. The IASB had agreed to reconsider this issue because corporate law in some countries, particularly Latin America, requires listed entities to present separate financial statements using the equity method of accounting to measure certain investments.
- BC6. The IPSASB decided not to permit the equity accounting method in separate financial statements for the following reasons:
- (a) The IASB's reasons for removing the use of the equity method are still valid;



- (b) Public sector entities applying IPSASs may not encounter the same regulatory difficulties. If public sector entities are subject to such regulatory requirements they will be able to comment on this in the forthcoming consultation process; and
- (c) It would be premature to anticipate the outcome of the IASB's due process.

### Comparison with IAS 27 (Amended 2011)

[This comparison will be completed when the Exposure Draft is completed]

IPSAS 6, *Separate Financial Statements* (Amended [Date]) is drawn primarily from IAS 27, *Separate Financial Statements* (Amended 2011). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 12 are therefore replaced by references to the IPSASs dealing with financial instruments.

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

- IPSAS X uses different terminology, in certain instances, from IFRS 12. The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity,” “revenue” in IPSAS X. The equivalent terms in IFRS 12 are “equity,” “group,” “parent,” “subsidiary” and “income.”
- IPSAS X does not include any requirements in respect of investment entities. IPSASs do not permit consolidation exemptions for investment entities.
- IPSAS X includes requirements in relation to certain entities that are exempted from consolidation in accordance with IPSAS X, *Consolidated Financial Statements*. IFRS 10, *Consolidated Financial Statements* does not contain similar exemptions.

[Note: This difference is dependent on the outcome of the IPSASB’s deliberations on IPSAS X, *Consolidated Financial Statements* (Amended [Date]) and the IPSASB’s view on whether the disclosures in paragraph 17 of this ED are sufficient.]

FOR DETAILED REVIEW

**IPSAS 7— INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Amended [Date])**  
**[Based on IAS 28 (Amended 2011)]**

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## Objective

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

## Scope

2. This Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee, where the investment leads to the holding of a quantifiable ownership interest. [Refer to the Basis for Conclusions on this ED for a discussion of this modification]
- 2.1 This Standard provides the basis for accounting for ownership interests in associates and joint ventures. That is, the investment in the other entity confers on the entity the risks and rewards incidental to an ownership interest. This Standard applies only to quantifiable ownership interests, including ownership interests arising from investments in the formal equity structure (or its equivalent) of another entity. A formal equity structure means share capital or an equivalent form of ~~unitized~~ capital, such as units in a property trust, but may also include other equity structures in which the entity's interest can be measured reliably. Where the equity structure is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest. [Based on IPSAS 7.3]
- 2.2 Some contributions made by public sector entities may be referred to as an "investment," but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of a hospital that is owned and operated by a charity. While such contributions are non-exchange in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest. [Based on IPSAS 7.4]
- 2.3 This Standard applies to all public sector entities other than Government Business Enterprises (GBEs). [Based on IPSAS 7.5]
- 2.4 The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*. [Based on IPSAS 7.6]

## Definitions

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

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

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

The *equity method* is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets /equity of the associate or joint venture. The investor's surplus or

~~deficit~~profit or loss includes its share of the investee's surplus or deficit~~profit or loss~~ and the investor's net assets/equity~~other comprehensive income~~ includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit~~other comprehensive income~~.

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

*Joint control* is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A *joint venture* is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A *joint venturer* is a party to a joint venture that has joint control of that joint venture.

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

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

4. ~~The following terms are defined in paragraph 4 of IAS 27 *Separate Financial Statements* and in Appendix A of IFRS 10 *Consolidated Financial Statements* and are used in this Standard with the meanings specified in the IFRSs in which they are defined:~~

- ~~• control of an investee~~
- ~~• group~~
- ~~• parent~~
- ~~• separate financial statements~~
- ~~• subsidiary.~~

## Significant Influence

4.1. 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 in the form of a shareholding or other formal equity structure. [Based on IPSAS 7.11]

5. If an entity's ownership interest is in the form of shares and it holds, directly or indirectly (e.g., through controlled entities~~subsidiaries~~), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g., through controlled entities~~subsidiaries~~), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.
6. The existence of significant influence by an entity is usually evidenced in one or more of the following ways:
- (a) Representation on the board of directors or equivalent governing body of the investee;
  - (b) Participation in policy-making processes, including participation in decisions about dividends or similar~~other~~ distributions;

- (c) Material transactions between the entity and its investee;
  - (d) Interchange of managerial personnel; or
  - (e) Provision of essential technical information.
7. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (i.e., potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
8. 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 ~~bindingcontractual~~ arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.
9. 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 ~~bindingcontractual~~ arrangement.

## Equity Method

### Note to IPSASB:

Paragraph 10 is based on IAS 28 (Amended (2011)), and IASB ED 2012/3 *Equity Method: Share of Other Net Asset Changes* (Proposed amendments to IAS 28), to the extent that the amendments set out in that ED are relevant. The reasons for incorporating some of the amendments from IASB ED 2013/3 are set out in the issues paper at agenda item 7.1.

10. Under the equity method, an investor initially recognizes its ~~on initial recognition the~~ investment in an associate or a joint venture ~~is recognized at cost. Thereafter, and~~ the carrying amount is increased or decreased to recognize changes in the investor's share of the investee's net assets in the following manner: share of the ~~surplus or deficitprofit or loss~~ of the investee after the date of acquisition.
- (a) The investor's share of the investee's ~~surplus or deficitprofit or loss~~ is recognized in the investor's ~~surplus or deficitprofit or loss~~.
  - (b) ~~[Omitted because it deals with comprehensive income] The investor's share of the investee's components of other comprehensive income is recognised in the investor's other comprehensive income (see IAS 1 Presentation of Financial Statements). Such changes include those arising from the remeasurements of the net defined benefit liability (asset), from the revaluation of property, plant and equipment and from foreign exchange translation differences.~~
  - (c) Distributions received from an investee reduce the carrying amount of the investment. Such distributions include dividends in cash or other assets and returns of invested capital.

- (d) The investor's share of the investee's net asset changes, other than ~~surplus or deficit profit or loss or other comprehensive income~~ and distributions received, is recognized in the investor's net assets/equity. Examples of such changes include those arising from (i) the revaluation of property, plant and equipment and foreign exchange translation differences that have not been recognized in the investee's surplus or deficit and (ii) movements in the contributed share capital of the investee (for example, when an investee receives further contributed capital from third parties) issues additional shares to third parties or buys back shares from third parties) and movements in other components of the investee's equity (for example, when an investee accounts for an equity-settled share-based payment transaction). Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in the investor's other comprehensive income (see IAS 1 *Presentation of Financial Statements*).

**Example illustrating paragraph 10(d)**

An investor has a 30 per cent investment in an investee and has significant influence over that investee. The investee issues additional shares to a third party for cash. As a result, the investor's share decreases from 30 per cent to 25 per cent, while the investee's net assets increase from CU1,000<sup>a</sup> to CU1,500. The investor maintains significant influence over the investee. The investor's share of the investee's pre-existing net assets is diluted by CU50 (CU1,000 x 30% - CU1,000 x 25%). On the other hand, the investor's share of the investee's net assets increases by CU125 (CU500 x 25%) because of the additional funds raised by the investee. In other words, the investor's share of the investee's net assets increases from CU300 (CU1,000 x 30%) to CU375 (CU1,500 x 25%). Consequently, the investor records a CU75 increase to its investment and a CU75 increase to its shareholder's equity.

a In this Standard monetary amounts are denominated in 'currency units (CU)'.

[Based on IAS 28, including relevant proposed amendments in IASB ED 2012/3]

11. The recognition of ~~revenue income~~ on the basis of distributions received may not be an adequate measure of the ~~revenue income~~ earned by an investor on an investment in an associate or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the ~~surplus or deficit profit or loss~~ of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets /equity and surplus or deficit profit or loss.
12. When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments, unless paragraph 13 applies.
13. In some circumstances, an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives it access to the ~~benefits returns~~ associated with an ownership interest. In

such circumstances, the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the [benefits/returns](#).

14. [IPSAS 29/IFRS 9 Financial Instruments: Recognition and Measurement](#) does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the [benefits/returns](#) associated with an ownership interest in an associate or a joint venture, the instruments are not subject to [IPSAS 29/IFRS 9](#). In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with [IPSAS 29/IFRS 9](#).
15. [An investment in an associate or a joint venture accounted for using the equity method](#)~~Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the investment, or any retained interest in the investment not classified as held for sale,~~ shall be classified as a non-current asset. [\[Consistent with IPSAS 7 para 44\]](#)

## Application of the Equity Method

16. An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 17–19.

## Exemptions from Applying the Equity Method

### Note to IPSASB:

IPSASs 6-8 included exemptions for temporary control/ temporary significant influence and temporary joint control (for example, IPSAS 7 paragraph 19). The IPSASB is still considering whether there should be any exemptions from the usual requirements for controlled entities, subsidiaries and joint ventures (This issue is discussed in agenda item 7.1). If the IPSASB decides that there should be more exemptions than permitted in the underlying IASB Standards, this section of the ED would need to be revised.

17. An entity need not apply the equity method to its investment in an associate or a joint venture if:
  - (a) the entity is a [controlling entity/parent](#) that is exempt from preparing consolidated financial statements by the scope exception in paragraph 4(a) of IPSAS X [IFRS 10]; ~~or if~~
  - (b) all the following apply:
    - (i) The entity [itself is a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and](#) its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.
    - (ii) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).



- (iii) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.
  - (iv) The ultimate or any intermediate controlling entity~~parent~~ of the entity produces consolidated financial statements available for public use that comply with IPSASs~~IFRSs~~.
18. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through surplus or deficit~~profit or loss~~ in accordance with IPSAS 29~~IFRS 9~~.
19. When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through surplus or deficit~~profit or loss~~ in accordance with IPSAS 29~~IFRS 9~~ regardless of whether the venture capital organisation, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds.

#### **Classification as held for sale**

- ~~20. An entity shall apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with IFRS 9 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.~~
- ~~21. When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.~~

[Paragraphs 20-21 of IAS 28 omitted because there is no IPSAS equivalent to IFRS 5]

#### **Discontinuing the Use of the Equity Method**

22. An investor entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:
- (a) If the investment becomes a controlled entity~~subsidiary~~, the investor entity shall account for its investment in accordance with the relevant national or international pronouncement dealing with entity combinations~~IFRS 3 Business Combinations~~ and IPSAS X [IFRS 10].
  - (b) If the retained interest in the former associate or joint venture is a financial asset, the investor entity shall measure the retained interest at fair value. The fair value of the retained

interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IPSAS 29/IFRS 9. The investor entity shall recognize in surplus or deficit~~profit or loss~~ any difference between:

- (i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
  - (ii) the carrying amount of the investment at the date the equity method was discontinued.
- (c) When an investor entity discontinues the use of the equity method, the entity shall:
- ~~(ii)~~ — account for all amounts previously recognized directly in the investor's entity's net assets/equity~~other comprehensive income~~ in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.~~;~~ and
  - (ii) ~~reclassify to profit or loss the cumulative amount of equity that had previously been recognized in accordance with paragraph 10(d).~~

23. Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued. For example, if an investee associate or a joint venture has cumulative exchange differences relating to a foreign operation and the investor entity discontinues the use of the equity method, the investor entity shall reclassify to profit or loss the gain or loss that had previously been recognized in its other comprehensive income in relation to the foreign operation. As another example, The requirements in paragraph 22(c) can be illustrated by considering an investee that had previously issued additional shares to third parties other than the investor, which had resulted in a change of the investor's share of the investee's other net assets, and where the investor had recognized the change in its net assets/equity. When at a later date the investor discontinues the use of the equity method because the investment becomes a controlled entity subsidiary or a financial asset, the investor shall reclassify transfer directly to accumulated surpluses or deficits ~~profit or loss~~ the amount that it had previously recognized in other components of net assets/equity in relation to the investee's issue of additional shares. [Based on IAS 28, including relevant amendments from IASB ED 2012/3]
24. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

#### **Other Changes in Ownership Interest**

25. If an ~~entity's~~ investor's ownership interest in an associate or a joint venture is reduced, but the ~~entity~~ investor continues to apply the equity method, the investor entity shall transfer directly to accumulated surpluses or deficits ~~reclassify to profit or loss~~ the proportion of the gain or loss ~~that had previously been~~ recognized in net assets/equity~~accumulated other comprehensive income~~ relating to that reduction in ownership interest if that gain or loss would be required to be transferred directly to accumulated surpluses or deficits~~reclassified to profit or loss~~ on the disposal of the related assets or liabilities. The investor shall not transfer to accumulated surpluses or deficits ~~reclassify to profit or loss~~ the amount that it had previously recognized in net assets/equity in accordance with paragraph 10(d), until the investor

discontinues the use of the equity method. [Based on IAS 28, including relevant amendments from IASB ED 2012/3]

Note to IPSASB: IPSAS 17 paragraph 57 permits some or all of a revaluation surplus to be transferred directly to accumulated surpluses or deficits when the assets are derecognized. The requirements in paragraph 25 above have been modified to be consistent with that IPSAS 17 paragraph 57.

## Equity Method Procedures

26. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IPSAS X [IFRS 10]. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a controlled entity~~subsidiary~~ are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.
27. An economic entity's group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the controlling entity~~parent~~ and its controlled entities~~subsidiaries~~. The holdings of the economic entity's group's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has controlled entities~~subsidiaries~~, associates or joint ventures, the surplus or deficit~~profit or loss, other comprehensive income~~ and net assets taken into account in applying the equity method are those recognized in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the surpluses or deficits~~profit or loss, other comprehensive income~~ and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 35 and 36).
28. Gains and losses resulting from "upstream" and "downstream" transactions between an entity (including its consolidated controlled entities~~subsidiaries~~) and its associate or joint venture are recognized in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. "Upstream" transactions are, for example, sales of assets from an associate or a joint venture to the investor. "Downstream" transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.
29. When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognized in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognize its share in those losses.
30. The contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 28, except when the contribution lacks commercial substance, as that term is described in IPSAS 17~~IAS 16~~, *Property, Plant and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 31 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

Note to IPSASB:

IASB ED 2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Proposed amendments to IFRS 10 and IAS 28) proposes to limit the application of paragraphs 28 and 30 to transactions that do not involve the sale of a business. Staff is not proposing to incorporate these proposed amendments in this ED for the reasons set out in the issues paper at agenda item 7.1.

31. If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognizes in full in surplus or deficit~~profit or loss~~ the portion of the gain or loss on the ~~non-monetary~~ contribution relating to the monetary or non-monetary assets received.
32. An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:
  - (a) Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.
  - (b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as revenue~~income~~ in the determination of the entity's share of the associate or joint venture's surplus or deficit~~profit or loss~~ in the period in which the investment is acquired.

Appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit~~profit or loss~~ after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit~~profit or loss~~ after acquisition are made for impairment losses such as for goodwill or property, plant and equipment.
33. **The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity or the entity uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the financial statements of the entity~~unless it is impracticable to do so.~~**
34. **When, in accordance with paragraph 33, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.**
35. **The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**

36. If an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.
37. If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of ~~surplus or deficit~~profit or loss after adjusting for the dividends on such shares, whether or not the dividends have been declared.
38. If an entity's share of ~~the deficit losses~~ of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further ~~deficits~~losses. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. ~~Deficits~~Losses recognized using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (ie priority in liquidation).
39. After the entity's interest is reduced to zero, additional ~~deficits~~losses are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports ~~surpluses~~profits, the entity resumes recognising its share of those ~~surpluses~~profits only after its share of the ~~surpluses~~profits equals the share of ~~deficits~~losses not recognized.

## Impairment Losses

40. After application of the equity method, including recognising the associate's or joint venture's ~~deficits~~losses in accordance with paragraph 38, the entity applies ~~IPSAS 29/IAS 39 Financial Instruments: Recognition and Measurement~~ to determine whether it is necessary to recognize any additional impairment loss with respect to its net investment in the associate or joint venture.
41. The entity also applies ~~IPSAS 29/IAS 39~~ to determine whether any additional impairment loss is recognized with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.
42. ~~Whenever application of IPSAS 29 indicates that the investment in an associate or a joint venture may be impaired, an entity applies IPSAS 21, Impairment of Non-Cash-Generating Assets, and IPSAS 26, Impairment of Cash-Generating Assets. IPSAS 26 directs an entity to determine the value in use of the cash-generating investment. Because goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets. Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of IAS 39 indicates that the investment may be impaired. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill, that~~

~~forms part of the carrying amount of the investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.~~ In determining the value in use of the cash-generating investment in accordance with IPSAS 26, an entity estimates:

- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or
- (b) The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment, and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

[Paragraph 42 modified for consistency with IPSAS 7 para 39]

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

## Separate Financial Statements

- 44. An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 10 of IPSAS 6 [IAS 27] (Amended [Date]).

## Effective Date ~~and Transition~~

- 45. An entity shall apply this Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this Standard for a period beginning before [Date], it shall disclose that fact and apply IPSAS X [IFRS 10], IPSAS X, [IFRS 11] *Joint Arrangements*, IPSAS X, [IFRS 12] *Disclosure of Interests in Other Entities* and IPSAS 6 (Amended [Date]) at the same time.
- 45.1. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.
- ~~45A *Equity Method: Share of Other Not Asset Changes* (Amendments to IAS 28), issued in [date to be inserted after exposure], amended paragraphs 10, 22, 23 and 25. An entity shall apply those paragraphs for annual periods beginning on or after [date to be inserted after exposure] retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted.~~

## References to IFRS 9

- ~~46. If an entity applies this Standard but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39.~~

## Withdrawal of IPSAS 7 (2006) ~~IAS 28 (2003)~~

- 47. This Standard supersedes IPSAS 7, IAS 28 *Investments in Associates* (2006 as revised in 2003).

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS X.*

The Basis for Conclusions will need to be revised if any significant changes are made to the requirements of the Standard.

### Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions on IPSAS 7, *Investments in Associates and Joint Ventures (Amended [Date])*. The amendment of IPSAS 7 results from the Board's project to update IPSAS 6–8. As a result of incorporating the accounting for joint ventures into IPSAS 7, the title of IPSAS 7 was changed from *Investments in Associates* to *Investments in Associates and Joint Ventures*.
- BC2. In amending IPSAS 7, the Board did not reconsider all the Standard's requirements. The most significant changes resulted from the decision to require the use of the equity method to account for investments in joint ventures and therefore to combine the accounting for investments in associates and joint ventures in one standard. The Board's views on the use of the equity method to account for investments in joint ventures are discussed in the Basis for Conclusions on IPSAS X [IFRS 11].

### Scope

- BC3. The IPSASB noted that the scope of IPSAS 7 (2006) had been limited to investments in associates “where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure”. In developing IPSAS 7 (2006) the IPSASB noted that it is unlikely equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure. The IPSASB reflected on the intention of this modification and concluded that it was intended to prevent the inappropriate application of that Standard to interests other than ownership interests.
- BC4. In contrast with IPSAS 7 (2006) this Standard applies to both associates and joint ventures. Because joint ventures can take many forms, including partnerships arrangements which do not have formal equity structures, the scope limitation in IPSAS 7 (2006) was not appropriate. The IPSASB decided that the scope of this Standard should be limited to “quantifiable ownership interests”.

### Application of the Equity Method

#### *Temporary Joint Control and Significant Influence*

- BC5. IPSAS 7, *Investments in Associates* (2006) and IPSAS 8, *Interests in Joint Ventures* (2006) both provided exemptions for an entity with investments in joint ventures and associates when joint control of, or significant influence over, another entity was intended to be temporary. The exemptions were in respect of the requirements in those standards to account for investments using the equity method or proportionate consolidation. The Board considered whether to retain these exemptions in IPSAS 7. The Board noted that the IASB had removed these exemptions from the equivalent IFRSs in 2003, as a result of issuing IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.



- BC6. The Board noted that in developing IPSAS X, *Consolidated Financial Statements* it had considered whether to retain an exemption in respect of controlled entities where control of another entity was expected to be temporary.  
[To be completed: Insert IPSASB's decision on any exemptions from consolidation in ED X, *Consolidated Financial Statements* and explain how this Standard has been aligned with ED X, *Consolidated Financial Statements*.]

*ED/2012/3 Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28).*

- BC5. IPSAS X [ED X], *Investments in Associates and Joint Ventures (Amended [Date])* is based on IAS 28 (Amended 2011) and amendments to IAS 28 proposed by the IASB in ED/2012/3. ED/2012/3 clarified how an investor should account for other net asset changes of the investee. At the time that the IPSASB issued ED X the IASB's due process on ED 2012/3 was still in progress. The IPSASB decided that these clarifications were relevant, in part, for ED X and considered that it was appropriate to seek feedback from public sector constituents on these proposals.



### **Comparison with IAS 28 (Amended 2011)**

[This comparison will be completed when the Exposure Draft is completed]

IPSAS 7, *Investments in Associates and Joint Ventures (Amended [Date])* is drawn primarily from IAS 28, *Investments in Associates and Joint Ventures (Amended 2011)* and IASB ED 2012/3 *Equity Method: Share of Other Net Asset Changes* (Proposed amendments to IAS 28). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 12 are therefore replaced by references to the IPSASs dealing with financial instruments.

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

- Commentary additional to that in IAS 28 (Amended 2011) has been included in IPSAS 7 (Amended [Date]) to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 7 (Amended [Date]) applies to all investments where the investor has a quantifiable ownership interest. IAS 28 (Amended 2011) does not contain a similar requirement. However, it is unlikely that equity accounting could be applied unless there was a quantifiable ownership interest.
- IPSAS 7 (Amended [Date]) uses different terminology, in certain instances, from IAS 28 (Amended 2011). The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity,” “revenue” in IPSAS 7 (Amended [Date]). The equivalent terms in IAS 28 (Amended 2011) are “equity,” “group,” “parent,” “subsidiary” and “income.”

FOR NOTING

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## Objective

1. The objective of this ~~IFRS-Standard~~ is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

### Meeting the Objective

2. To meet the objective in paragraph 1, this ~~Standard~~~~IFRS~~:
  - (a) Requires an entity (the ~~controlling entity~~~~parent~~) that controls one or more other entities (~~controlled entities~~~~subsidiaries~~) to present consolidated financial statements;
  - (b) Defines the principle of control, and establishes control as the basis for consolidation;
  - (c) Sets out how to apply the principle of control to identify whether an ~~entity~~~~investor~~ controls an ~~other entity~~~~investee~~ and therefore must consolidate ~~that entity~~~~the investee~~; and
  - (d) Sets out the accounting requirements for the preparation of consolidated financial statements.
3. ~~This IFRS does not deal with the accounting requirements for business combinations and their effect on consolidation, including goodwill arising on a business combination (see IFRS 3 Business Combinations).~~

## Scope

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

### Public Sector Combinations

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

### Exemptions from Presenting Consolidated Financial Statements

4. An entity that is a ~~controlling entity~~~~parent~~ shall present consolidated financial statements. This ~~Standard~~~~IFRS~~ applies to all entities, except as set out in this paragraph and paragraphs 4.1 to 4.3~~follows~~:
  - (a) A ~~controlling entity~~ ~~parent~~ need not present consolidated financial statements if it meets all the following conditions:
    - (i) It is ~~itself a controlled entity~~~~subsidiary~~ and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, to or is a partially owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the ~~controlling entity~~ ~~parent~~ not presenting consolidated financial statements;
    - (ii) Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
    - (iii) It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

- (iv) Its ultimate or any intermediate ~~controlling entity~~<sup>parent</sup> produces consolidated financial statements that are available for public use and comply with ~~IPSASs~~<sup>IFRSs</sup>.
- (b) Post-employment benefit plans or other long-term employee benefit plans to which ~~IPSAS 25~~<sup>IAS 19 Employee Benefits</sup> applies.

### Exclusions from Requirement to Consolidate

4.1.- 4.3. [Paragraph numbers 4.1 to 4.3 have been used as placeholders. If the IPSASB determines that there should be exemptions from consolidation, the relevant text would be inserted here.]

#### Dissimilar entities

4.4 A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of Government Business Enterprises (GBEs) with entities in the budget sector. Relevant information is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities. For example, the disclosures required by IPSAS 18, *Segment Reporting*, help to explain the significance of different activities within the economic entity. [Based on IPSAS 6 paragraph 26.]

#### Government Business Enterprises

4.5 This Standard applies to all public sector entities other than GBEs.

4.6 The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.

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

### Definitions

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

Benefits are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. Financial benefits include returns on investment such as dividends or similar distributions. Non-financial benefits include advantages arising from scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the entity. Benefits can have positive or negative aspects.

Binding arrangement: For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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

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

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

**A controlling entity** ~~parent is~~ an entity that controls one or more entities.

**A decision-maker** ~~is~~ an entity with decision-making rights that is either a principal or an agent for other parties.

**An economic entity** ~~group is~~ a ~~controlling entity parent~~ and its ~~controlled entities subsidiaries~~.

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

**Power** ~~consists of~~ existing rights that give the current ability to direct the relevant activities ~~of another entity, including the right to govern the financial and operating policies of that entity~~.

**Protective rights** ~~are~~ rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

**Relevant activities** (for the purpose of this ~~IFRS Standard~~), ~~relevant activities~~ are activities of the ~~potentially controlled entity investee~~ that significantly affect the ~~nature or amount of the benefits that an entity receives from its involvement with that other entity investee's returns~~.

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

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

The following terms are defined in IFRS 11, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 (as amended in 2011) or IAS 24 *Related Party Disclosures* and are used in this IFRS with the meanings specified in those IFRSs:

- ~~associate~~
- ~~interest in another entity~~
- ~~joint venture~~
- ~~key management personnel~~
- ~~related party~~
- ~~significant influence~~

## **Economic Entity**

4.9 The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group. An economic entity may include entities with both social policy and commercial objectives. [Based on IPSAS 6 paragraphs 12 to 14.]

## Control (see paragraphs AG2–AG85)

5. An entity investor, regardless of the nature of its involvement with an other entity ~~(the investee)~~, shall determine whether it is a controlling entity parent by assessing whether it controls the other entity ~~the investee~~.
6. An entity investor controls an other entity investee when it is exposed, or has rights, to variable benefits returns from its involvement with the other entity ~~the investee~~ and has the ability to affect the nature and amount of those benefits returns through its power over the other entity investee.
7. Thus, an entity investor controls an other entity investee if and only if the entity investor has all the following:
  - (a) Power over the other entity investee (see paragraphs 10–14);
  - (b) Exposure, or rights, to variable benefits returns from its involvement with the other entity investee (see paragraphs 15 and 16); and
  - (c) The ability to use its power over the other entity investee to affect the nature or amount of the benefits from its involvement with the other entity investor's returns (see paragraphs 17 and 18).
8. An entity investor shall consider all facts and circumstances when assessing whether it controls an other entity investee. The entity investor shall reassess whether it controls an other entity investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7 (see paragraphs AG80–AG85).
9. Two or more entities investors collectively control an other entity investee when they must act together to direct the relevant activities. In such cases, because no single entity investor can direct the activities without the co-operation of the others, no single entity investor individually controls the other entity investee. Each entity investor would account for its interest in the other entity investee in accordance with the relevant IPSASs IFRSs, such as IPSAS X, [IFRS 11] Joint Arrangements, IPSAS 7, IAS 28 Investments in Associates and Joint Ventures (Amended [Date]) or the IPSASs dealing with financial instruments (being IPSAS 28, Financial Instruments: Presentation, IPSAS 29, IFRS 9 Financial Instruments: Recognition and Measurement, and IPSAS 30, Financial Instruments: Disclosures).

## Power

10. An entity investor has power over an other entity investee when the entity investor has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the nature or amount of the benefits from its involvement with the other entity investee's returns. The right to govern the financial and operating policies of another entity indicates that an entity has the ability to direct the relevant activities of another entity.
11. Power arises from rights. In some cases Sometimes assessing power is straightforward, such as when power over an other entity investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. However, public sector entities often obtain power over another entity from rights other than voting rights. They may also obtain power over another entity without having an equity instrument providing evidence of a financial investment. An entity may have rights conferred by legislation, founding documents or binding arrangements (including rights from contracts or other legal rights). These rights may give an entity power to require the other entity to deploy assets or incur liabilities in a way that

~~affects the nature or amount of benefits received by the first-mentioned entity. In other cases~~ The assessment ~~of whether such rights give rise to power over another entity may be~~ will be more complex and require more than one factor to be considered, ~~for example when power results from one or more contractual arrangements.~~

11.1 ~~An entity can have power over another even if it does not have responsibility for the day-to-day operation of the other entity or the manner in which prescribed functions are performed by that other entity. Legislation may give statutory bodies or statutory officers powers to carry out their functions independently of government. For example, the Auditor-General and Government Statistician usually have statutory powers to obtain information and publish reports without recourse to government. Such legislation may also set out the broad parameters within which the statutory body is required to operate, and result in the statutory body operating in a manner consistent with the objectives set by Parliament or a similar body. The existence of statutory powers to operate independently does not, of itself, preclude an entity from being controlled. All facts and circumstances would still need to be considered. [Based on IPSAS 6 paragraph 35 and AASB IG8]~~

11.2 ~~The existence of rights over another entity does not necessarily give rise to power for the purposes of this Standard. An entity does not have power over another entity solely due to the existence of:~~

~~(a) Regulatory control (see paragraph AG10.2); or~~

~~(b) Economic dependence (see paragraphs AG40.1–AG40.3).~~

12. An ~~investor entity~~ with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the ~~entity investor~~ has been directing ~~the~~ relevant activities ~~of the other entity~~ can help determine whether the ~~entity investor~~ has power, but such evidence is not, in itself, conclusive in determining whether the ~~entity investor~~ has power over an ~~other entity investee~~.

13. If two or more ~~entities investors~~ each have existing rights that give them the unilateral ability to direct different relevant activities, the ~~entity investor~~ that has the current ability to direct the activities that most significantly affect the ~~nature or amount of benefits from that entity returns of the investee~~ has power over ~~that the other entity investee~~.

14. An ~~entity investor~~ can have power over an ~~other entity investee~~ even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has *significant influence*. However, an ~~entity investor~~ that holds only protective rights does not have power over an ~~other entity investee~~ (see paragraphs AG26–AG28), and consequently does not control the ~~other entity investee~~.

### **BenefitsReturns**

15. An ~~entity investor~~ is exposed, or has rights, to variable ~~benefits returns~~ from its involvement with the ~~other entity investee~~ when the ~~benefits investor's returns~~ from its involvement have the potential to vary as a result of the ~~other entity's investee's~~ performance. The ~~entity's investor's benefits returns from its involvement with the other entity~~ can be only positive, only negative or both positive and negative.

15.1 ~~The entity's benefits from its involvement with the other entity can be only financial, only non-financial or both financial and non-financial. Financial benefits are sometimes referred to as returns. Non-financial benefits can occur when the activities of another entity are congruent with, (that is, they are in agreement with), the objectives of the entity and support the entity in achieving its objectives. Congruent activities may be undertaken voluntarily or the entity may have the power to direct the other entity to undertake~~

those activities. Non-financial benefits can also occur when two entities have complementary objectives (that is, the objectives of one entity add to, and make more complete, the objectives of the other entity).

15.2 The following examples illustrate benefits that an entity may receive from its involvement with another entity:

- (a) Dividends, variable interest on debt securities, other distributions of economic benefits;
- (b) Exposure to increases or decreases in the value of an investment in another entity;
- (c) Exposure to loss from agreements to provide financial support, including financial support for major projects;
- (d) Cost savings (for example, if an entity would achieve economies of scale or synergies by combining the operations or assets of the other entity with its own operations or assets);
- (e) The ability to benefit from the specialized knowledge of another entity;
- (f) Residual interests in the other entity's assets and liabilities on liquidation of that other entity;
- (g) The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives (see also paragraph 15.3); and
- (h) Other exposures to variable benefits that are not available to other entities.

15.3 Examples of non-financial benefits include:

- (a) Improved outcomes;
- (b) More efficient delivery of outcomes;
- (c) More efficient or effective production and delivery of goods and services;
- (d) Having an asset and related services available earlier than otherwise would be the case; and
- (e) Having a higher level of service quality than would otherwise be the case.

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

#### **Link between Power and ~~Benefits~~ Returns**

17. An ~~entity investor~~ controls another ~~entity investee~~ if the ~~entity investor~~ not only has power over the ~~other entity investee~~ and exposure or rights to variable ~~benefits returns~~ from its involvement with the ~~other entity investee~~, but also has the ability to use its power to affect the ~~nature or amount of the benefits investor's returns~~ from its involvement with the ~~other entity investee~~.

17.1 The existence of congruent objectives alone is insufficient for an entity to conclude that it controls another entity. In order to have control the entity would also need to have the ability to use its power over the other entity to direct that other entity to work with the entity to further the entity's objectives. [Based on AASB IG18]

18. Thus, an ~~investor entity~~ with decision-making rights shall determine whether it is a principal or an agent. An ~~entity investor~~ that is an agent in accordance with paragraphs AG58–AG72 does not control another ~~entity investee~~ when it exercises decision-making rights delegated to it.



## Accounting Requirements

19. A ~~controlling entity parent~~ shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.
20. Consolidation of ~~a controlled entity an investee~~ shall begin from the date the ~~entity investor~~ obtains control of the ~~other entity investee~~ and cease when the ~~entity investor~~ loses control of the ~~other entity investee~~.
21. [Paragraph 21 not used] ~~Paragraphs B86–B93 set out guidance for the preparation of consolidated financial statements.~~

## Consolidation Procedures

### 21.1 Consolidated financial statements:

- (a) Combine like items of assets, liabilities, ~~net assets/equity~~, ~~revenue income~~, expenses and cash flows of the ~~controlling entity parent~~ with those of its ~~controlled entities subsidiaries~~.
- (b) Offset (eliminate) the carrying amount of the ~~controlling entity's parent's~~ investment in each ~~subsidiary controlled entity~~ and the ~~controlling entity parent's~~ portion of equity of each ~~subsidiary controlled entity~~ (~~the relevant international or national accounting standards IFRS 3~~ explains how to account for any related goodwill).
- (c) Eliminate in full intra-~~economic entity group~~ assets and liabilities, ~~net assets/equity~~, ~~revenue income~~, expenses and cash flows relating to transactions between entities of the ~~economic entity group~~ (~~surpluses or deficits profits or losses~~ resulting from intra-~~economic entity group~~ transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full). Intra-~~economic entity group~~ losses may indicate an impairment that requires recognition in the consolidated financial statements. ~~Guidance on accounting for IAS 12 Income Taxes applies to~~ temporary ~~income tax~~ differences that arise from the elimination of ~~surpluses and deficits profits and losses~~ resulting from intra-~~entity group~~ transactions ~~can be found in the relevant international or national accounting standard dealing with income taxes~~. [Based on IFRS 10, B86]

## Uniform Accounting Policies

- 21.2 If a member of the ~~economic entity group~~ uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that ~~group~~ member's financial statements in preparing the consolidated financial statements to ensure conformity with the ~~economic entity's group's~~ accounting policies. [Based on IFRS 10, B87]

## Measurement

- 21.3 An entity includes the ~~revenue income~~ and expenses of a ~~subsidiary controlled entity~~ in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the ~~subsidiary controlled entity~~. ~~Revenue income~~ and expenses of the ~~subsidiary controlled entity~~ are based on the amounts of the assets and liabilities recognized in the consolidated financial statements at the acquisition date. For example, depreciation expense recognized in the consolidated statement of ~~financial performance comprehensive income~~ after the acquisition date is based on the ~~fair~~-values of the related depreciable assets recognized in the consolidated financial statements at the acquisition date. [Based on IFRS 10, B88]

## Potential Voting Rights

- 21.4 When potential voting rights, or other derivatives containing potential voting rights, exist, the proportion of ~~surplus or deficit~~profit or loss and changes in net assets/equity allocated to the controlling entity~~parent~~ and non-controlling interests in preparing consolidated financial statements is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivatives, unless paragraph ~~21.5B90~~ applies. [Based on IFRS 10, B89]
- 21.5 In some circumstances an entity has, in substance, an existing ownership interest as a result of a transaction that currently gives the entity access to the benefits~~returns~~ associated with an ownership interest. In such circumstances, the proportion allocated to the controlling entity ~~parent~~ and non-controlling interests in preparing consolidated financial statements is determined by taking into account the eventual exercise of those potential voting rights and other derivatives that currently give the entity access to the benefits~~returns~~. [Based on IFRS 10, B90]
- 21.6 IPSAS 28, Financial Instruments: Presentation and IPSAS 29, Financial Instruments: Recognition and Measurement ~~IFRS 9~~ does not apply to interests in controlled entities~~subsidiaries~~ that are consolidated. When instruments containing potential voting rights in substance currently give access to the benefits~~returns~~ associated with an ownership interest in a subsidiary~~controlled entity~~, the instruments are not subject to the requirements of IPSAS 28 and IPSAS 29~~IFRS 9~~. In all other cases, instruments containing potential voting rights in a subsidiary~~controlled entity~~ are accounted for in accordance with IPSAS 28 and IPSAS 29~~IFRS 9~~. [Based on IFRS 10, B91]

## Reporting Dates

- 21.7 The financial statements of the parent~~controlling entity~~ and its controlled entities~~subsidiaries~~ used in the preparation of the consolidated financial statements shall ~~be prepared as at have~~ the same reporting date. When the end of the reporting period of the controlling entity~~parent~~ is different from that of a subsidiary~~controlled entity~~, the subsidiary~~controlled entity~~ either:
- (a) obtains~~prepares~~, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent~~controlling entity~~ ~~to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so; or~~
  - (b) uses the most recent financial statements of the controlled entity adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. [Based on IFRS 10, B92 and B93]
- ~~If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period. [IFRS 10, B93]~~

## Non-controlling Interests

22. A controlling entity ~~parent~~ shall present non-controlling interests in the consolidated statement of financial position within net assets/equity, separately from the net assets/equity of the owners of the controlling entity~~parent~~.

23. Changes in a ~~controlling entity~~parent's ~~ownership~~ interest in a controlled entity that do not result in the ~~controlling entity~~parent losing control of the ~~subsidiary~~controlled entity are ~~equity transactions~~ (ie transactions with owners in their capacity as owners).
24. ~~Paragraphs B94–B96 set out guidance for the accounting for non-controlling interests in consolidated financial statements.~~
- 24.1 An entity shall attribute the ~~surplus or deficit~~ profit or loss and each ~~gain or loss recognized directly in net assets/equity~~ component of other comprehensive income to the owners of the ~~parent~~controlling entity and to the non-controlling interests. The entity shall also attribute ~~the~~ total ~~amount recognized in the statement of changes in net assets/equity~~ comprehensive income to the owners of the ~~parent~~controlling entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. [Based on IFRS 10, B94]
- 24.2 If a ~~subsidiary~~controlled entity has outstanding cumulative preference shares that are classified as equity ~~instruments~~ and are held by non-controlling interests, the entity shall compute its share of ~~surplus or deficit~~ profit or loss after adjusting for the dividends on such shares, whether or not such dividends have been declared. [Based on IFRS 10, B95]

#### *Changes in the Proportion held by Non-controlling Interests*

- 24.3 When the proportion of the ~~net assets~~/equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the ~~subsidiary~~controlled entity. The entity shall recognize directly in ~~net assets~~/equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the ~~parent~~controlling entity. [Based on IFRS 10, B96]

#### **Loss of Control**

25. If a ~~controlling entity~~ parent loses control of a ~~subsidiary~~controlled entity, the ~~controlling entity~~parent:
- (a) Derecognizes the assets and liabilities of the former ~~subsidiary~~controlled entity from the consolidated statement of financial position.
  - (b) Recognizes any investment retained in the former ~~subsidiary~~controlled entity at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former ~~subsidiary~~controlled entity in accordance with relevant ~~IPSASs~~IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with ~~IPSAS 29~~IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.
  - (c) Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.
26. ~~Paragraphs B97–B99 set out guidance for the accounting for the loss of control.~~
- 26.1 A ~~parent~~controlling entity might lose control of a ~~subsidiary~~controlled entity in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a ~~parent~~controlling entity shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the ~~parent~~controlling entity should account for the multiple arrangements as a single transaction:

- (a) They are entered into at the same time or in contemplation of each other.
- (b) They form a single transaction designed to achieve an overall commercial effect.
- (c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
- (d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of an investments shares is priced below market and is compensated for by a subsequent disposal priced above market. [Based on IFRS 10, B97]

26.2 If a parentcontrolling entity loses control of a subsidiarycontrolled entity, it shall:

- (a) Derecognize:
  - (i) The assets (including any goodwill) and liabilities of the subsidiarycontrolled entity at their carrying amounts at the date when control is lost; and
  - (ii) The carrying amount of any non-controlling interests in the former subsidiarycontrolled entity at the date when control is lost (including any gain or loss recognized directly in net assets/equitycomponents of other comprehensive income attributable to them).
- (b) Recognize:
  - (i) The fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;
  - (ii) If the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiarycontrolled entity to owners in their capacity as owners, that distribution; and
  - (iii) Any investment retained in the former subsidiarycontrolled entity at its fair value at the date when control is lost.
- (c) ~~Reclassify to profit or loss, or~~ Transfer directly to accumulated surplus/deficitretained earnings if required by other IPSASs/IFRSs, the amounts recognized directly in net assets/equityother comprehensive income in relation to the subsidiarycontrolled entity on the basis described in paragraph 26.3B99.
- (d) Recognize any resulting difference as a gain or loss in surplus or deficit profit or loss attributable to the parentcontrolling entity. [Based on IFRS 10, B98]

26.3 If a parentcontrolling entity loses control of a subsidiarycontrolled entity, the parentcontrolling entity shall account for all amounts previously recognized directly in net assets/equityother comprehensive income in relation to that subsidiarycontrolled entity on the same basis as would be required if the parentcontrolling entity had directly disposed of the related assets or liabilities. ~~Therefore, if a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary.~~ If a revaluation surplus previously recognized directly in net assets/equityother comprehensive income would be transferred directly to accumulated surplus/deficitretained earnings on the disposal of the asset, the parentcontrolling entity shall transfer the revaluation surplus directly to accumulated surplus/deficitretained earnings when it loses control of the subsidiarycontrolled entity. [Based on IFRS 10, B99]

## Transitional Provisions

Note to the IPSASB:

In its project on first-time adoption the IPSASB has tentatively decided not to encourage, but not to require the elimination of inter-entity balances and transactions for a period of three years. This ED will need to include a cross reference to any transitional provisions proposed in an ED on first-time adoption.

- 26.4 An entity shall apply this ~~Standard IFRS~~ retrospectively, in accordance with ~~IPSAS 3, IAS-8 Accounting Policies, Changes in Accounting Estimates and Errors~~, except as specified in paragraphs ~~26.5–26.11 C2A–C6~~. [Based on IFRS 10 C2]
- 26.5 Notwithstanding the requirements of paragraph ~~3328~~ of ~~IPSAS 3, IAS-8~~, when this ~~Standard IFRS~~ is first applied, an entity need only present the quantitative information required by paragraph ~~3328(f)~~ of ~~IPSAS 3, IAS-8~~ for the annual period immediately preceding the date of initial application of this ~~Standard IFRS~~ (the “immediately preceding period”). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so. [Based on IFRS 10 C2A]
- 26.6 For the purposes of this ~~Standard IFRS~~, the date of initial application is the beginning of the annual reporting period for which this ~~Standard IFRS~~ is applied for the first time. [Based on IFRS 10 C2B]
- 26.7 At the date of initial application, an entity is not required to make adjustments to the previous accounting for its involvement with either:
- (a) Entities that would be consolidated at that date in accordance with ~~IPSAS 6, IAS-27 Consolidated and Separate Financial Statements (2006) and SIC-12 Consolidation—Special Purpose Entities~~ and are still consolidated in accordance with this ~~Standard IFRS~~; or
  - (b) Entities that would not be consolidated at that date in accordance with ~~IPSAS 6 (2006), IAS-27 and SIC-12~~ and are not consolidated in accordance with this ~~Standard IFRS~~. [Based on IFRS 10 C3]
- 26.8 If, at the date of initial application, an ~~entity investor~~ concludes that it shall consolidate an ~~other entity investee~~ that was not consolidated in accordance with ~~IPSAS 6 (2006), IAS-27 and SIC-12~~, the ~~entity investor~~ shall:
- ~~(a) if the investee is a business (as defined in IFRS 3 Business Combinations), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee as if that investee had been consolidated (and thus had applied acquisition accounting in accordance with IFRS 3) from the date when the investor obtained control of that investee on the basis of the requirements of this IFRS. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, any difference between:~~
    - ~~(i) the amount of assets, liabilities and non-controlling interests recognised; and~~
    - ~~(ii) the previous carrying amount of the investor's involvement with the investee.~~
  - ~~if the investee is not a business (as defined in IFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated entity investee as if that other entity investee had been consolidated (applying the acquisition method as described in IFRS 3 but without recognising any goodwill for the investee) from the date when the entity investor obtained control of that other~~

~~entity investor~~ on the basis of the requirements of this ~~Standard~~ IFRS. The ~~entity investor~~ shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of the immediately preceding period, the ~~entity investor~~ shall recognize, as an adjustment to ~~net assets~~/equity at the beginning of the immediately preceding period, any difference between:

- (a) The amount of assets, liabilities and non-controlling interests recognized; and
  - (b) The previous carrying amount of the ~~entity's investor's~~ involvement with the ~~other entity investor~~.
- [Based on IFRS 10 C4]

26.9 If measuring ~~a controlled entity's an investor's~~ assets, liabilities and non-controlling interests in accordance with paragraph ~~26.8C4~~(a) or (b) is impracticable (as defined in ~~IPSAS 3IAS-8~~), an ~~entity investor~~ shall:

- ~~(a) if the investee is a business, apply the requirements of IFRS 3 as of the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which application of paragraph C4(a) is practicable, which may be the current period.~~

~~measure the assets, liabilities and non-controlling interests in that previously unconsolidated entity as if that entity had been consolidated from the deemed acquisition date (b) if the investee is not a business, apply the acquisition method as described in IFRS 3 but without recognising any goodwill for the investee as of the deemed acquisition date.~~ The deemed acquisition date shall be the beginning of the earliest period for which the application of this paragraph is practicable, which may be the current period.

The ~~entity investor~~ shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the deemed acquisition date is earlier than the beginning of the immediately preceding period, the ~~entity investor~~ shall recognize, as an adjustment to ~~net assets~~/equity at the beginning of the immediately preceding period, any difference between:

- (a) The amount of assets, liabilities and non-controlling interests recognized; and
- (b) The previous carrying amounts of the ~~entity's investor's~~ involvement with the ~~other entity investor~~.

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to ~~net assets~~/equity shall be recognized at the beginning of the current period. [Based on IFRS 10 C4A]

~~C4B When an investor applies paragraphs C4–C4A and the date that control was obtained in accordance with this IFRS is later than the effective date of IFRS 3 as revised in 2008 (IFRS 3 (2008)), the reference to IFRS 3 in paragraphs C4 and C4A shall be to IFRS 3 (2008). If control was obtained before the effective date of IFRS 3 (2008), an investor shall apply either IFRS 3 (2008) or IFRS 3 (issued in 2004).~~

~~C4C When an investor applies paragraphs C4–C4A and the date that control was obtained in accordance with this IFRS is later than the effective date of IAS 27 as revised in 2008 (IAS 27 (2008)), an investor shall apply the requirements of this IFRS for all periods that the investee is retrospectively consolidated in accordance with paragraphs C4–C4A. If control was obtained before the effective date of IAS 27 (2008), an investor shall apply either:~~

- ~~(a) the requirements of this IFRS for all periods that the investee is retrospectively consolidated in accordance with paragraphs C4–C4A; or~~



~~(b) the requirements of the version of IAS 27 issued in 2003 (IAS 27 (2003)) for those periods prior to the effective date of IAS 27 (2008) and thereafter the requirements of this IFRS for subsequent periods.~~

[IFRS 10 paragraphs C4B and C4C have been omitted because they explain which version of IAS 27 to apply. There has been only one prior version of IPSAS 6, so this guidance would not be required in an IPSAS.]

26.10 If, at the date of initial application, an entity investor concludes that it will no longer consolidate an entity investee that was consolidated in accordance with IPSAS 6 (2006)~~IAS 27 and SIC 12~~, the entity investor shall measure its interest in the other entity investee at the amount at which it would have been measured if the requirements of this IFRS Standard had been effective when the entity investor became involved with, or lost control of, the other entity investee. The entity investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that the entity investor became involved with (but did not obtain control in accordance with this IFRS Standard), or lost control of, the other entity investee is earlier than the beginning of the immediately preceding period, the entity investor shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:

- (a) The previous carrying amount of the assets, liabilities and non-controlling interests; and
- (b) The recognized amount of the entity's investor's interest in the other entity investee. [Based on IFRS 10 C5]

26.11 If measuring the interest in the other entity investee in accordance with paragraph 26.10C5 is impracticable (as defined in IPSAS 3IAS 8), an entity investor shall apply the requirements of this IFRS Standard at the beginning of the earliest period for which application of paragraph 26.10C5 is practicable, which may be the current period. The entity investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that the entity investor became involved with (but did not obtain control in accordance with this StandardIFRS), or lost control of, the other entity investee is earlier than the beginning of the immediately preceding period, the entity investor shall recognize, as an adjustment to net assets/equity at the beginning of the immediately preceding period, any difference between:

- (a) The previous carrying amount of the assets, liabilities and non-controlling interests; and
- (b) The recognized amount of the entity's investor's interest in the other entity investee.

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognized at the beginning of the current period. [Based on IFRS 10 C5A]

~~C6 Paragraphs 23, 25, B94 and B96-B99 were amendments to IAS 27 made in 2008 that were carried forward into IFRS 10. Except when an entity applies paragraph C3, or is required to apply paragraphs C4-C5A, the entity shall apply the requirements in those paragraphs as follows:~~

- ~~(a) An entity shall not restate any profit or loss attribution for reporting periods before it applied the amendment in paragraph B94 for the first time.~~
- ~~(a) The requirements in paragraphs 23 and B96 for accounting for changes in ownership interests in a subsidiary after control is obtained do not apply to changes that occurred before an entity applied these amendments for the first time.~~

~~An entity shall not restate the carrying amount of an investment in a former subsidiary if control was lost before it applied the amendments in paragraphs 25 and B97-B99 for the first time. In~~

~~addition, an entity shall not recalculate any gain or loss on the loss of control of a subsidiary that occurred before the amendments in paragraphs 25 and B97–B99 were applied for the first time.~~  
[Paragraph C6 of IFRS 10 has been omitted because it referred to requirements that did not form part of IPSAS 6]

### References to the “Immediately Preceding Period”

- 26.12 Notwithstanding the references to the annual period immediately preceding the date of initial application (the “immediately preceding period”) in paragraphs ~~26.8–26.11~~~~C4–C5A~~, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the “immediately preceding period” in paragraphs ~~26.8–26.11~~~~C4–C5A~~ shall be read as the “earliest adjusted comparative period presented.” [Based on IFRS 10 C6A]
- 26.13 If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis. [Based on IFRS 10 C6B]

### References to IFRS 9

~~C7—If an entity applies this IFRS but does not yet apply IFRS 9, any reference in this IFRS to IFRS 9 shall be read as a reference to IAS 39, *Financial Instruments: Recognition and Measurement*.~~

### Effective Date

- 26.14. ~~An entity shall apply this Standard for annual financial statements covering periods beginning on or after [Date]. Earlier application is encouraged. If an entity applies this Standard for a period beginning before [Date], it shall disclose that fact and apply IPSAS X [IFRS 11], IPSAS X [IFRS 12], and IPSAS 6, *Separate Financial Statements (Amended [Date])* and IPSAS 7, *Investments in Associates and Joint Ventures (Amended [Date])* at the same time.~~
- 26.15. ~~When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity’s annual financial statements covering periods beginning on or after the date of adoption.~~
- ~~C1—An entity shall apply this IFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this IFRS earlier, it shall disclose that fact and apply IFRS 11, IFRS 12, IAS 27 *Separate Financial Statements* and IAS 28 (as amended in 2011) at the same time.~~
- ~~C1A—Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12), issued in June 2012, amended paragraphs C2–C6 and added paragraphs C2A–C2B, C4A–C4C, C5A and C6A–C6B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies IFRS 10 for an earlier period, it shall apply those amendments for that earlier period.~~  
[IFRS 10, paragraphs C1 and C1A, have been replaced by the usual effective date requirements for an IPSAS.]

### Withdrawal of ~~other IPSASs 6 (2006)~~

- 26.16. ~~This Standard IFRS supersedes the requirements relating to consolidated financial statements in IPSAS 6 (2006)~~IAS 27 (as amended in 2008)~~.~~ [Based on IFRS 10 C8]
- ~~C9—This IFRS also supersedes SIC 12 Consolidation—Special Purpose Entities.~~



## Application Guidance

*This Appendix is an integral part of IPSAS X.*

- AG1. ~~B1~~—The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS X [IFRS 10].

## Assessing Control

- AG2. ~~B2~~—To determine whether it controls an ~~other entity~~~~investee~~ an ~~entity~~~~investor~~ shall assess whether it has all the following:
- (a) Power over the ~~investee~~~~other entity~~;
  - (b) Exposure, or rights, to variable ~~benefits~~~~returns~~ from its involvement with the ~~other entity~~~~investee~~; and
  - (c) The ability to use its power over the ~~other entity~~~~investee~~ to affect the ~~nature or~~ amount of the ~~benefits from its involvement with the other entity~~~~investor's returns~~.
- AG3. ~~B3~~—Consideration of the following factors may assist in making that determination:
- (a) The purpose and design of the ~~other entity~~~~investee~~ (see paragraphs AG5–AG8);
  - (b) What the relevant activities are and how decisions about those activities are made (see paragraphs AG11–AG13);
  - (c) Whether the rights of the ~~entity~~~~investor~~ give it the current ability to direct the relevant activities ~~of the other entity~~ (see paragraphs AG14–AG54);
  - (d) Whether the ~~entity~~~~investor~~ is exposed, or has rights, to variable ~~benefits~~~~returns~~ from its involvement with the ~~other entity~~~~investee~~ (see paragraphs AG55–AG57); and
  - (e) Whether the ~~entity~~~~investor~~ has the ability to use its power over the ~~other entity~~~~investee~~ to affect the ~~nature or~~ amount of the ~~benefits from its involvement with the other entity~~~~investor's returns~~ (see paragraphs AG58–AG72).
- AG4. ~~B4~~—When assessing control of an ~~other entity~~~~investee~~, an investor shall consider the nature of its relationship with other parties (see paragraphs AG73–AG75).

## Purpose and Design of an ~~other Entity~~~~Investee~~

- AG5. ~~B5~~—When assessing ~~whether it has~~ control of an ~~other entity~~~~investee~~, an ~~entity~~~~investor~~ shall consider the purpose and design of the ~~other entity~~~~investee~~ in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who ~~receives benefits~~~~returns~~ from those activities.
- AG6. ~~B6~~—When an ~~other entity's~~~~investee's~~ purpose and design are considered, it may be clear that ~~the other entity~~~~an investee~~ is controlled by means of equity instruments that give the holder proportionate voting rights, such as ordinary shares in ~~the other entity~~~~the investee~~. In this case, in the absence of any additional arrangements that alter decision-making, the assessment of control focuses on which party, if any, is able to exercise voting rights sufficient to determine the ~~other entity's~~~~investee's~~ operating and financing policies (see paragraphs AG34–AG50). In the most

straightforward case, the ~~entity investor~~ that holds a majority of those voting rights, in the absence of any other factors, controls the ~~other entity investee~~.

AG7. ~~B7~~ To determine whether an ~~entity investor~~ controls an ~~other entity investee~~ in more complex cases, it may be necessary to consider some or all of the other factors in paragraph AG3.

AG8. ~~B8 An investee may be designed so that voting~~ Voting rights ~~may not be~~ are not the dominant factor in deciding who controls the ~~other entity investee~~. ~~If there are, such as when any~~ voting rights ~~they may be limited in scope relate to administrative tasks only, and t~~he relevant activities ~~of another entity may are be~~ directed by means of statutory arrangements, contractual binding arrangements (including rights from contracts or other legal rights) or provisions in founding documents such as articles of association or a constitution. In such cases, an ~~entity's investor's~~ consideration of the purpose and design of the ~~other entity investee~~ shall also include consideration of the risks to which the ~~other entity investee~~ was designed to be exposed, the risks it was designed to pass on to the parties involved ~~with the investee~~ and whether the ~~entity investor~~ is exposed to some or all of those risks. Consideration of the risks includes not only the downside risk, but also the potential for upside.

## Power

AG9. ~~B9~~ To have power over an ~~other entity investee~~, an ~~entity investor~~ must have existing rights that give it the current ability to direct the relevant activities. For the purpose of assessing power, only substantive rights and rights that are not protective shall be considered (see paragraphs AG22–AG28).

AG10. ~~B10~~ The determination about whether an ~~entity investor~~ has power depends on the relevant activities, the way decisions about the relevant activities are made and the rights ~~of the entity investor~~ and other ~~entities parties have~~ in relation to the potentially controlled entity investee.

AG10.1. An entity normally will have power over an entity that it has established when the constituting document or enabling legislation specifies the operating and financing activities that are to be carried out by that entity. However, the impact of the constituting document or legislation is evaluated in the light of other prevailing circumstances, as all facts and circumstances need to be considered in assessing whether an entity has power over another entity. For example, a government may not have power over a research and development corporation that operates under a mandate created, and limited, by legislation if that or other legislation assigns power to direct the relevant activities to other entities that are not controlled by the government. [New. Based on AASB IG5]

## Regulatory Control

AG10.2. Regulatory control does not give rise to power over an investee for the purposes of this Standard. Governments and other public sector bodies, including supranational bodies, may have wide ranging powers to establish the regulatory framework within which entities operate, to impose conditions or sanctions on their operations and to enforce those conditions or sanctions. For example, governments and other public sector bodies may enact regulations to protect the health and safety of the community, restrict the sale or use of dangerous goods or specify the pricing policies of monopolies. However, when regulation is so tight as to effectively dictate how the entity performs its business, then it may be necessary to consider whether the purpose and design of the entity is such that it is controlled by the regulating entity. [New, similar to IPSAS 6 paragraph 37(b). Last sentence intended to be consistent with draft GFSM 2012]

*Relevant Activities and Direction of Relevant Activities*

- AG11. ~~B11~~ For many ~~entities~~~~investees~~, a range of operating and financing activities significantly affect their ~~benefits they generate~~~~returns~~. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:
- (a) Using assets and incurring liabilities to provide services to service recipients;
  - (b) Distributing funds to specified individuals or groups;
  - (c) Collecting revenue through non-exchange transactions;
  - ~~(a)~~(d) Selling and purchasing of goods or services;
  - (e) Managing physical assets;
  - ~~(b)~~(f) Managing financial assets during their life (including upon default);
  - ~~(e)~~(g) Selecting, acquiring or disposing of assets;
  - (h) Managing a portfolio of liabilities;
  - ~~(d)~~(i) Researching and developing new products or processes; and
  - ~~(e)~~(j) Determining a funding structure or obtaining funding.
- AG12. ~~B12~~ Examples of decisions about relevant activities include but are not limited to:
- (a) Establishing operating and capital decisions of ~~an entity~~~~the investee~~, including budgets; and
  - (b) Appointing and remunerating an ~~entity's~~~~investee's~~ key management personnel or service providers and terminating their services or employment.
- AG13. ~~B13~~ In some situations, activities both before and after a particular set of circumstances arises or event occurs may be relevant activities. When two or more ~~entities~~~~investors~~ have the current ability to direct relevant activities and those activities occur at different times, ~~those entities~~~~investors~~ shall determine which ~~entity~~~~investor~~ is able to direct the activities that most significantly affect those ~~benefits~~~~returns~~ consistently with the treatment of concurrent decision-making rights (see paragraph 13). The ~~entities~~~~investors~~ concerned shall reconsider this assessment over time if relevant facts or circumstances change.

*Rights that Give an ~~Entity~~~~Investor~~ Power over an ~~other Entity~~~~Investee~~*

- AG14. ~~B14~~ Power arises from rights. To have power over another ~~entity~~~~investee~~, an ~~entity~~~~investor~~ must have existing rights that give the ~~entity~~~~investor~~ the current ability to direct the relevant activities of the other entity. The rights that may give an ~~entity~~~~investor~~ power can differ ~~between investees~~.
- AG15. ~~B15~~ Examples of rights that, either individually or in combination, can give an ~~entity~~~~investor~~ power include but are not limited to:
- (a) Rights to give policy directions to the governing body of another entity that give the holder the ability to direct the relevant activities of the other entity;
  - ~~(a)~~(b) Rights in the form of voting rights (or potential voting rights) of an ~~other entity~~~~investee~~ (see paragraphs AG34–AG50);

- ~~(b)(c)~~ Rights to appoint, reassign or remove members of an other entity's investor's key management personnel who have the ability to direct the relevant activities;
- ~~(e)(d)~~ Rights to appoint or remove another entity that directs the relevant activities;
- ~~(d)(e)~~ Rights to approve or veto operating and capital budgets relating to the relevant activities of another entity;
- (f) Rights to direct the other entity investor to enter into, or veto any changes to, transactions for the benefit of the entity investor;
- ~~(e)(g)~~ Rights to veto key changes to the other entity, such as the sale of a major asset or of the other entity as a whole; and
- ~~(f)(h)~~ Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.  
[Modified to include additional examples of rights that may occur in the public sector. Additional examples based on AASB guidance.]

AG15.1. In considering whether it has power, an entity will need to consider the mechanism(s) by which it has obtained power. Ways in which an entity may have obtained power, either individually or in combination with other arrangements, include:

- (a) Legislative or executive authority;
- (b) Administrative arrangements;
- (c) Binding arrangements (including rights from contracts or other legal rights);
- (d) Founding documents (for example, articles of association); and
- (e) Voting or similar rights.

AG16. ~~B16 Generally, When an investee has a range of operating and financing activities that significantly affect the investee's returns and when substantive decision-making with respect to these activities is required continuously, it will be voting or similar rights that give an investor power, either individually or in combination with other arrangements.~~

AG17. ~~B17 When voting rights cannot have a significant effect on an investee's returns, such as when voting rights relate to administrative tasks only and contractual arrangements, determine the direction of the relevant activities, the investor needs to assess those contractual arrangements in order to determine whether it has rights sufficient to give it power over the investee.~~ To determine whether an entity investor has rights sufficient to give it power, the entity investor shall also consider the purpose and design of the other entity investee—(see paragraphs AG5–AG8) and the requirements in paragraphs AG51–AG54 together with paragraphs AG18–AG20.

AG18. ~~B18~~ In some circumstances it may be difficult to determine whether an entity's investor's rights are sufficient to give it power over an other entity investor. In such cases, to enable the assessment of power to be made, the entity investor shall consider evidence of whether it has the practical ability to direct the relevant activities unilaterally. Consideration is given, but is not limited, to the following, which, when considered together with its rights and the indicators in paragraphs AG19 and AG20, may provide evidence that the entity's investor's rights are sufficient to give it power over the other entity investor:

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

AG19.

~~B19~~ Sometimes there will be indications that the entity investor has a special relationship with the other entity investee, which suggests that the entity investor has more than a passive interest in the other entity investee. The existence of any individual indicator, or a particular combination of indicators, does not necessarily mean that the power criterion is met. However, if an entity has having more than a passive interest in the another entity investee this may indicate that the entity investor has other related rights sufficient to give it power or provide evidence of existing power over an other entity investee. For example, the following suggests that the entity investor has more than a passive interest in the other entity investee and, in combination with other rights, may indicate power:

- (a) Current or previous employees of the entity are key management personnel of the other entity and have the ability to direct the relevant activities of the other entity~~The investee's key management personnel who have the ability to direct the relevant activities are current or previous employees of the investor.~~
- (b) The relationship between the entity and the other entity's investee's operations is one of dependence~~are dependent on the investor~~, such as in the following situations:
  - (i) The entity funds a significant portion of the other entity's operations and the other entity investee depends on this~~the investor to fund a significant portion of its operations.~~
  - (ii) The entity investor guarantees a significant portion of the other entity's investee's obligations, and the other entity depends on this.
  - (iii) The entity provides investee depends on the investor for critical services, technology, supplies or raw materials to the other entity, and the other entity depends on this.
  - (iv) The entity investor controls assets such as licenses or trademarks that are critical to the other entity's investee's operations and the other entity depends on this.
  - (v) The entity provides key management personnel to the other entity (for example, when the entity's personnel have specialized knowledge of the other entity's operations) and the other entity depends on this~~investee depends on the investor for key~~

~~management personnel, such as when the investor's personnel have specialized knowledge of the investee's operations.~~

- (c) A significant portion of the ~~other entity's investee's~~ activities either involve or are conducted on behalf of the ~~investor entity~~.
- (d) The ~~entity's investor's~~ exposure, or rights, to ~~benefits/returns~~ from its involvement with the ~~other entity investee~~ is disproportionately greater than its voting or other similar rights. For example, there may be a situation in which an ~~entity investor~~ is entitled, or exposed, to more than half of the ~~returns/benefits~~ of the ~~other entity investee~~ but holds less than half of the voting rights of the ~~other entity investee~~.

AG19.1. Public sector entities often have special relationships with other parties as a result of the indicators listed in paragraph AG19. Public sector entities often fund the activities of other entities. Economic dependence is discussed in paragraphs AG 40.1 to AG40.3.

AG20. ~~B20~~–The greater an ~~entity's investor's~~ exposure, or rights, to variability of ~~benefits/returns~~ from its involvement with an ~~other entity investee~~, the greater is the incentive for the ~~entity investor~~ to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of ~~benefits/returns~~ is an indicator that the ~~entity investor~~ may have power. However, the extent of the ~~entity's investor's~~ exposure does not, in itself, determine whether an ~~entity investor~~ has power over the ~~other entity investee~~.

AG21. ~~B21~~–When the factors set out in paragraph AG18 and the indicators set out in paragraphs AG19 and AG20 are considered together with an ~~entity's investor's~~ rights, greater weight shall be given to the evidence of power described in paragraph AG18.

#### Substantive Rights

AG22. ~~B22~~–An ~~entity investor~~, in assessing whether it has power, considers only substantive rights relating to an ~~other entity investee~~ (held by the ~~entity investor~~ and others). For a right to be substantive, the holder must have the practical ability to exercise that right.

AG23. ~~B23~~–Determining whether rights are substantive requires judgment, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:

- (a) Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights. Examples of such barriers include but are not limited to:
  - (i) Financial penalties and incentives that would prevent (or deter) the holder from exercising its rights.
  - (ii) An exercise or conversion price that creates a financial barrier that would prevent (or deter) the holder from exercising its rights.
  - (iii) Terms and conditions that make it unlikely that the rights would be exercised, for example, conditions that narrowly limit the timing of their exercise.
  - (iv) The absence of an explicit, reasonable mechanism in the founding documents of an ~~other entity investee~~ or in applicable laws or regulations that would allow the holder to exercise its rights.
  - (v) The inability of the holder of the rights to obtain the information necessary to exercise its rights.

- (vi) Operational barriers or incentives that would prevent (or deter) the holder from exercising its rights (e.g., the absence of other managers willing or able to provide specialized services or provide the services and take on other interests held by the incumbent manager).
  - (vii) Legal or regulatory requirements that limit the manner in which rights may be exercised or that prevent the holder from exercising its rights (e.g., where another entity has statutory powers which permit it to operate independently of the government or where a foreign entityinvestor is prohibited from exercising its rights). [Modified to include reference to statutory independence as a possible barrier to an entity exercising its rights]
- (b) When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so. The lack of such a mechanism is an indicator that the rights may not be substantive. The more parties that are required to agree to exercise the rights, the less likely it is that those rights are substantive. However, a board of directors (or other governing body) whose members are independent of the decision maker may serve as a mechanism for numerous entities (or other parties)investors to act collectively in exercising their rights. Therefore, removal rights exercisable by an independent board of directors (or other governing body) are more likely to be substantive than if the same rights were exercisable individually by a large number of entities (or other parties)investors.
- (c) Whether the party or parties that hold the rights would benefit from the exercise of those rights. For example, the holder of potential voting rights in another entityinvestee (see paragraphs AG47–AG50) shall consider the exercise or conversion price of the instrument. The terms and conditions of potential voting rights are more likely to be substantive when the instrument is in the money or the entityinvestor would benefit for other reasons (e.g., by realizing synergies between the entityinvestor and the other entityinvestee) from the exercise or conversion of the instrument.

AG24. B24–To be substantive, rights also need to be exercisable when decisions about the direction of the relevant activities need to be made. Usually, to be substantive, the rights need to be currently exercisable. However, sometimes rights can be substantive, even though the rights are not currently exercisable.

AG25. B25–Substantive rights exercisable by other parties can prevent an investor from controlling the investee to which those rights relate. Such substantive rights do not require the holders to have the ability to initiate decisions. As long as the rights are not merely protective (see paragraphs AG26–AG28), substantive rights held by other parties may prevent the investor from controlling the investee even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities.

#### Protective Rights

AG26. B26–In evaluating whether rights give an entityinvestor power over another entityinvestee, the entityinvestor shall assess whether its rights, and rights held by others, are protective rights. Protective rights relate to fundamental changes to the activities of an another entityinvestee or apply in



exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective (see paragraphs AG13 and AG53).

AG27. ~~B27~~ Because protective rights are designed to protect the interests of their holder without giving that party power over the ~~entity investee~~ to which those rights relate, an ~~entity investor~~ that holds only protective rights cannot have power or prevent another party from having power over ~~the entity to which those rights relate~~ ~~an investee~~ (see paragraph 14).

AG28. ~~B28~~ Examples of protective rights include but are not limited to:

- (a) A lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.
- (b) The right of a party holding a non-controlling interest in an ~~entity investee~~ to approve capital expenditure greater than that required in the ordinary course of business, or to approve the issue of equity or debt instruments.
- (c) The right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.
- (d) The right of a regulator to curtail or close the operations of entities that are not complying with regulations or other requirements. For example, a pollution control authority may be able to close down activities of an entity that breaches environmental regulations.
- (e) The right to remove members of the governing body of another entity under certain restricted circumstances. For example, a state government may be able to remove or suspend the chairman of a municipality and appoint an administrator if the municipality is unable to make timely decisions about key policies.
- (f) The right of the government to remove tax deductibility for contributions to a not-for-profit entity if the entity significantly changes its objectives or activities.
- ~~(d)(g)~~ The right of an entity providing resources to a charity to demand that, if the charity were to be liquidated, the net assets of the charity would be distributed to an organization undertaking similar activities. (However, if the entity had the power to determine specifically to where the charity's net assets would be distributed upon liquidation, the entity would have substantive rights in relation to the charity). [Based on AASB IG15]

### *Franchises*

[AG29-AG33 which dealt with franchises have been omitted]

AG29. ~~B29~~ A franchise agreement ~~for which the investee is the franchisee~~ often gives the franchisor rights that are designed to protect the franchise brand. Franchise agreements typically give franchisors some decision-making rights with respect to the operations of the franchisee.

AG30. ~~B30~~ Generally, franchisors' rights do not restrict the ability of parties other than the franchisor to make decisions that have a significant effect on the franchisee's returns. Nor do the rights of the franchisor in franchise agreements necessarily give the franchisor the current ability to direct the activities that significantly affect the franchisee's returns.

AG31. ~~B31~~ It is necessary to distinguish between having the current ability to make decisions that significantly affect the franchisee's returns and having the ability to make decisions that protect the



~~franchise brand. The franchisor does not have power over the franchisee if other parties have existing rights that give them the current ability to direct the relevant activities of the franchisee.~~

AG32. ~~B32~~ By entering into the franchise agreement the franchisee has made a unilateral decision to operate its business in accordance with the terms of the franchise agreement, but for its own account.

AG33. ~~B33~~ Control over such fundamental decisions as the legal form of the franchisee and its funding structure may be determined by parties other than the franchisor and may significantly affect the returns of the franchisee. The lower the level of financial support provided by the franchisor and the lower the franchisor's exposure to variability of returns from the franchisee the more likely it is that the franchisor has only protective rights.

#### *Voting Rights*

AG34. ~~B34~~ Where an entity ~~Often an investor has the current ability, through~~ has voting or similar rights in respect of another entity, an entity should consider whether those rights give it the current ability to direct the relevant activities of the other entity. An ~~entity investor~~ considers the requirements in this section (paragraphs AG35–AG50) in making that assessment ~~if the relevant activities of an investee are directed through voting rights.~~

#### *Power with a Majority of the Voting Rights*

AG35. ~~B35~~ An ~~entity investor~~ that holds more than half of the voting rights of another ~~entity investee~~ has power in the following situations, unless paragraph AG36 or paragraph AG37 applies:

- (a) The relevant activities are directed by a vote of the holder of the majority of the voting rights; or
- (b) A majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority of the voting rights.

#### *Majority of the Voting Rights but no Power*

AG36. ~~B36~~ For an ~~entity investor~~ that holds more than half of the voting rights of another ~~entity investee~~, to have power over ~~that other entity~~ an ~~investee~~, the ~~entity's investor's~~ voting rights must be substantive, in accordance with paragraphs AG22–AG25, and must provide the ~~entity investor~~ with the current ability to direct the relevant activities, which often will be through determining operating and financing policies. If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the ~~entity investor~~ making the assessment of control, the ~~entity investor~~ making the assessment of control does not have power over the ~~other entity investee~~.

AG37. ~~B37~~ An ~~entity investor~~ does not have power over another ~~entity investee~~, even though the ~~entity investor~~ holds the majority of the voting rights in the ~~other entity investee~~, when those voting rights are not substantive. For example, an ~~entity investor~~ that has more than half of the voting rights in an ~~other entity investee~~ cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator.

### *Power without a Majority of the Voting Rights*

AG38. ~~B38~~—An ~~entity investor~~ can have power even if it holds less than a majority of the voting rights of an ~~other entity investee~~. An ~~entity investor~~ can have power with less than a majority of the voting rights of an ~~other entity investee~~, for example, through:

- (a) The power to appoint or remove a majority of the members of the board of directors (or other governing body), and control of the other entity is by that board or by that body (see paragraph AG38.1);
- (b) A ~~contractual-binding~~ arrangement (including rights from contracts or other legal rights) between the ~~entity investor~~ and other vote holders (see paragraph AG39);
- (c) Rights arising from other ~~contractual-binding~~ arrangements (including rights from contracts or other legal rights) or rights arising from legislative or executive authority (see paragraph AG40);
- (d) The ~~entity investor's~~ voting rights (see paragraphs AG38.1 and AG41–AG45);
- (e) Potential voting rights (see paragraphs AG47–AG50); or
- (f) A combination of (a)–(ed).

### *Special Voting Rights Attaching to Ownership Interests (Golden Shares)*

AG38.1. An entity may have the right of decisive vote, thus to veto all other voting rights of another entity. This type of right is sometimes referred to as a “golden share”. Usually these rights are documented in the founding documents of the other entity (such as articles of association), and are designed to restrict the level of voting or other rights that may be held by certain parties. They may also give an entity veto powers over any major change in the other entity, such as the sale of a major asset or of the other entity as a whole. [New]

### *Control of the Board or Other Governing Body*

AG38.2. An investor may have the power to appoint or remove a majority of the members of the board of directors (or other governing body) as a result of existing legislation, regulation, contractual, or other arrangements.

### *Binding ~~Contractual~~ Arrangement with Other Vote Holders*

AG39. ~~B39~~—A ~~binding contractual~~ arrangement (including rights from contracts or other legal rights) between an ~~entity investor~~ and other vote holders can give the ~~entity investor~~ the right to exercise voting rights sufficient to give the ~~entity investor~~ power, even if the ~~entity investor~~ does not have voting rights sufficient to give it power without the ~~contractual-binding~~ arrangement. However, a ~~binding contractual~~ arrangement might ensure that the ~~entity investor~~ can direct enough other vote holders on how to vote to enable the ~~entity investor~~ to make decisions about the relevant activities.

### *Rights from Other ~~Contractual~~ Binding Arrangements and Legislative or Executive Authority*

AG40. ~~B40~~—Other decision-making rights, in combination with voting rights, can give an ~~entity investor~~ the current ability to direct the relevant activities. For example, the rights specified in a ~~binding contractual~~ arrangement (including rights from contracts or other legal rights) and rights arising from legislative or executive authority in combination with voting rights may ~~be sufficient to~~ give an ~~entity investor~~ the current ability to direct the operating or financing policies or other key activities~~manufacturing processes~~ of an ~~other~~

~~entity investee or to direct other operating or financing activities of an investee that significantly affect the benefits received by the entity investee's returns. However, an entity would not control another entity if that other entity were able to determine its policy or program to a significant extent, (for example, by failing to comply with the binding arrangement and accepting the consequences, or by changing its constitution or dissolving itself). However, in the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee.~~

#### Economic Dependence

AG40.1. Economic dependence, on its own, does not give rise to power over an entity for the purposes of this Standard. Economic dependence may occur when:

- (a) An entity has a single major client and the loss of that client could affect the existence of the entity's operations; and
- (b) An entity's activities are predominantly funded by grants and donations and it receives the majority of its funding from a single entity.

AG40.2. An entity may be able to influence the financial and operating policies of another entity that is dependent on it for funding. However, a combination of factors will need to be considered to determine whether the economic dependence is such that the economically dependent entity no longer has the ultimate power to govern its own financial or operating policies. If an economically dependent entity retains discretion as to whether it will take funding from an entity, or do business with an entity, the economically dependent entity still has the ultimate power to govern its own financial or operating policies. It is also important to distinguish between the operations of an entity and an entity itself. The loss of a major client might affect the viability of the operations of an entity but not the existence of the entity itself. [New. Similar to IPSAS 6 paragraph 37(b)]

AG40.3. A government may not have the current ability to direct the relevant activities of entities (such as private schools, private hospitals, private aged care providers and private universities) that are financially dependent on government funding, but where the governing bodies of those entities have discretion with respect to whether they will accept resources from the government, or the manner in which their resources are to be used. This may be so even if government grants provided to such entities require them to comply with specified conditions. Although these entities might receive government grants for the construction of capital assets and operating costs subject to specified service standards or restrictions on user fees, their governing body may have ultimate discretion about how assets are used. [New. Based on AASB IG10]

#### The Investor's Voting Rights

AG41. ~~B41~~ An ~~entity investor~~ with less than a majority of the voting rights has rights that are sufficient to give it power when the ~~entity investor~~ has the practical ability to direct the relevant activities unilaterally.

AG42. ~~B42~~ When assessing whether an ~~entity's investor's~~ voting rights are sufficient to give it power, an ~~entity investor~~ considers all facts and circumstances, including:

- (a) The size of the ~~entity's investor's~~ holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that:

- (i) The more voting rights an [entityinvestor](#) holds, the more likely the [entityinvestor](#) is to have existing rights that give it the current ability to direct the relevant activities;
  - (ii) The more voting rights an [entityinvestor](#) holds relative to other vote holders, the more likely the [entityinvestor](#) is to have existing rights that give it the current ability to direct the relevant activities;
  - (iii) The more parties that would need to act together to outvote the [entityinvestor](#), the more likely the [entityinvestor](#) is to have existing rights that give it the current ability to direct the relevant activities;
- (b) Potential voting rights held by the [entityinvestor](#), other vote holders or other parties (see paragraphs [BAG47](#)–[BAG50](#));
  - (c) Rights arising from other [contractual-binding](#) arrangements [\(including rights from contracts or other legal rights\)](#) (see paragraph [BAG40](#)); and
  - (d) Any additional facts and circumstances that indicate the [entityinvestor](#) has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

AG43. ~~B43~~–When the direction of relevant activities is determined by majority vote and an [entityinvestor](#) holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed, it may be clear, after considering the factors listed in paragraph AG42(a)–(c) alone, that the [entityinvestor](#) has power over the [other entityinvestee](#).

AG44. ~~B44~~–In other situations, it may be clear after considering the factors listed in paragraph AG42(a)–(c) alone that an [entityinvestor](#) does not have power.

AG45. ~~B45~~–However, the factors listed in paragraph AG42(a)–(c) alone may not be conclusive. If an [entityinvestor](#), having considered those factors, is unclear whether it has power, it shall consider additional facts and circumstances, such as whether other shareholders are passive in nature as demonstrated by voting patterns at previous shareholders' meetings. This includes the assessment of the factors set out in paragraph AG18 and the indicators in paragraphs AG19 and AG20. The fewer voting rights the [entityinvestor](#) holds, and the fewer parties that would need to act together to outvote the [entityinvestor](#), the more reliance would be placed on the additional facts and circumstances to assess whether the [entity's investor's](#) rights are sufficient to give it power. When the facts and circumstances in paragraphs AG18–AG20 are considered together with the [entity's investor's](#) rights, greater weight shall be given to the evidence of power in paragraph AG18 than to the indicators of power in paragraphs AG19 and AG20.

AG46. ~~B46~~–If it is not clear, having considered the factors listed in paragraph ~~BAG~~42(a)–(d), that the [entityinvestor](#) has power, the [entityinvestor](#) does not control the [other entityinvestee](#).

#### *Potential Voting Rights*

AG47. ~~B47~~–When assessing control, an [entityinvestor](#) considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are rights to obtain voting rights of an [other entityinvestee](#), such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the rights are substantive (see paragraphs [BAG22](#)–[BAG25](#)).

- AG48. ~~B48~~—When considering potential voting rights, an ~~entity investor~~ shall consider the purpose and design of the instrument, as well as the purpose and design of any other involvement the ~~entity investor~~ has with the ~~other entity investee~~. This includes an assessment of the various terms and conditions of the instrument as well as the ~~entity investor's~~ apparent expectations, motives and reasons for agreeing to those terms and conditions.
- AG49. ~~B49~~—If the ~~entity investor~~ also has voting or other decision-making rights relating to the ~~other entity investor's~~ activities, the ~~entity investor~~ assesses whether those rights, in combination with potential voting rights, give the ~~entity investor~~ power.
- AG50. ~~B50~~—Substantive potential voting rights alone, or in combination with other rights, can give an ~~entity investor~~ the current ability to direct the relevant activities. For example, this is likely to be the case when an ~~entity investor~~ holds 40 per cent of the voting rights of an ~~other entity investee~~ and, in accordance with paragraph AG23, holds substantive rights arising from options to acquire a further 20 per cent of the voting rights.

*Power when Voting or Similar Rights do not have a Significant Effect on ~~Benefits~~the Investee's Returns*

- AG51. ~~B51~~—In assessing the purpose and design of an ~~other entity investee~~ (see paragraphs ~~BAG5~~—~~BAG8~~), an ~~entity investor~~ shall consider the involvement and decisions made at the ~~investee's~~ inception ~~of the other entity~~ as part of its design and evaluate whether the transaction terms and features of the involvement provide the ~~entity investor~~ with rights that are sufficient to give it power. Being involved in the design of an ~~other entity investee~~ alone is not sufficient to give an ~~entity investor~~ control ~~of that other entity~~. However, involvement in the design ~~of the other entity~~ may indicate that the ~~entity investor~~ had the opportunity to obtain rights that are sufficient to give it power over the ~~other entity investee~~.
- AG52. ~~B52~~—In addition, an ~~entity investor~~ shall consider ~~contractual binding~~ arrangements ~~(including rights from contracts or other legal rights)~~ such as call rights, put rights, ~~and~~ liquidation rights ~~and rights arising from legislative or executive authority~~ established at the ~~investee's~~ inception ~~of the other entity~~. When ~~these binding contractual~~ arrangements involve activities that are closely related to the ~~other entity investee~~, then these activities are, in substance, an integral part of the ~~other entity investor's~~ overall activities, even though they may occur outside the legal boundaries of the ~~other entity investee~~. Therefore, explicit or implicit decision-making rights embedded in ~~contractual binding~~ arrangements that are closely related to the ~~other entity investee~~ need to be considered as relevant activities when determining power over the ~~other entity investee~~.
- AG53. ~~B53~~—For some ~~other entities investees~~, relevant activities occur only when particular circumstances arise or events occur. The ~~other entity investee~~ may be designed so that the direction of its activities and ~~the benefits from those activities its returns~~ are predetermined unless and until those particular circumstances arise or events occur. In this case, only the decisions about the ~~other entity investor's~~ activities when those circumstances or events occur can significantly affect its ~~benefits returns~~ and thus be relevant activities. The circumstances or events need not have occurred for an ~~entity investor~~ with the ability to make those decisions to have power. The fact that the right to make decisions is contingent on circumstances arising or an event occurring does not, in itself, make those rights protective.
- AG54. ~~B54~~—An ~~investor entity~~ may have an explicit or implicit commitment to ensure that an ~~other entity investee~~ continues to operate as designed. Such a commitment may increase the ~~entity investor's~~ exposure to variability of ~~benefits returns~~ and thus increase the incentive for the ~~entity investor~~ to

obtain rights sufficient to give it power. Therefore a commitment to ensure that an other entity investee operates as designed may be an indicator that the entity investor has power, but does not, by itself, give an entity investor power, nor does it prevent another party from having power.

**Exposure, or Rights, to Variable Benefits>Returns from an other EntityInvestee**

AG55. B55—When assessing whether an entity investor has control of an other entity investee, the entity investor determines whether it is exposed, or has rights, to variable benefits>Returns from its involvement with the other entity investee.

AG56. B56—Variable benefits>Returns are benefits>Returns that are not fixed and have the potential to vary as a result of the performance of an other entity investee. Variable benefits>Returns can be only positive, only negative or both positive and negative (see paragraph 15). An entity investor assesses whether benefits>Returns from an other entity investee are variable and how variable those benefits>Returns are on the basis of the substance of the arrangement and regardless of the legal form of the benefits>Returns. For example,:

(a) In the context of non-financial benefits an entity may receive benefits as a result of the activities of another entity furthering its objectives. Although the benefits from these activities may be constant in amount, the benefits may be variable benefits for the purpose of this Standard because they expose the entity to the performance risk of the other entity. If the other entity were unable to perform those activities then the entity would incur additional costs, either from undertaking the activities itself or by providing additional funds or other forms of assistance to enable the other entity to continue providing those activities.

~~(a)~~(b) In the context of financial benefits an entity investor can hold a bond with fixed interest payments. The fixed interest payments are variable benefits>Returns for the purpose of this Standard IFRS because they are subject to default risk and they expose the entity investor to the credit risk of the issuer of the bond. The amount of variability (i.e., how variable those benefits>Returns are) depends on the credit risk of the bond. Similarly, fixed performance fees for managing an other entity's investee's assets are variable benefits>Returns because they expose the entity investor to the performance risk of the other entity investee. The amount of variability depends on the other entity's investee's ability to generate sufficient revenue income to pay the fee.

AG57. B57—Examples of benefits>Returns include:

~~(a)~~ Dividends, other distributions of economic benefits from an other entity investee (e.g., interest from debt securities issued by the other entity investee) and changes in the value of the entity's investor's investment in that other entity investee.

(a) Remuneration for servicing an other entity's investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the other entity's investee's assets and liabilities on liquidation of that other entity investee, tax benefits, and access to future liquidity that an entity investor has from its involvement with an other entity investee.

(b) Benefits>Returns that are not available to other entities that are involved with the entity subject to the assessment of control interest holders. For example, an entity investor might use its assets in combination with the assets of the other entity investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products,



gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of the ~~entity's investor's~~ other assets.

- ~~(b)~~(c) Dividends, other distributions of economic benefits from another entity (e.g., interest from debt securities issued by the other entity) and changes in the value of the entity's investment in that other entity.

## Link between Power and ~~Benefits~~Returns

### Delegated Power

AG58. ~~B58~~—When an ~~entity investor~~ with decision-making rights (a decision maker) assesses whether it controls an ~~other entity investee~~, it shall determine whether it is a principal or an agent. An ~~entity investor~~ shall also determine whether another entity with decision-making rights is acting as an agent for the ~~entity investor~~. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the ~~other entity investee~~ when it exercises its decision-making authority (see paragraphs 17 and 18). Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal. A decision maker is not an agent simply because other parties can benefit from the decisions that it makes.

AG58.1 It is common for public sector entities to be responsible for carrying out government policy. In some cases they may have the authority to act in their own right, in other cases they may act as agent for a Minister or another entity. For example:

- (a) A government department, which is authorized by a Minister to act on the Minister's behalf, might act solely as an agent of the responsible Minister in relation to another entity. In such cases the department would not control the other entity and would not consolidate it. [Based on AASB IG19(b)]
- (b) A government department may operate under a delegation of power from a Minister. The department uses its own discretion in making decisions and taking actions and is not subject to direction from the Minister. In such cases the department is acting in its own right and would need to apply the other requirements of this Standard to determine whether it controlled another entity. The scope of the department's decision-making authority over another entity would be a significant factor in distinguishing whether it is acting as an agent or as a principal. [Based on AASB IG19(b)]
- (c) An entity may establish a trust to carry out specified activities and appoints the trustee. The trustee is responsible for making decisions about the financing and operating activities of the trust in accordance with the trust deed. If the entity can replace the trustee at its discretion, the entity would need to assess whether it controls the trust given that, for example, it would be exposed, or have rights, to variable benefits in terms of the extent to which its objectives are achieved or furthered through the activities of the trust. [New. Based on AASB IG19(a)]

AG59. ~~B59~~—An ~~entity investor~~ may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls an ~~other entity investee~~, the ~~entity investor~~ shall treat the decision-making rights delegated to its agent as held by the ~~entity investor~~ directly. In situations where there is more than one principal, each of the principals shall assess whether it has power over the ~~other entity investee~~ by considering the requirements in paragraphs AG5–AG54. Paragraphs ~~BAG60–BAG72~~ provide guidance on determining whether a decision maker is an agent or a principal.

AG60. ~~B60~~ A decision maker shall consider the overall relationship between itself, the other entity investee being managed (and assessed for control) and other parties involved with that entitythe investee.  
In particular, a decision maker shall consider all the factors below, in determining whether it is an agent:

- (a) The scope of its decision-making authority over the other entity investee (paragraphs AG62 and AG63).
- (b) The rights held by other parties (paragraphs AG64–AG67).
- (c) The remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs AG68–AG70).
- (d) The decision maker's exposure to variability of benefitsreturns from other interests that it holds in the other entity investee (paragraphs AG71 and AG72).

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

AG61. ~~B61~~ Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph AG60 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph AG65).

#### The Scope of the Decision-Making Authority

AG62. ~~B62~~ The scope of a decision maker's decision-making authority is evaluated by considering:

- (a) The activities that are permitted according to the decision-making agreement(s) and specified by law, and
- (b) The discretion that the decision maker has when making decisions about those activities.

AG63. ~~B63~~ A decision maker shall consider the purpose and design of the other entity investee, the risks to which the other entity investee was designed to be exposed, the risks it was designed to pass on to the parties involved and the level of involvement the decision maker had in the design of an other entity investee. For example, if a decision maker is significantly involved in the design of the other entity investee (including in determining the scope of decision-making authority), that involvement may indicate that the decision maker had the opportunity and incentive to obtain rights that result in the decision maker having the ability to direct the relevant activities.

#### Rights held by Other Parties

AG64. ~~B64~~ Substantive rights held by other parties may affect the decision maker's ability to direct the relevant activities of an other entity investee. Substantive removal or other rights may indicate that the decision maker is an agent.

AG65. ~~B65~~ When a single party holds substantive removal rights and can remove the decision maker without cause, this, in isolation, is sufficient to conclude that the decision maker is an agent. If more than one party holds such rights (and no individual party can remove the decision maker without the agreement of other parties) those rights are not, in isolation, conclusive in determining that a decision maker acts primarily on behalf and for the benefit of others. In addition, the greater the number of parties required to act together to exercise rights to remove a decision maker and the greater the magnitude of, and variability associated with, the decision maker's other economic



interests (i.e., remuneration and other interests), the less the weighting that shall be placed on this factor.

AG66. ~~B66~~ Substantive rights held by other parties that restrict a decision maker's discretion shall be considered in a similar manner to removal rights when evaluating whether the decision maker is an agent. For example, a decision maker that is required to obtain approval from a small number of other parties for its actions is generally an agent. (See paragraphs AG22–AG25 for additional guidance on rights and whether they are substantive.)

AG67. ~~B67~~ Consideration of the rights held by other parties shall include an assessment of any rights exercisable by an ~~other entity's investee's~~ board of directors (or other governing body) and their effect on the decision-making authority (see paragraph AG23(b)).

#### Remuneration

AG68. ~~B68~~ The greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the ~~benefits~~ returns expected from the activities of the ~~other entity~~ investee, the more likely the decision maker is a principal.

AG69. ~~B69~~ In determining whether it is a principal or an agent the decision maker shall also consider whether the following conditions exist:

- (a) The remuneration of the decision maker is commensurate with the services provided.
- (b) The remuneration agreement includes only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis.

AG70. ~~B70~~ A decision maker cannot be an agent unless the conditions set out in paragraph AG69(a) and (b) are present. However, meeting those conditions in isolation is not sufficient to conclude that a decision maker is an agent.

#### Exposure to Variability of ~~Benefits~~ Returns from Other Interests

AG71. ~~B71~~ A decision maker that holds other interests in an ~~other entity~~ investee (e.g., investments in the ~~other entity~~ investee or provides guarantees with respect to the performance of the ~~other entity~~ investee), shall consider its exposure to variability of ~~benefits~~ returns from those interests in assessing whether it is an agent. Holding other interests in an ~~other entity~~ investee indicates that the decision maker may be a principal.

AG72. ~~B72~~ In evaluating its exposure to variability of ~~benefits~~ returns from other interests in the ~~other entity~~ investee a decision maker shall consider the following:

- (a) The greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision maker is a principal.
- (b) Whether its exposure to variability of ~~benefits~~ returns is different from that of the other investors and, if so, whether this might influence its actions. For example, this might be the case when a decision maker holds subordinated interests in, or provides other forms of credit enhancement to, an ~~other entity~~ investee.

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

exposure to variability of ~~benefits/returns~~ of the ~~other entity/investee~~ through other interests that the decision maker holds.

### Relationship with Other Parties

- AG73. ~~B73~~ When assessing control, an ~~entity/investor~~ shall consider the nature of its relationship with other parties and whether those other parties are acting on the ~~entity's/investor's~~ behalf (i.e., they are "de facto agents"). The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the ~~entity/investor~~.
- AG74. ~~B74~~ Such a relationship need not involve a ~~contractual-binding~~ arrangement ~~(including rights from contracts or other legal rights)~~. ~~Such relationships could also arise from legislative or executive authority~~. A party is a de facto agent when the ~~entity/investor~~ has, or those that direct the activities of the ~~entity/investor~~ have, the ability to direct that party to act on the ~~entity's/investor's~~ behalf. In these circumstances, the ~~entity/investor~~ shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable ~~benefits/returns~~ through the de facto agent together with its own when assessing control of an ~~other entity/investee~~.
- AG75. ~~B75~~ The following are examples of such other parties that, by the nature of their relationship, might act as de facto agents for the ~~entity/investor~~:
- (a) The ~~entity's/investor's~~ related parties.
  - (b) A party that received its interest in the ~~other entity/investee~~ as a contribution or loan from the ~~entity/investor making the assessment of control~~.
  - (c) A party that has agreed not to sell, transfer or encumber its interests in the ~~other entity/investee~~ without the ~~entity's investor's~~ prior approval (except for situations in which the ~~entity/investor~~ and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties).
  - (d) A party that cannot finance its operations without subordinated financial support from the ~~entity/investor~~.
  - (e) An ~~other entity/investee~~ for which the majority of the members of its governing body or for which its key management personnel are the same as those of the ~~entity/investor~~.
  - (f) A party that has a close business relationship with the ~~entity/investor~~, such as the relationship between a professional service provider and one of its significant clients.

### Control of Specified Assets

- AG76. ~~B76~~ An ~~entity/investor~~ shall consider whether it treats a portion of an ~~other entity/investee~~ as a deemed separate entity and, if so, whether it controls the deemed separate entity.
- AG77. ~~B77~~ An ~~entity/investor~~ shall treat a portion of an ~~other entity/investee~~ as a deemed separate entity if and only if the following condition is satisfied:
- Specified assets of the ~~other entity/investee~~ (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the ~~other entity/investee~~. Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. In substance, none of the ~~benefits/returns~~ from the specified assets can be used by the remaining ~~portion of the other entity/investee~~ and none of the liabilities of the

deemed separate entity are payable from the assets of the remainder of the other entity remaining investee. Thus, in substance, all the assets, liabilities and equity instruments of that deemed separate entity are ring-fenced from the overall other entity investee. Such a deemed separate entity is often called a “silo”.

- AG78. ~~B78~~—When the condition in paragraph AG77 is satisfied, an entity investor shall identify the activities that significantly affect the benefits returns of the deemed separate entity and how those activities are directed in order to assess whether it has power over that portion of the other entity investee. When assessing control of the deemed separate entity, the entity investor shall also consider whether it has exposure or rights to variable benefits returns from its involvement with that deemed separate entity and the ability to use its power over that portion of the other entity investee to affect the amount of the benefits from that entity investor's returns.
- AG79. ~~B79~~—If the entity investor controls the deemed separate entity, the entity investor shall consolidate that portion of the other entity investee. In that case, other parties exclude that portion of the other entity investee when assessing control of, and in consolidating, the other entity investee.

### Continuous Assessment

- AG80. ~~B80~~—An entity investor shall reassess whether it controls an other entity investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7.
- AG81. ~~B81~~—If there is a change in how power over an other entity investee can be exercised, that change must be reflected in how an entity investor assesses its power over an other entity investee. For example, changes to decision-making rights can mean that the relevant activities are no longer directed through voting rights, but instead other agreements, such as contracts, give another party or parties the current ability to direct the relevant activities.
- AG82. ~~B82~~—An event can cause an entity investor to gain or lose power over an other entity investee without the entity investor being involved in that event. For example, an entity investor can gain power over an other entity investee because decision-making rights held by another party or parties that previously prevented the entity investor from controlling an other entity investee have lapsed.
- AG83. ~~B83~~—An entity investor also considers changes affecting its exposure, or rights, to variable benefits returns from its involvement with an other entity investee. For example, an entity investor that has power over an other entity investee can lose control of that other entity an investee if the entity investor ceases to be entitled to receive benefits returns or to be exposed to obligations, because the entity investor would fail to satisfy paragraph 7(b) (e.g., if a contract to receive performance-related fees is terminated).
- AG84. ~~B84~~—An entity investor shall consider whether its assessment that it acts as an agent or a principal has changed. Changes in the overall relationship between the entity investor and other parties can mean that an entity investor no longer acts as an agent, even though it has previously acted as an agent, and vice versa. For example, if changes to the rights of the entity investor, or of other parties, occur, the entity investor shall reconsider its status as a principal or an agent.
- AG85. ~~B85~~—An entity's investor's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g., a change in the other entity's investee's benefits returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in paragraph 7 or changes the overall relationship between a principal and an agent.

## Amendments to Other IPSASs

### Note to IPSASB

The consequential amendments set out in IFRS 10 have been used as a basis for developing this appendix.

Amendments to the following IASB pronouncements (that were amended as a result of IFRS 10) are not shown in this Appendix because there is no IPSAS equivalent:

- IFRS 1, *First-time Adoption of International Financial Reporting Standards*
- IFRS 2, *Share-based Payment*
- IFRS 3, *Business Combinations*
- IFRS 4, *Insurance Contracts*
- IAS 33, *Earnings per Share*
- IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- IFRIC 17, *Distributions of Non-cash Assets to Owners*

### IPSAS 1, *Presentation of Financial Statements*

Paragraphs 4, 12, 88(n), 95(d), 97, 103, 118 and 135 are amended and paragraph 153E added as follows:

4. This Standard applies equally to all entities including those that present consolidated financial statements in accordance with IPSAS X, *Consolidated Financial Statements* and those that present ~~whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in accordance with IPSAS 6, *Consolidated and Separate Financial Statements* (Amended [2011])~~.
12. GBEs include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. ~~IPSAS X~~IPSAS 6 provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.
88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**
  - (a) ...
  - (n) ~~Minority~~ **Non-controlling** interest, presented within net assets/equity; and
95. **When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately:**
  - (a) ...
  - (d) ~~Minority~~**Non-controlling** interests.

97. In some cases, there may be a ~~minority~~ non-controlling interest in the net assets/equity of the entity. For example, at the whole-of-government level, the economic entity may include a GBE that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.
103. The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:
- (a) Surplus or deficit attributable to ~~minority~~ non-controlling interest; and
  - (b) Surplus or deficit attributable to owners of the controlling entity.
118. **An entity shall present a statement of changes in net assets/equity showing on the face of the statement:**
- (a) ...
  - (c) **Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to ~~minority~~ non-controlling interest; and**
135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When entity combinations have occurred, the policies used for measuring goodwill and ~~minority~~ non-controlling interest are disclosed.
- 153E. IPSAS X [IFRS 10] and IPSAS X [IFRS 12], issued in [Date], amended paragraphs 4, 12, 88(n), 95(d), 97, 103, 118, 134, 135 and 139. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 12].

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

## **IPSAS 2, *Cash Flow Statements***

Paragraph 30(b) is amended and paragraphs 52A, 52B and 63C are added as follows:

30. Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit from ordinary activities for the effects of:
- (a) ...
  - (b) Non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, undistributed surpluses of associates, and ~~minority~~ non-controlling interests; and
- 52A Cash flows arising from changes in ownership interests in a controlled entity that do not result in a loss of control shall be classified as cash flows from financing activities.
- 52B Changes in ownership interests in a controlled entity that do not result in a loss of control, such as the subsequent purchase or sale by a controlling entity of a controlled entity's equity instruments, are accounted for as equity transactions (see IPSAS X, *Consolidated and Separate Financial Statements*).

Accordingly, the resulting cash flows are classified in the same way as other transactions described in paragraph 26.

**63C. IPSAS X [IFRS 10] and IPSAS X, [IFRS 11] Joint Arrangements, issued in [Date], amended paragraph 30(b) and added paragraphs 52A and 52B. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].**

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

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

22. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IPSAS 6, ~~Consolidated and Separate Financial Statements~~ (Amended [Date]), to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its financial performance and financial position are also translated into the presentation currency in accordance with paragraphs 43–59.

47. The exchange differences referred to in paragraph 44(c) result from:

...

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

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

53. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, ~~IPSAS X~~~~IPSAS 6~~ allows the use of a different reporting date, provided that (a) the difference is no greater than three months, and (b) adjustments are made for the effects of any significant transactions or other events that occur between the different dates.

55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with ~~IPSAS X~~~~IPSAS 6~~ .....

**71A. IPSAS X [IFRS 10] and IPSAS X, [IFRS 11] Joint Arrangements, issued in [Date], amended paragraphs 22, 47, 51, 53 and 55. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X, [IFRS 11].**

## **IPSAS 18, *Segment Reporting***

**Paragraph 41 is amended as follows:**

41. The financial statements for the whole-of-government, and certain other controlling entities, will require the consolidation of a number of separate entities such as departments, agencies, and GBEs. In preparing these consolidated financial statements, transactions and balances between controlled entities will be eliminated in accordance with IPSAS X ~~IPSAS 6, Consolidated and Separate Financial~~

*Statements*. However, segment revenue, segment expense, segment assets, and segment liabilities are determined before balances and transactions between entities within the economic entity are eliminated as part of the consolidation process, except to the extent that such intra-economic entity balances and transactions are between entities within a single segment.

## **IPSAS 20, *Related Party Disclosures***

**Paragraph 24 and 33 are amended and paragraph 42A added as follows:**

24. Some IPSASs also require disclosure of transactions with related parties. For example, IPSAS 1 requires disclosure of amounts payable to and receivable from controlling entities, fellow controlled entities, associates, and other related parties. ~~IPSAS 6, *Consolidated and Separate Financial Statements*, and IPSAS 7 require disclosure of a list of significant controlled entities and associates.~~ IPSAS X, *Disclosure of Interests in Other Entities* requires an entity to disclose information that enables users of its consolidated financial statements to understand the composition of the economic entity and information about each joint arrangement and associate that is material to the reporting entity.
33. Disclosure of related party transactions between members of an economic entity is unnecessary in consolidated financial statements, because consolidated financial statements present information about the controlling entity and controlled entities as a single reporting entity. Related party transactions that occur between entities within an economic entity are eliminated on consolidation in accordance with ~~IPSAS X~~ IPSAS 6 [IFRS 10]. Transactions with associated entities accounted for under the equity method are not eliminated, and therefore require separate disclosure as related party transactions.
- 42A. IPSAS X [IFRS 10] and IPSAS X, [IFRS 11] *Joint Arrangements* and IPSAS X [IFRS 12], issued in [Date], amended paragraphs 24 and 33. An entity shall apply those amendments when it applies IPSAS X [IFRS 10], IPSAS X [IFRS 11] and IPSAS X [IFRS 12].**

### **Implementation Guidance**

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

...

(Note: ~~IPSAS X, *Disclosure of Interests in Other Entities*~~ ~~IPSAS 6, *Consolidated and Separate Financial Statements*~~, requires that certain disclosures be made about significant controlled entities.)

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

**Paragraph 13 is amended as follows:**

13. Investments in:
- (a) Controlled entities, as defined in ~~IPSAS X~~ IPSAS 6, *Consolidated and Separate Financial Statements*;

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

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

24. In presenting financial information about the GGS, entities shall not apply the requirements of ~~IPSAS X~~ 6 [IFRS 10], *Consolidated and Separate Financial Statements*, in respect of entities in the PFCs and public NFCS sectors.

26. This Standard reflects the view that the consolidated financial statements of a government that elects to disclose information about the GGS are to be disaggregated to present the GGS as one sector of the government reporting entity. Consistent with this view, this Standard requires that the same definitions and the same recognition, measurement, and presentation requirements that are applied when preparing the consolidated financial statements are also applied to the GGS disclosures, with one exception. That exception is that the requirements of IPSAS X~~6~~ [IFRS 10] are not applied in respect of the relationship of the GGS sector with entities in the PFC and PNFC sectors.
27. IPSAS X~~6~~ [IFRS 10] requires controlling entities to prepare financial statements that consolidate controlled entities on a line-by-line basis. IPSAS X~~6~~ [IFRS 10] also contains (a) a detailed discussion of the concept of control as it applies in the public sector, and (b) guidance on determining whether control exists for financial reporting purposes. Consistent with the requirements of IPSAS X~~6~~ [IFRS 10], entities in the PFC and PNFC sectors, as defined in statistical bases of financial reporting, that are controlled entities of the government will be consolidated in the government's financial statements.
29. To apply the IPSAS X~~6~~ [IFRS 10] requirements for consolidation to the GGS would result in the re-presentation of the consolidated financial statements of a government, rather than the GGS financial statements.
30. Therefore, in disclosing financial information about the GGS, balances and transactions between entities within the GGS are eliminated in accordance with IPSAS X~~6~~ [IFRS 10]. However, balances and transactions between entities in the GGS and entities in other sectors are not eliminated.
41. This Standard requires entities electing to disclose information about the GGS to disclose a list of the significant controlled entities that are included in the GGS. IPSAS X~~6~~ [IFRS 10] requires entities preparing consolidated financial statements to disclose a list of the significant controlled entities that are included in the consolidated financial statements. Disclosure of which of the entities consolidated in the financial statements in accordance with IPSAS X~~6~~ [IFRS 10] are included in the GGS will assist users in developing an understanding of the relationship between information about the government and its GGS, and in better understanding the GGS information itself.
- 47A. IPSAS X [IFRS 10] issued in [Date], amended paragraphs 24, 26, 27, 29, 30, and 41. An entity shall apply those amendments when it applies IPSAS X [IFRS 10].**

### **Basis for Conclusions**

- BC9. When GGS disclosures are made in financial statements, the requirements of IPSAS X~~6~~ [IFRS 10] should not be applied in respect of PFCs and PNFCs. This is because the application of ~~IPSAS X~~6~~~~ to the PFC and PNFC sectors would result in the re-presentation of a government's consolidated financial statements rather than the GGS financial statements. This would defeat the purpose of the disclosure of GGS information as a bridge between financial statements prepared in accordance with IPSASs and those prepared in accordance with statistical bases of financial reporting.

### **IPSAS 24, *Presentation of Budget Information in Financial Statements***

**In the Illustrative Examples that accompany IPSAS 24 all references to “minority interest” are replaced with “non-controlling interest”. They are also amended as follows:**

#### **Extract of Note Disclosures—for Government X**

(Government X presents its approved budget on a cash basis and the financial statements on the accrual basis.)



1. The budget is approved on a cash basis by functional classification. The approved budget covers the fiscal period from January 1, 20XX to December 31, 20XX, and includes all entities within the general government sector. The general government sector includes all entities identified as government departments in note xx (prepared in accordance with IPSAS X6 [IFRS 10], *Consolidated and Separate Financial Statements*.)

## **IPSAS 26, *Impairment of Cash-Generating Assets***

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

12. Investments in:
  - (a) Controlled entities, as defined in IPSAS X6 [IFRS 10], *Consolidated and Separate Financial Statements*;

**47A. IPSAS X [IFRS 10] issued in [Date], amended paragraph 12. An entity shall apply that amendment when it applies IPSAS X.**

## **IPSAS 28, *Financial Instruments: Presentation***

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

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to all types of financial instruments except:
  - (a) Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with IPSAS X [IFRS 10], *Consolidated Financial Statements*, IPSAS 6, ~~Consolidated and Separate Financial Statements (Amended [Date])~~, IPSAS 7, *Investments in Associates and Joint Ventures (Amended [Date])*, or IPSAS 8, *Interests in Joint Ventures*. However, in some cases, IPSAS 6 (Amended [Date]), or IPSAS 7 (Amended [Date]), or ~~IPSAS 8~~ permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in controlled entities, associates, or joint ventures.

**60A. IPSAS X [IFRS 10] and IPSAS X [IFRS 11], issued in [Date], amended paragraph 3. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].**

In the Appendix, paragraph AG53 is amended as follows:

- AG53. In consolidated financial statements, an entity presents non-controlling interests i.e., the interests of other parties in the net assets/equity and revenue of its controlled entities in accordance with IPSAS 1 and IPSAS X6 [IFRS 10]. When ...

## **IPSAS 29, *Financial Instruments: Recognition and Measurement***

Paragraphs 2(a) and 17 are amended and paragraph 125B added as follows:

2. This Standard shall be applied by all entities to all types of financial instruments, except:
  - (a) Those interests in controlled entities, associates and joint ventures that are accounted for under in accordance with IPSAS X, *Consolidated Financial Statements (Amended [Date])*, IPSAS 6, ~~Consolidated and Separate Financial Statements~~ or IPSAS 7, *Investments in Associates and Joint Ventures (Amended [Date])*, or IPSAS 8, *Interests in Joint Ventures*.

**However, entities shall apply this Standard to an interest in a controlled entity, associate, or joint venture that according to IPSAS 6 (Amended [Date]), or IPSAS 7 (Amended [Date]), or IPSAS 8 is accounted for under this Standard. ...**

17. In consolidated financial statements, paragraphs 18–25 and Appendix A paragraphs AG49–AG67 are applied at a consolidated level. Hence, an entity first consolidates all controlled entities in accordance with IPSAS 6X [IFRS 10] and the relevant international or national accounting standard or interpretation dealing with the consolidation of special purpose entities, and then applies paragraphs 18–25 and Appendix A paragraphs AG49–AG67 to the resulting economic entity.

**125B. IPSAS X [IFRS 10] and IPSAS X, Joint Arrangements, issued in [Date], amended paragraph 2(a) and 17. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].**

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

Consolidate all controlled entities, (including any Special Purpose Entities) [paragraph 17]
----------------------------------------------------------------------------------------------

- AG52. The situation described in paragraph 20(b) (when an entity retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients) occurs, for example, if the entity is a ~~special purpose entity (SPE)~~ or trust, and issues to investors beneficial interests in the underlying financial assets that it owns and provides servicing of those financial assets. In that case, the financial assets qualify for derecognition if the conditions in paragraphs 21 and 22 are met.
- AG53. In applying paragraph 21, the entity could be, for example, the originator of the financial asset, or it could be a group that includes a controlled entity ~~consolidated SPE~~ that has acquired the financial asset and passes on cash flows to unrelated third party investors.

**In the Implementation Guidance examples F.1.4 and F.1.6 are amended as follows:**

#### **F.1.4 Internal Hedges**

...

Yes, if the derivative contracts are internal to the entity being reported on. IPSAS 29 does not specify how an entity should manage its risk. However, it states that internal hedging transactions do not qualify for hedge accounting. This applies both (a) in consolidated financial statements for hedging transactions within an economic entity, and (b) in the individual or separate financial statements of a legal entity for hedging transactions between divisions in the entity. The principles of preparing consolidated financial statements in ~~IPSAS 6.49 IPSAS X.21.1 [IFRS 10]~~ requires that "Balances, transactions, revenue and expenses within the economic entity shall be eliminated in full." a controlling entity "Eliminate in full intra-economic entity assets and liabilities, net assets/equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity".

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

...

It depends. ~~IPSAS X6, Consolidated and Separate Financial Statements (Amended [Date])~~ requires all internal transactions to be eliminated in consolidated financial statements. As stated in IPSAS 29.82, internal hedging

transactions do not qualify for hedge accounting in the consolidated financial statements of the economic entity. Therefore, if an entity wishes to achieve hedge accounting in the consolidated financial statements, it must designate a hedging relationship between a qualifying external hedging instrument and a qualifying hedged item.

### **IPSAS 30, *Financial Instruments: Disclosures***

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

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

52A. IPSAS X [IFRS 10] and IPSAS X, Joint Arrangements, issued in [Date], amended paragraph 3(a). An entity shall apply that amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

### **IPSAS 31, *Intangible Assets***

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

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:
- (a) ...
- (d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS X [IFRS 10], Consolidated Financial Statements, IPSAS 6, ~~Consolidated and Separate Financial Statements (Amended [Date])~~, and IPSAS 7, Investments in Associates and Joint Ventures (Amended [Date]), and ~~IPSAS 8, Interests in Joint Ventures~~; and....

132A. IPSAS X [IFRS 10] and IPSAS X, Joint Arrangements, issued in [Date], amended paragraph 6(d). An entity shall apply that amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

### **IPSAS 32, *Service Concession Arrangements: Grantor***

Paragraphs BC33(d) and BC349(d) are amended as follows:

BC33. Some respondents to ED 43 indicated that the credit should be treated as net assets/equity, consistent with IPSAS 1, which defines net assets/equity as the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1 envisages four components of net assets/equity. Those components include:

- (a) ...
- (d) ~~Minority~~Non-controlling interests.

BC34. The IPSASB concluded that the credit did not represent a direct increase in the grantor's net assets/equity because the credit is not one of the components of net assets/equity identified in paragraph BC33 for the reasons noted below:

- (a) ...
- (d) A ~~minority~~ non-controlling interest is defined as "that portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity." A ~~minority~~ non-controlling interest may arise, .....

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, ED X, Consolidated Financial Statements.*

To be developed following the IPSASB's decisions and the reasons for those decisions.

### Objective

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

### Scope (paragraphs 4–4.6)

#### *Exemption for Wholly and Partly Owned Entities*

- BC2. The IPSASB agreed to retain the scope exemptions in IFRS 10 for wholly or partly owned controlling entities that meet certain conditions, and post-employment or other long-term employee benefit plans. Consistent with the scope exemption in IPSAS 6 (2006), the IPSASB decided that a controlling entity which itself is wholly owned should be able to take advantage of the exemption from consolidation only if “users of such financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements”. This limitation on the scope exemption is because a controlling entity that is itself a wholly owned controlled entity may represent key sectors or activities of a government and there may be users that need consolidated financial statements in respect of that controlling entity for accountability or decision making purposes. In addition the IPSASB decided that this condition should also apply to partly-owned controlled entities.

#### *Temporary Control*

- BC3. IPSAS 6 (December 2006) contained an exemption from the requirement to consolidate a controlled entity when there is evidence that (a) control is intended to be temporary because the controlled entity is held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer. The IPSASB decided [*to be completed once the IPSASB has determined which, if any, entities are exempt from the consolidation requirements in the IPSAS based on IFRS 10*]

#### *Investment Entities*

- BC4. In October 2012 the IASB issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27). These amendments created an exemption from consolidation for investment entities applying IFRS 10. The IPSASB decided not to adopt the IASB's concept of investment entities on the grounds that it was not necessary or appropriate in the public sector. Accordingly there is no exemption for investment entities in ED X [IFRS 10].

### Control (paragraphs 15–18)

- BC5. The IPSASB agreed that the three requirements for control outlined in IFRS 10 are generally appropriate for the public sector. The IPSASB noted that the IFRS 10 requirements to have power, returns and a link between power and returns is similar to the approach previously taken by the IPSASB in IPSAS 6 (2006) although IPSAS 6 required that both power and benefits be present.

The IPSASB decided that the term “benefits” was more appropriate than “returns” in the public sector context (as discussed under the subheading “Terminology” below).

#### **Power (paragraphs 10–14)**

- BC6. The IPSASB decided to modify IFRS 10 to:
- (a) Highlight the range of relevant activities that could occur in the public sector and stress that control of financial and operating policies can demonstrate power over relevant activities. ;
  - (b) Clarify that regulatory control and economic dependence do not give rise to power for the purposes of the Standard;
  - (c) Discuss specific powers that could give rise to control in the public sector, including golden shares, a right to appoint the majority of the board of another entity, and powers obtained through legislation or enabling documents.

#### *Regulatory Control*

- BC7. The IPSASB agreed that the previous guidance on regulatory control in IPSAS 6 (2006) should be incorporated in the Standard. The IPSASB noted that IFRS 10 had been developed for application by profit-oriented entities, few of whom have powers to create or enforce legislation or regulations. By contrast, the nature of government means that regulatory power occurs frequently in the public sector.
- BC8. In considering how to incorporate guidance on regulatory control in the Standard the IPSASB noted that (i) the discussion of power in IFRS 10 focuses on the ability to influence the “relevant activities” of the investee, and (ii) power is only one of the three elements that are required for control to exist. The IPSASB decided to place the discussion of regulatory control alongside the discussion of power and relevant activities.
- BC9. The IPSASB noted that the discussion of regulation and control in GFSM 2012 (Chapter 2) is similar to that previously in IPSAS 6. The GFSM guidance states [insert extract from GFSM consultation document once it is available]

#### *Economic Dependence*

- BC10. IFRS 10 paragraph AG40 states that “In the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee.” Although the IPSASB agreed that economic dependence, on its own, does not give rise to control, the IPSASB noted that, in the public sector, economic dependence may occur in conjunction with other rights. These other rights need to be assessed to determine if they give rise to control.
- BC11. Because of the prevalence of economic dependence in the public sector the IPSASB decided that it was appropriate to discuss ways in which economic dependence can arise and include examples of economic dependence.

#### *Substantive Rights*

- BC12. Statutory independence is common in the public sector. The IPSASB agreed to illustrate the ways in which statutory independence may influence an investor’s assessments of rights. The Standard notes that the existence of statutory independence of an investee could be seen as a barrier to the

investor exercising its rights (paragraph AG23). It also notes that the existence of statutory powers to operate independently does not, of itself, preclude an investee from being controlled by an investor (paragraph 11.1).

## Terminology

- BC13. In addition to making changes to reflect the standard terminology in IPSASs, the IPSASB agreed that a number of other changes to the terminology in IFRS 10 were appropriate.

### *Investor/Investee*

- BC14. IFRS 10 uses the terms “investor” and “investee” to denote (i) the potential controlling entity, being the entity that is applying the Standard to assess whether control exists and (ii) the potential controlled entity. The IPSASB considered that these terms were inappropriate in this Standard because they could be read as implying the existence of a financial instrument representing an ownership interest. Most assessments of control in the public sector do not involve such financial instruments.
- BC15. The IPSASB considered other terms that could be used to describe investors and investees, in the context of the Standard. One option was to refer to an investor as a “potential controlling entity” and an investee as a “potential controlled entity”. The IPSASB considered that these phrases, whilst clear in meaning, would be cumbersome to use throughout the Standard. The IPSASB noted that IPSASs generally refer to the entity applying the Standard as “the entity”. In the case of this Standard, the entity applying the Standard is the entity that is assessing whether or not it controls another entity (referred to as the investor in IFRS 10). The entity applying the Standard is doing so in order to determine whether it controls another entity. The IPSASB therefore decided that, where possible, it would simply refer to the investor as “the entity” and the investee as “another entity”, or “other entity”. These terms could then be read in the context of their usual meanings.
- BC16. The IPSASB noted that in most cases this approach would result in clear identification of the relevant entities. In a significant proportion of the Standard the entity applying the Standard is the subject of the sentences. In some instances, additional explanation would be required to clarify the subject and object of sentences. However, the IPSASB agreed that there were relatively few such instances and that the agreed approach would not unnecessarily complicate the Standard. The IPSASB agreed to retain use of the term “investors” where the Standard is referring to a specific investment and the term is used in accordance with its usual meaning.
- BC17. The IPSASB agreed that the terms “investor” and “investee” remain appropriate when referring to interests in joint ventures and associates.

### *Binding Arrangements*

- BC18. The IPSASB agreed to replace references to “contractual arrangements” with reference to the term “binding arrangements”. This change acknowledges that in some jurisdictions, entities applying IPSASs may not have the power to enter into contracts but nevertheless may have the authority to enter into binding arrangements. In addition, the IPSASB agreed that rights may arise from legislative or executive authority and to refer to this where appropriate throughout the Standard.

*Benefits*

- BC19. The IPSASB agreed that that the term benefits is more appropriate than the term returns in the public sector, particularly given the existence of control relationships in the absence of a financial investment in the controlled entity. The IPSASB considered that the term “returns” could be regarded as giving an inappropriate emphasis to financial returns, whereas, in the public sector, benefits are more likely to be non-financial than financial.
- BC20. The IPSASB decided to modify IFRS 10 to:
- (a) Highlight that many assessments of control in the public sector involve assessments of non-financial benefits;
  - (b) Note that benefits can have positive or negative aspects; and
  - (c) Include examples of benefits in a public sector context.
- BC21. The definition of control in IPSAS X refers to “variable benefits” and this concept is referred to throughout the Standard. The IPSASB considered how the Standard would apply to benefits that appeared to be fixed or constant. The IPSASB noted that the IASB had explicitly considered this issue and had given examples to shown that apparently fixed benefits could in fact be variable because they exposed the entity to performance risk. The IPSASB noted that the IASB examples related to financial benefits and agreed to incorporate an example of a non-financial benefit in paragraph AG54.



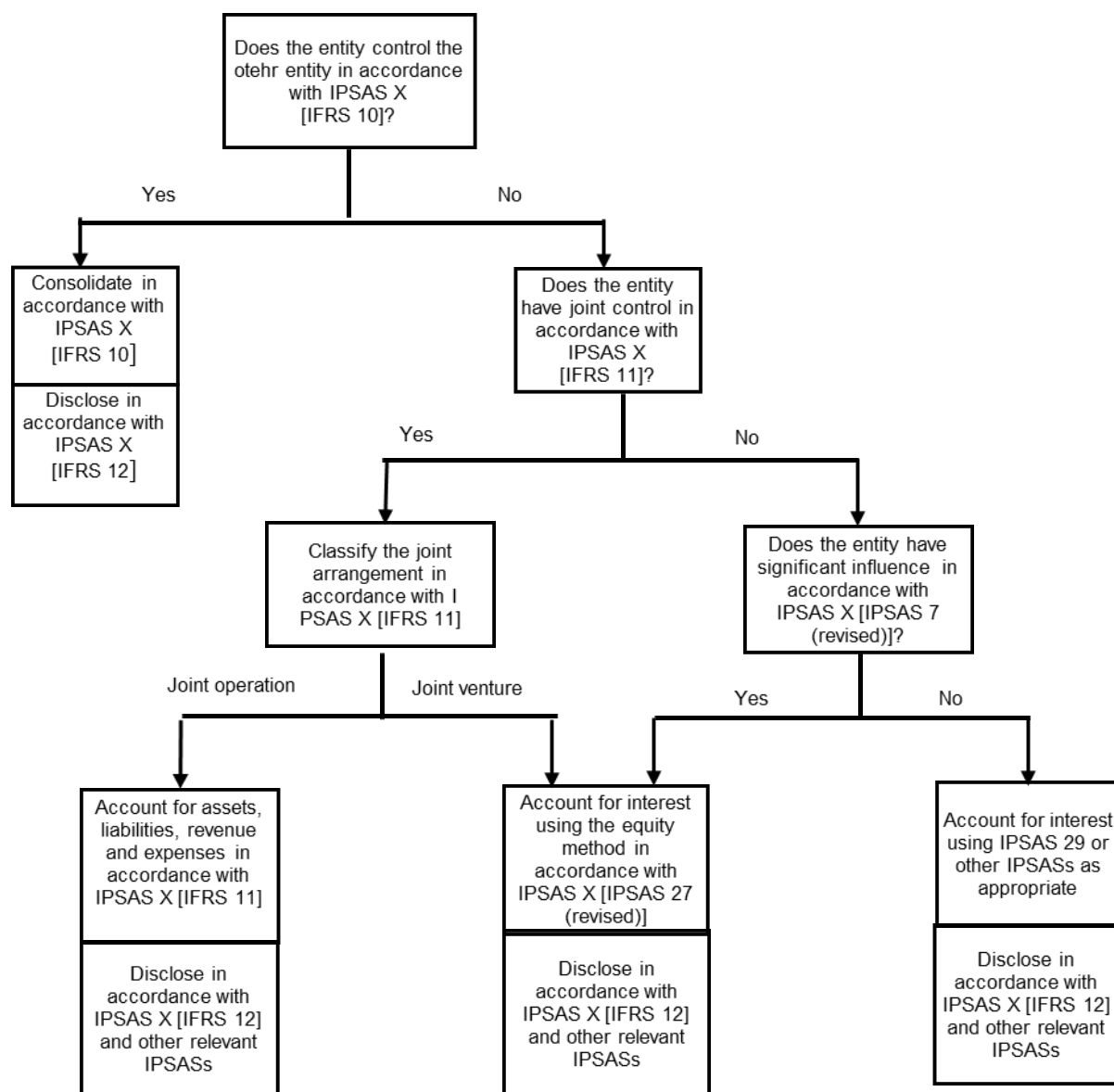
## Implementation Guidance

*This guidance accompanies, but is not part of, IPSAS X, Consolidated Financial Statements.*

### Nature of Relationship with Another Entity

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

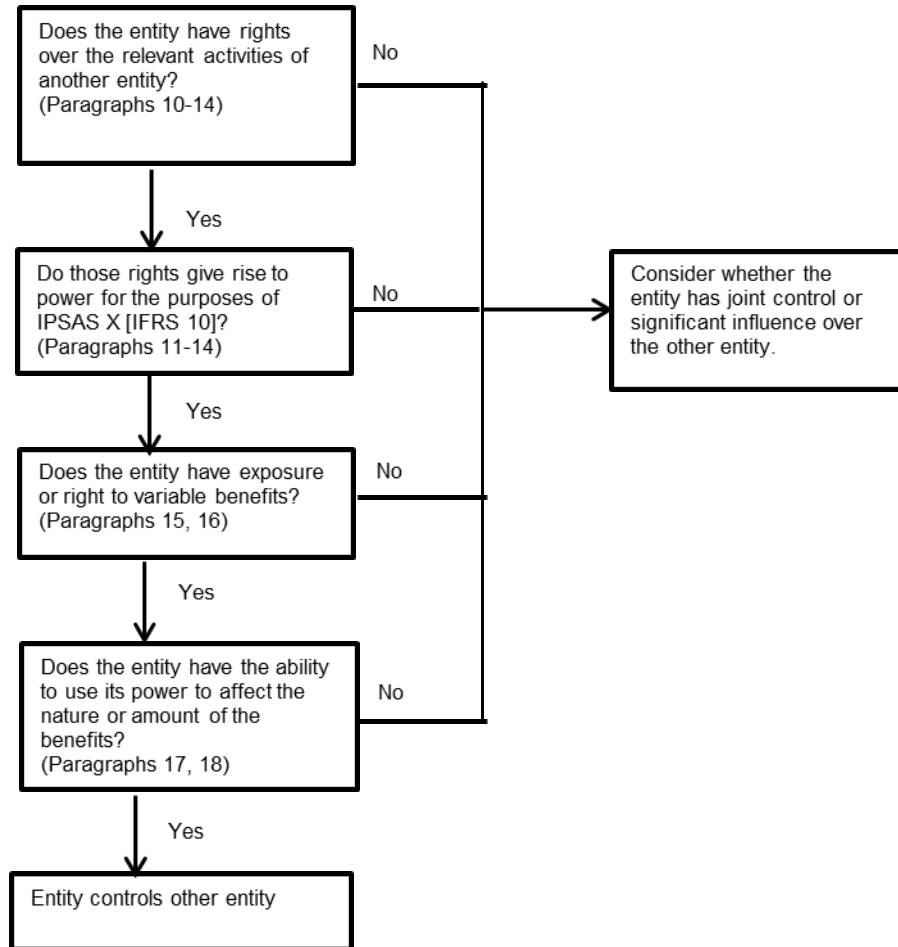
**Flowchart 1: Forms of Involvement with Other Parties**



## Assessing Control of Another Entity for Financial Reporting Purposes

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

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



## Illustrative Examples

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

- IE1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS X [IFRS 10]. [Based on B1]

### Power (paragraphs AG9–AG54)

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

#### **Example 1**

A state government partially funds the activities of a local government. Some of this funding is required to be spent on specified activities. The local government has a council that is elected every four years by the local community. The council decides how to use the local government's resources for the benefit of the local community. The activities of the local government are diverse and include library services, provision of leisure facilities, management of refuse and wastewater, and enforcement of building and health and safety regulations. These activities are the relevant activities of the local government. Many of these activities also coincide with the interests of the state government.

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

[New, Based on AASB IG6]

### *Regulatory Control (paragraph AG10.2)*

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

#### **Example 2**

A pollution control authority has the power to close down the operations of entities that are not complying with environmental regulations.

The existence of this power does not constitute power over the relevant activities.

[New]

#### **Example 3**

A city has the power to pass zoning laws to limit the location of fast food outlets or to ban them altogether.

The existence of this power does not constitute power over the relevant activities of the fast food outlets.

[New]

#### Example 4

A central government has the power to impose regulatory control on monopolies. A wholly owned government agency has the power to regulate monopolies that are subject to regulatory control and has established price ceilings for entities that distribute electricity. Neither the central government, nor the government agency, has power over the relevant activities of the electricity distributors.

[New]

#### Example 5

A gaming control board (GCB) is a government agency that regulates casinos and other types of gaming in a state, and of enforcing state gaming legislation. The GCB is responsible for promulgating rules and regulations that govern the conduct of gaming activities in the state. The rules and regulations stem from legislation. The legislation was passed by the legislature and sets forth the broad policy of the state with regard to gaming; while the rules and regulations provide detailed requirements that must be satisfied by a gaming establishment, its owners, employees, and vendors. The rules and regulations cover a broad range of activity, including licensing, accounting systems, rules of casino games, and auditing.

The GCB also has authority to grant or deny licenses to gaming establishments, their ownership, employees, and vendors. In order to obtain a license, an applicant must demonstrate that they possess good character, honesty and integrity. License application forms typically require detailed personal information. Based upon the type of license being sought, an applicant may also be required to disclose details regarding previous business relationships, employment history, criminal records, and financial stability.

Although the rules and regulations have an impact on how gaming establishments operate, the GCB does not have power over the relevant activities of the gaming establishments. The regulations apply to all gaming establishments and each establishment has a choice as to whether it wishes to engage in gaming or not. The purpose of the gaming legislation and regulations is to protect the public.

[New]

#### *Relevant Activities and Direction of Relevant Activities (paragraphs AG11–AG13)*

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

#### Example 6

~~investors~~ Entities A and B, form another entity, entity C, ~~investee~~ to develop and market a medical product. ~~Entity A~~ One investor is responsible for developing and obtaining regulatory approval of the medical product—that responsibility includes having the unilateral ability to make all decisions relating to the development of the product and to obtaining regulatory approval. Once the regulator has approved the product, ~~entity B~~ the other investor will manufacture and market it—~~entity B~~ this investor has the unilateral ability to make all decisions about the manufacture and marketing of the ~~product~~ project. If all the activities—developing and obtaining regulatory approval as well as manufacturing and marketing of the medical product—are relevant activities, entity A

and entity B each investor needs to determine whether they are able to direct the activities that most significantly affect the investee's returns/benefits from entity C. Accordingly, entity A and B each investor needs to consider whether developing and obtaining regulatory approval or the manufacturing and marketing of the medical product is the activity that most significantly affects the investee's returns/benefits from entity C and whether they are able to direct that activity. In determining which entity/investor has power, the entities A and B investors would consider:

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

In this particular example, the entities/investors would also consider:

- (e) The uncertainty of, and effort required in, obtaining regulatory approval (considering their investor's record of successfully developing and obtaining regulatory approval of medical products); and

Which entity/investor controls the medical product once the development phase is successful..

[Based on IFRS 10, Example 1]

#### Example 7

An investment vehicle (the investee) is created and financed with a debt instrument held by an entity/investor (the debt investor) and equity instruments held by a number of other investors. The equity tranche is designed to absorb the first losses and to receive any residual benefit/return from the investment vehicle/investee. One of the equity investors who holds 30 per cent of the equity instruments is also the asset manager. The investment vehicle/investee uses its proceeds to purchase a portfolio of financial assets, exposing the investment vehicle/investee to the credit risk associated with the possible default of principal and interest payments of the assets. The transaction is marketed to the debt investor as an investment with minimal exposure to the credit risk associated with the possible default of the assets in the portfolio because of the nature of these assets and because the equity tranche is designed to absorb the first losses of the investment vehicle/investee. The benefits from/returns of the investment vehicle/investee are significantly affected by the management of the investment vehicle's/investee's asset portfolio, which includes decisions about the selection, acquisition and disposal of the assets within portfolio guidelines and the management upon default of any portfolio assets. All those activities are managed by the asset manager until defaults reach a specified proportion of the portfolio value (i.e., when the value of the portfolio is such that the equity tranche of the investment vehicle/investee has been consumed). From that time, a third-party trustee manages the assets according to the instructions of the debt investor. Managing the investment vehicle's/investee's asset portfolio is the relevant activity of the investment vehicle/investee. The asset manager has the ability to direct the relevant activities until defaulted assets reach the specified proportion of the portfolio value; the debt investor has the ability to direct the relevant activities when the value of defaulted assets surpasses that specified proportion of the portfolio value. The asset manager and the debt investor each need to determine whether they are able to direct the activities that most significantly affect the benefits from the investment vehicle's/investee's returns, including considering the purpose and design of the investment vehicle/investee as well as each party's

exposure to variability of ~~benefits~~returns.  
[Based on IFRS 10, Example 2]

*Rights that Give an ~~Investor Entity~~ Power over another Entity ~~Investee~~* (paragraphs AG14–AG25)

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

#### **Example 8**

A government housing agency establishes a community housing program that provides low-cost housing. The program is operated under an agreement with an incorporated association. The association's only activity is to manage the community housing facility. The association has no ownership instruments.

The board of governors of the association has 16 members, with eight appointed by (and subject to removal by) the government housing agency. By tradition, the chair of the association is appointed by the board from amongst the appointees of the government housing agency. The chair of the association has a casting vote that is rarely exercised.

The government housing agency owns the land on which the housing facilities stand and has contributed capital and operating funds to the association over the life of the facilities. The association owns the housing facilities.

The association retains any surplus resulting from the operation of the facilities and under its constitution is unable to provide a financial return to the government housing agency. The above fact pattern applies to examples 8A and 8B described below. Each example is considered in isolation.

#### **Example 8A**

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

The government housing agency also has rights to variable benefits from its involvement with the association. Even though the government housing agency has never received (and cannot receive) a financial return, the government housing agency is receiving benefits through the association furthering its social objective of providing low-cost community housing. In addition, the government housing agency has the ability to use its powers over the composition of the board of governors of the association to affect the amount of its benefits.

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

#### **Example 8B**

In this example, the facts of Example 8A apply, except that:

- (a) The association's board of governors is elected through a public nomination and voting process. The government housing agency does not have power to appoint board members; and
- (b) Decisions made by the association's board are reviewed by the government housing agency but it is unable to replace board members as a form of veto.

The government housing agency may still consider that it receives indirect, non-financial benefits from the association in that the agency's social objectives in relation to low-cost community housing are being furthered by the activities of the association. However, congruence of objectives alone is insufficient to conclude that one entity controls another entity [\(refer paragraph 17.1\)](#).

Based on the facts and circumstances outlined above, the government housing agency does not hold sufficient power over the association to direct its relevant activities and therefore does not control the association.

[New, Based on AASB IG1]

#### **Example 9**

A government has the right to appoint and remove the majority of members of a statutory body. This power has been used by previous governments. The current government has not done so because it does not wish, for political reasons, to be regarded as interfering in the activities of the statutory body. In this case the government still has substantive rights, even though it has chosen not to use them.

[New, Based on AASB IG11]

#### **Example 10**

A local government has a policy that, where it holds land that is surplus to its requirements, consideration should be given to making the land available for affordable housing. The local government establishes terms and conditions to ensure that the housing provided remains affordable and available to meet local housing needs.

In accordance with this policy, the local government sold part of a site to a housing association for CU1 to provide 20 affordable homes. The remainder of the site was sold at open market value to a private developer.

The contract between the local government and the housing association specifies what the land can be used for, the quality of housing developments, ongoing reporting and performance management requirements, the process for return of unused land and dispute resolution. The land must be used in a manner consistent with the local government's policy for affordable housing.

The agreement also has requirements regarding the housing association's quality assurance and financial management processes. The housing association must demonstrate that it has the capacity and authority to undertake the development. It must also demonstrate the added value that can be achieved by joining the local government's resources with that of the housing association to address a need within a particular client group in a sustainable way.

The Board of the housing association is appointed by the members of the housing association. The local government does not have a representative on the Board.

Based on the facts and circumstances outlined above, the government housing agency does not hold sufficient power over the association to direct its relevant activities and therefore does not control the association. The local government may receive indirect, non-financial benefits from the association in that the local government's social objectives in relation to low-cost community housing are being furthered by the activities of the housing association. However, congruence of

objectives alone is insufficient to conclude that one entity controls another (see paragraph 17.1). In order to have power over the housing association the local government would need to have the ability to direct the housing association to work with the local government to further the local governments' objectives.

[New, [Refers to paragraph 17.1 which is based on AASB IG18](#)]

#### Example 11

[An entity](#)~~The investee being assessed for control~~ has annual shareholder meetings at which decisions to direct the relevant activities are made. The next scheduled shareholders' meeting is in eight months. However, shareholders that individually or collectively hold at least 5 per cent of the voting rights can call a special meeting to change the existing policies over the relevant activities, but a requirement to give notice to the other shareholders means that such a meeting cannot be held for at least 30 days. Policies over the relevant activities can be changed only at special or scheduled shareholders' meetings. This includes the approval of material sales of assets as well as the making or disposing of significant investments.

The above fact pattern applies to examples 11A–11D described below. Each example is considered in isolation.

[Based on IFRS 10, Example 3]

#### Example 11A

An [entity](#)~~investor~~ holds a majority of the voting rights in the [other entity](#)~~investee~~. The [entity](#)~~investor's~~ voting rights are substantive because the [investor](#)~~entity~~ is able to make decisions about the direction of the relevant activities when they need to be made. The fact that it takes 30 days before the [entity](#)~~investor~~ can exercise its voting rights does not stop the [entity](#)~~investor~~ from having the current ability to direct the relevant activities from the moment the [entity](#)~~investor~~ acquires the shareholding.

#### Example 11B

An [entity](#)~~investor~~ is party to a forward contract to acquire the majority of shares in the [other entity](#)~~investee~~. The forward contract's settlement date is in 25 days. The existing shareholders are unable to change the existing policies over the relevant activities because a special meeting cannot be held for at least 30 days, at which point the forward contract will have been settled. Thus, the [entity](#)~~investor~~ has rights that are essentially equivalent to the majority shareholder in example 11A above (i.e., the [entity](#)~~investor~~ holding the forward contract can make decisions about the direction of the relevant activities when they need to be made). The [entity](#)~~investor's~~ forward contract is a substantive right that gives the [entity](#)~~investor~~ the current ability to direct the relevant activities even before the forward contract is settled.

#### Example 11C

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

#### Example 11D



An entity investor is party to a forward contract to acquire the majority of shares in the other entity investee, with no other related rights over the other entity investee. The forward contract's settlement date is in six months. In contrast to the examples above, the entity investor does not have the current ability to direct the relevant activities. The existing shareholders have the current ability to direct the relevant activities because they can change the existing policies over the relevant activities before the forward contract is settled.

*Power without a Majority of the Voting Rights (paragraphs AG38–AG38.1)*

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

**Example 12**

A central government has privatized a number of entities. In the case of certain strategic entities which it has wished to privatize without risking national interests it has used a “golden share” mechanism to give it veto power for certain of the most important decisions to be taken by the company. The “golden share” does not have any value or percentage in the charter capital of the company.

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

[New]

**Example 13**

A central government sold all of its shares in a company, but kept a golden share (with a nominal value of one currency unit) which allows it to veto foreign control of the board or company.

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

[New]

**Example 14**

A central government does not own any shares in defense companies. However it has passed legislation which specifies that, with respect to companies carrying out strategic activities for the defense and national security system, in the event that fundamental interests of national defense or security could be materially affected, the government may:

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

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

[New]

*Control of the Board or Other Governing Body (paragraphs AG38.2)*

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

**Example 15**

A national museum is governed by a board of trustees who are chosen by the government department responsible for funding the museum. The trustees have freedom to make decisions about the operation of the museum.

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

*Economic Dependence (paragraphs AG40.1–AG40.3)*

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

**Example 16**

A research institution is one of many institutions that receive the majority of their funding from a central government. The institutions submit proposals and the funding is allocated through a tendering process. The research institution retains the right to accept or decline funding.

The central government does not control the research institution because the research institution can choose to decline funding from the government, seek alternative sources of funding or cease to operate.

[New]

**Example 17**

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

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

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

[New]

### Example 18

An international donor funds a project in a developing country. The donor uses a small, local agency in the country to run the project. The local agency has its own management board but is highly dependent on the donor for funding. The agency retains the power to turn down funding from the donor.

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

[New]

### Voting Rights (paragraphs AG41–AG46)

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

### Example 19

An ~~entity investor~~ acquires 48 per cent of the voting rights of an ~~other entity investee~~. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the ~~entity investor~~ determined that a 48 per cent interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the ~~entity investor~~ concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

[Based on IFRS 10, Example 4]

### Example 20

~~Entity investor~~ A holds 40 per cent of the voting rights of an ~~other entity investee~~ and twelve other investors each hold 5 per cent of the voting rights of the ~~other entity investee~~. A shareholder agreement grants ~~Entity investor~~ A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. In this case, ~~Entity investor~~ A concludes that the absolute size of ~~its the investor's~~ holding and the relative size of the other shareholdings alone are not conclusive in determining whether ~~it the investor~~ has rights sufficient to give it power. However, ~~Entity investor~~ A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the ~~other entity investee~~. The fact that ~~Entity investor~~ A might not have exercised this right or the likelihood of ~~Entity investor~~ A exercising its right to select, appoint or remove management shall not be considered when assessing whether ~~Entity investor~~ A has power.

[Based on IFRS 10, Example 5]

#### Example 21

~~Entity Investor~~ A holds 45 per cent of the voting rights of an ~~other entity investor~~. Two other investors each hold 26 per cent of the voting rights of the ~~other entity investor~~. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision-making. In this case, the size of ~~Entity Investor~~ A's voting interest and its size relative to the other shareholdings are sufficient to conclude that ~~Entity Investor~~ A does not have power. Only two other investors would need to co-operate to be able to prevent ~~Entity Investor~~ A from directing the relevant activities of the ~~other entity investor~~.  
[Based on IFRS 10, Example 6]

#### Example 22

An ~~investor entity~~ holds 45 per cent of the voting rights of an ~~other entity investor~~. Eleven other shareholders each hold 5 per cent of the voting rights of the ~~other entity investor~~. None of the shareholders has contractual arrangements to consult any of the others or make collective decisions. In this case, the absolute size of the ~~entity's investor's~~ holding and the relative size of the other shareholdings alone are not conclusive in determining whether the ~~entity investor~~ has rights sufficient to give it power over the ~~other entity investor~~. Additional facts and circumstances that may provide evidence that the ~~entity investor~~ has, or does not have, power shall be considered.  
[Based on IFRS 10, Example 7]

#### Example 23

An ~~entity investor~~ holds 35 per cent of the voting rights of an ~~other entity investor~~. Three other shareholders each hold 5 per cent of the voting rights of the ~~other entity investor~~. The remaining voting rights are held by numerous other shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has arrangements to consult any of the others or make collective decisions. Decisions about the relevant activities of the ~~other entity investor~~ require the approval of a majority of votes cast at relevant shareholders' meetings—75 per cent of the voting rights of the ~~other entity investor~~ have been cast at recent relevant shareholders' meetings. In this case, the active participation of the other shareholders at recent shareholders' meetings indicates that the ~~entity investor~~ would not have the practical ability to direct the relevant activities unilaterally, regardless of whether the ~~entity investor~~ has directed the relevant activities because a sufficient number of other shareholders voted in the same way as the ~~entity investor~~.  
[Based on IFRS 10, Example 8]

#### Potential Voting Rights (paragraphs AG47–AG50)

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

#### Example 24

~~Entity Investor~~ A holds 70 per cent of the voting rights of an ~~other entity investor~~. ~~Entity Investor~~ B has 30 per cent of the voting rights of the ~~other entity investor~~ as well as an option to acquire half of ~~investor Entity~~ A's voting rights. The option is exercisable for the next two years at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period). ~~Entity Investor~~ A has been exercising its votes and is actively directing the relevant activities of

the ~~other entity~~~~investee~~. In such a case, ~~Entity~~~~investor~~ A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities. Although ~~Entity investor~~ B has currently exercisable options to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the ~~other entity~~~~investee~~), the terms and conditions associated with those options are such that the options are not considered substantive. [Based on IFRS 10, Example 9]

#### **Example 25**

~~Entity investor~~ A and two other investors each hold a third of the voting rights of an ~~other entity~~~~investee~~. The ~~other entity's~~~~investee's~~ business activity is closely related to ~~Entity investor~~ A. In addition to its equity instruments, ~~investor~~ ~~Entity~~ A also holds debt instruments that are convertible into ordinary shares of the ~~other entity~~~~investee~~ at any time for a fixed price that is out of the money (but not deeply out of the money). If the debt were converted, ~~Entity investor~~ A would hold 60 per cent of the voting rights of the ~~other entity~~~~investee~~. ~~Entity investor~~ A would benefit from realizing synergies if the debt instruments were converted into ordinary shares. ~~Entity investor~~ A has power over the ~~other entity~~~~investee~~ because it holds voting rights of the ~~other entity~~~~investee~~ together with substantive potential voting rights that give it the current ability to direct the relevant activities.

[Based on IFRS 10, Example 10]

#### *Power when Voting or Similar Rights do not have a Significant Effect on Benefits (paragraphs AG51–AG54)*

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

#### **Example 26**

A central government has legislation that governs the establishment of cultural and heritage boards. These boards have a separate legal status and have limited liability. The powers and objectives of the boards, along with their reporting requirements are specified by legislation. The main function of each board is to administer the board's assets, mainly property, for the general benefit of beneficiaries. Boards are permitted to spend money on the promotion of health, education, vocational training, and the social and economic welfare of the beneficiaries. They have limited authority to spend money unless it is for a purpose specifically mentioned in the legislation. Each board must deliver an annual financial report to the government. The beneficiaries (as defined by each board and comprising people from a specified area) elect the members of the board. Trustees are appointed for a three-year term by way of voting by beneficiaries at the annual general meeting. Strategy is determined by the board.

The central government does not control the boards. The government was involved in establishing the legislation that governs the activities of the boards, but it has not obtained rights that give it power over the boards. Despite the fact that their powers are limited by legislation, each board is responsible for determining its own operating and financial policies.

[New]

### **Example 27**

Five local authorities create a separate company to deliver shared services to participating authorities. The company operates under contract to these local authorities. The company's major objective is the provision of services to these local authorities.

The company is owned by all of the participating local authorities with each owning one share and allowed one vote. The chief executive of each local government is permitted to be a board member of the company. The board of the company is responsible for strategic direction, approval of business cases and monitoring of performance.

For each shared activity there is an advisory group that is responsible for operational management and decision-making in relation to that activity. Each advisory group consists of one representative from each local government.

The benefits of the shared services arrangement are:

- Improved levels and quality of service;
- A co-ordinated and consistent approach to the provision of services;
- Reductions in the cost of support and administrative services;
- Opportunities to develop new initiatives; and
- Economies of scale resulting from a single entity representing many councils in procurement.

If further shared service activities are established that lead to the need for further capital, the company will either issue a new class of equity instrument or will form a controlled entity to hold the interest in the new assets.

The company covers its costs in two ways. It retains a percentage of savings from its bulk purchasing activities and it charges an administrative transaction cost of services provided to the local authorities.

None of the local authorities individually controls the company. They have joint control over the company.

[New]

### **Example 28**

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

The articles of association of the leisure trust specify that there shall be no more than 13 directors. Out of that number, up to 8 directors may be drawn from elected members, officers or employees of the local government. The other 5 directors must be independent. That is, they must not be elected representatives, officers or employees of the local government nor may they be employees of the leisure trust.

If the leisure trust ceases to operate the proceeds must be distributed to another charity with similar purposes. The local government is not responsible for the debts of the leisure trust (its liability is limited to one currency unit).

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

[New]

#### **Example 29**

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

In creating the trust the local government expects to benefit from cost savings, increased use of facilities by the public, a more favorable taxation treatment, and better access to funding restricted to charities. The trust can decide the nature and extent of facilities to be provided and can engage in any other charitable purpose. The board of the trust is elected by the community. The local government is entitled to have one representative on the board. The trust is required to retain any surplus and use it for the objectives of the trust.

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

[New]

#### **Example 30**

A local government has transferred its sports and leisure facilities into a charitable trust. The local government has the right to appoint one of its councillors to the board of the trust. The board of the trust has nine members. The local government is entitled to ten percent of the trust's surplus for the year or, in the case of the deficit, may be required to contribute up to ten percent of the deficit for the year. The trust board determines the strategy of the trust and is ultimately responsible for the policies of the trust.

The local government does not control the trust.

[New]

#### **Example 31**

A funding agency was established by legislation. It is owned by ten local authorities and the central government. It operates on a for-profit basis. The funding agency will raise debt funding and provide that funding to the participating local authorities. Its primary purpose is to provide more efficient funding costs and diversified funding sources for the local authorities. It may undertake any other activities considered by the board to be reasonably related or incidental to, or in connection with, that business.

The main benefits to the participating local authorities are the reduced borrowing costs. The board of the funding agency may decide to pay dividends but dividend payments are expected to be low.

The board is responsible for the strategic direction and control of the funding agency's activities. The board will comprise between four and seven directors with a majority of independent directors.

There is also a shareholders' council which is made up of ten appointees of the shareholders

(including an appointee from the central government). The role of the shareholders' council is to:

- Review the performance of funding agency and the Board, and report to shareholders on that performance;
- Make recommendations to shareholders as to the appointment, removal, replacement and remuneration of directors; and
- Coordinate shareholders' governance decisions.

The funding agency purchases debt securities in accordance with its lending and/or investment policies, as approved by the board and/or shareholders.

To participate in the funding agency as a principal shareholding authority, each local government made an initial capital investment of CU100,000, provided security against future property taxes and agreed to borrow a set portion of its borrowing needs from the funding agency for a period of three years.

The funding agency is jointly controlled by the central government and the participating local authorities.

[New]

### Example 32

Entity A's ~~An investee's~~ only business activity, as specified in its founding documents, is to purchase receivables and service them on a day-to-day basis for Entity B's ~~investors~~. The servicing on a day-to-day basis includes the collection and passing on of principal and interest payments as they fall due. Upon default of a receivable Entity A's ~~the investee~~ automatically puts the receivable to Entity B's ~~investor~~ as agreed separately in a put agreement between Entity A and Entity B's ~~the investor and the investee~~. The only relevant activity is managing the receivables upon default because it is the only activity that can significantly affect Entity A's ~~the investee's financial performance~~ returns. Managing the receivables before default is not a relevant activity because it does not require substantive decisions to be made that could significantly affect Entity A's ~~the investee's financial performance~~ returns—the activities before default are predetermined and amount only to collecting cash flows as they fall due and passing them on to Entity B's ~~investors~~. Therefore, only Entity B's ~~the investor's~~ right to manage the assets upon default should be considered when assessing the overall activities of Entity A's ~~the investee~~ that significantly affect Entity A's ~~the investee's financial performance~~ returns. In this example, the design of Entity A's ~~the investee~~ ensures that Entity B's ~~the investor~~ has decision-making authority over the activities that significantly affect the financial performance returns at the only time that such decision-making authority is required. The terms of the put agreement are integral to the overall transaction and the establishment of Entity A's ~~the investee~~. Therefore, the terms of the put agreement together with the founding documents of Entity A's ~~the investee~~ lead to the conclusion that Entity B's ~~the investor~~ has power over Entity A's ~~the investee~~ even though Entity B's ~~the investor~~ takes ownership of the receivables only upon default and manages the defaulted receivables outside the legal boundaries of Entity A's ~~the investee~~.

[Based on IFRS 10, Example 11]

### Example 33

The only assets of Entity A's ~~An investee~~ are receivables. When the purpose and design of Entity A's ~~the investee~~ are considered, it is determined that the only relevant activity is managing



the receivables upon default. The party that has the ability to manage the defaulting receivables has power over the [other entity investee](#), irrespective of whether any of the borrowers have defaulted.

[Based on IFRS 10, Example 12]

*Exposure, or Rights, to Variable Benefits from another Entity  
(paragraphs AG55–AG56)*

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

**Example 34**

Research has shown that family friendly policies at universities, which include the provision of quality early childhood education services, are critical in attracting and retaining students and staff. This is particularly important for attracting high-level staff and post-graduate students, which in turn help uphold the reputation of the University and its ability to obtain research funding.

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

[New]

**Example 34A**

University A has established seven childcare centres (although University A receives government funding for its educational programs, the childcare centres have been established by the university, not by the government). The centres operate in University owned buildings. Each centre has its own manager, staff and budget. The centres are able to be used by university staff and students only. The University is the licensed provider of childcare services. The University has the right to close centres or relocate them to other properties. Because the childcare centre is on university property the staff and parents are required to comply with University health and safety policies. The management team of the childcare centre has the ability to determine all other operating policies.

University A receives non-financial benefits from having childcare services available on campus. Although University A is not involved in the day-to-day running of the centres, it has the ability to close the centres or change their hours of operation.

University A controls the childcare centres.

**Example 34B**

University B has made a building available free of charge for the provision of childcare services on the grounds of the University. The childcare services are provided by an incorporated society. All parents using the childcare centre are members of the society. The members appoint the Board of the incorporated society and are in charge of the childcare centre's operating and financial policies. The childcare centre is able to be used by staff, students and the general public, with students having priority. Because the childcare centre is on university property the staff and parents are required to comply with University health and safety policies. The incorporated society is the licensed provider of childcare services. If the incorporated society ceases to operate, its resources must be distributed to a similar non-profit organisation. The incorporated society could

choose not to use the University's buildings in providing its services.

Although the University receives non-financial benefits from having childcare services available on campus it does not control the incorporated society.

## Link between Power and Benefits

### *Delegated Power (paragraphs AG58–AG61)*

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

#### **Example 35**

A government department may be responsible for monitoring the performance of another public sector entity. The role of the monitoring department is to make sure the other entity's approach is consistent with the government's goals, provide Ministers with quality assurance about delivery and results and assess and notify the Minister of any risks. The department has an explicit agreement with the Minister which sets out its monitoring responsibilities. The department has the authority to request information from the other entity and provides advice to the Minister on any funding requests from that entity. The department also advises the Minister as to whether the other entity should be permitted to undertake certain activities. The department is acting as an agent of the Minister.

[New]

#### **Example 36**

A provincial government establishes a trust to co-ordinate fundraising efforts for the benefit of health programs and other health initiatives in the region. The trust also invests and manages designated endowment funds. The funds raised are applied to the government-owned hospitals and aged care facilities in the region.

The provincial government appoints all the trustees on the board of the trust and funds the trust's operating costs. The trust is a registered charity and is exempt from income tax.

Based on the following analysis, the provincial government controls the trust:

- (a) The provincial government can give directions to the trustees, and the trustees have the current ability to direct the relevant activities of the trust. The trustees control the trust and the provincial government can replace the trustees at its discretion. The trustees' fiduciary obligation to act in the best interest of the beneficiaries does not prevent the provincial government from having power over the trust;
- (b) The provincial government has exposure and rights to variable benefits from involvement with the trust;
- (c) The provincial government can use its power over the trust to affect the nature and amount of the trust's benefits; and
- (d) The activities of the trust are complementary to the activities of the provincial government.

[New]

### Example 37

A statutory body is established under legislation to deliver services to the community. The statutory body is responsible for its day-to-day operations and has a governing council that oversees its operations.

The Minister of Health for the provincial government appoints the statutory body's governing council and, subject to the Minister's approval, the statutory body's governing council appoints the chief executive of the body.

The provincial government Health Department acts as the "system manager" for the provincial health system on behalf of the Minister. This role includes:

- (a) Strategic leadership, such as the development of health service plans;
- (b) Giving directions for the delivery of health services. The Health Department can give directions on matters such as entering into service agreements, capital works approval and management of industrial relations, including employment terms and conditions for the statutory body's employees; and
- (c) Monitoring of performance (e.g., quality of health services and financial data) of the authority and taking remedial action when performance does not meet specified performance measures.

Although the Health Department holds decision-making authority in regard to the statutory body, it requires the Minister's approval for the following decisions:

- (a) Entering into service agreements with the body;
- (b) Issuing binding health service directives;
- (c) Development of health service plans and capital works management and planning; and
- (d) Employment and remuneration of senior staff.

The Health Department receives all its operating and capital funding from the provincial government.

Based on the facts and circumstances outlined above, the Health Department has delegated power to act as an agent of the Minister in relation to the statutory body. The Health Department's agency status is evident through the restricted decision-making authority held by the Department, the rights held by the Minister and the fact that the costs of the Department's activities in relation to the statutory body are paid for by the provincial government. The Health Department does not control the statutory body. However, the provincial government does control the statutory body.  
[New, Based on AASB IG4]

### Example 38

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

- (a) The Health Department appoints the body's governing council, and the body's governing council appoints the chief executive of the statutory body;
- (b) The Health Department does not require the Minister's approval for its decisions as manager of provincial health services; and
- (c) The chief executive of the Health Department is held accountable for the

performance of the statutory body.

In this example, the scope of the decision-making authority held by the Health Department has increased significantly to the extent that the Health Department has the current ability to direct the relevant activities of the statutory body so as to achieve the health service objectives of the Health Department. Therefore, based on the new facts and circumstances, the Department controls the statutory body. The control held is considered delegated control from the Minister.

[New, Based on AASB IG4]

#### **Example 39**

The head of the government department related to finance and taxation (the Treasury) is designated by law as the managing trustee for a number of investment funds. The investment funds are funded by designated taxes and are used to deliver federal welfare programs. The Treasury collects most of the designated tax revenue that relates to these funds. Other agencies also collect some of the revenues and forward these to the Treasury.

The Treasury is delegated the responsibility for administering the funds. For each of the funds, the Treasury immediately invests all receipts credited to the fund, and maintains the invested assets in a designated trust fund until money is needed by the relevant agency.

When the relevant agencies determine that monies are needed, the Treasury redeems securities from the funds' investment balances, and transfers the cash proceeds, including interest earned on the investments, to the program accounts for disbursement by the agency. The Treasury provides monthly and other periodic reporting to each agency. The Treasury charges a management fee for its services.

The Treasury does not control the funds.

[New]

#### **Example 40**

A local government administers ten funds, each relating to a specific district. The funds hold specified assets (such as land, property and investments) that belonged to districts that previously had their own local government but which have since been amalgamated with other districts. The funds receive the revenue associated with the assets and certain taxes such as the property taxes for that district. The rights of the funds to hold these specified assets and receive the specified revenue are set out in legislation. The assets and revenue of the Fund may be applied solely for the benefit of the inhabitants of the former districts.

The local government has wide discretion over spending by the funds. Funds must be applied for the benefit of the community in such a manner as using reasonable judgment the local government thinks proper and having regard to the interests of the inhabitants of the former district. The local government may apply the fund to spending which is not covered by council taxation. Expenditure charged to the fund must be for purposes permitted by law.

The funds are controlled by the local government.

[New]

#### **Example 41**

A sovereign wealth fund (the fund) is a constitutionally established permanent fund, managed by a government corporation. Legislation specifies that the fund is entitled to receive at least 25% of

proceeds from oil sales. The fund sets aside a certain share of these revenues to benefit current and future generations of citizens.

The corporation manages the assets of both the fund and certain other state investments and is remunerated for doing so. The corporation may not spend the fund revenue. Decisions on spending fund revenue are made by the Parliament. Each year, the fund's revenue is split between operating expenses and an annual payment to residents that meet certain criteria specified in legislation.

The corporation does not control the sovereign wealth fund. It acts solely as an agent.

[New]

#### Example 42

A decision maker (fund manager) establishes, markets and manages a publicly traded, regulated fund according to narrowly defined parameters set out in the investment mandate as required by its local laws and regulations. The fund was marketed to investors as an investment in a diversified portfolio of equity securities of publicly traded entities. Within the defined parameters, the fund manager has discretion about the assets in which to invest. The fund manager has made a 10 per cent pro rata investment in the fund and receives a market-based fee for its services equal to 1 per cent of the net asset value of the fund. The fees are commensurate with the services provided. The fund manager does not have any obligation to fund losses beyond its 10 per cent investment. The fund is not required to establish, and has not established, an independent board of directors. The investors do not hold any substantive rights that would affect the decision-making authority of the fund manager, but can redeem their interests within particular limits set by the fund.

Although operating within the parameters set out in the investment mandate and in accordance with the regulatory requirements, the fund manager has decision-making rights that give it the current ability to direct the relevant activities of the fund—the investors do not hold substantive rights that could affect the fund manager's decision-making authority. The fund manager receives a market-based fee for its services that is commensurate with the services provided and has also made a pro rata investment in the fund. The remuneration and its investment expose the fund manager to variability of [benefits/returns](#) from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal.

In this example, consideration of the fund manager's exposure to variability of [benefits/returns](#) from the fund together with its decision-making authority within restricted parameters indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

[IFRS 10, Example 13]

#### Example 43

A decision maker establishes, markets and manages a fund that provides investment opportunities to a number of investors. The decision maker (fund manager) must make decisions in the best interests of all investors and in accordance with the fund's governing agreements. Nonetheless, the fund manager has wide decision-making discretion. The fund manager receives

a market-based fee for its services equal to 1 per cent of assets under management and 20 per cent of all the fund's ~~surplus~~profits if a specified ~~profit~~level of surplus is achieved. The fees are commensurate with the services provided.

Although it must make decisions in the best interests of all investors, the fund manager has extensive decision-making authority to direct the relevant activities of the fund. The fund manager is paid fixed and performance-related fees that are commensurate with the services provided. In addition, the remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund, without creating exposure to variability of ~~benefits~~returns from the activities of the fund that is of such significance that the remuneration, when considered in isolation, indicates that the fund manager is a principal.

[IFRS 10, Example 14]

The above fact pattern and analysis applies to examples 44–46 described below. Each example is considered in isolation.

#### **Example 44**

The fund manager also has a 2 per cent investment in the fund that aligns its interests with those of the other investors. The fund manager does not have any obligation to fund losses beyond its 2 per cent investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

The fund manager's 2 per cent investment increases its exposure to variability of ~~benefits~~returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal. The other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. In this example, although the fund manager has extensive decision-making authority and is exposed to variability of ~~benefits~~returns from its interest and remuneration, the fund manager's exposure indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

[IFRS 10, Example 14A]

#### **Example 45**

The fund manager has a more substantial pro rata investment in the fund, but does not have any obligation to fund losses beyond that investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

In this example, the other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's investment together with its remuneration could create exposure to variability of ~~benefits~~returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. The greater the magnitude of, and variability associated with, the fund manager's economic interests (considering its remuneration and other interests in aggregate), the more emphasis the fund manager would place on those economic interests in the analysis, and the more likely the fund manager is a principal.

For example, having considered its remuneration and the other factors, the fund manager might consider a 20 per cent investment to be sufficient to conclude that it controls the fund. However, in different circumstances (i.e., if the remuneration or other factors are different), control may arise when the level of investment is different.

[IFRS 10, Example 14B]

#### Example 46

The fund manager has a 20 per cent pro rata investment in the fund, but does not have any obligation to fund losses beyond its 20 per cent investment. The fund has a board of directors, all of whose members are independent of the fund manager and are appointed by the other investors. The board appoints the fund manager annually. If the board decided not to renew the fund manager's contract, the services performed by the fund manager could be performed by other managers in the industry.

Although the fund manager is paid fixed and performance-related fees that are commensurate with the services provided, the combination of the fund manager's 20 per cent investment together with its remuneration creates exposure to variability of ~~benefits~~returns from the activities of the fund that is of such significance that it indicates that the fund manager is a principal. However, the investors have substantive rights to remove the fund manager—the board of directors provides a mechanism to ensure that the investors can remove the fund manager if they decide to do so.

In this example, the fund manager places greater emphasis on the substantive removal rights in the analysis. Thus, although the fund manager has extensive decision-making authority and is exposed to variability of ~~benefits~~returns of the fund from its remuneration and investment, the substantive rights held by the other investors indicate that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.

[IFRS 10, Example 14C]

#### Example 47

~~Entity A~~An investee is created to purchase a portfolio of fixed rate asset-backed securities, funded by fixed rate debt instruments and equity instruments. The equity instruments are designed to provide first loss protection to the debt investors and receive any residual ~~benefits~~ from returns of ~~Entity A~~the investee. The transaction was marketed to potential debt investors as an investment in a portfolio of asset-backed securities with exposure to the credit risk associated with the possible default of the issuers of the asset-backed securities in the portfolio and to the interest rate risk associated with the management of the portfolio. On formation, the equity instruments represent 10 per cent of the value of the assets purchased. A decision maker (the asset manager) manages the active asset portfolio by making investment decisions within the parameters set out in ~~Entity A's~~the investee's prospectus. For those services, the asset manager receives a market-based fixed fee (i.e., 1 per cent of assets under management) and performance-related fees (i.e., 10 per cent of ~~surplus~~profits) if ~~Entity A's~~the investee's ~~surpluses~~profits exceed a specified level. The fees are commensurate with the services provided. The asset manager holds 35 per cent of the equity ~~instruments of~~ Entity A~~the investee~~. The remaining 65 per cent of the equity ~~instruments~~, and all the debt instruments ~~of Entity A~~, are held by a large number of widely dispersed unrelated third party investors. The asset manager can be

removed, without cause, by a simple majority decision of the other investors.

The asset manager is paid fixed and performance-related fees that are commensurate with the services provided. The remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund. The asset manager has exposure to variability of returns from the activities of the fund because it holds 35 per cent of the equity [instruments](#) and from its remuneration.

Although operating within the parameters set out in [Entity A's](#)~~the investee's~~ prospectus, the asset manager has the current ability to make investment decisions that significantly affect [Entity A's](#)~~the investee's~~ [benefits in the form of](#) returns—the removal rights held by the other investors receive little weighting in the analysis because those rights are held by a large number of widely dispersed investors. In this example, the asset manager places greater emphasis on its exposure to variability of returns of the fund from its [net asset](#)/equity interest, which is subordinate to the debt instruments. Holding 35 per cent of the equity [instruments](#) creates subordinated exposure to losses and rights to returns of [Equity A](#)~~the investee~~, which are of such significance that it indicates that the asset manager is a principal. Thus, the asset manager concludes that it controls [Entity A](#)~~the investee~~.

[IFRS 10, Example 15]

#### Example 48

A decision maker (the sponsor) sponsors a multi-seller conduit, which issues short-term debt instruments to unrelated third party investors. The transaction was marketed to potential investors as an investment in a portfolio of highly rated medium-term assets with minimal exposure to the credit risk associated with the possible default by the issuers of the assets in the portfolio. Various transferors sell high quality medium-term asset portfolios to the conduit. Each transferor services the portfolio of assets that it sells to the conduit and manages receivables on default for a market-based servicing fee. Each transferor also provides first loss protection against credit losses from its asset portfolio through over-collateralisation of the assets transferred to the conduit. The sponsor establishes the terms of the conduit and manages the operations of the conduit for a market-based fee. The fee is commensurate with the services provided. The sponsor approves the sellers permitted to sell to the conduit, approves the assets to be purchased by the conduit and makes decisions about the funding of the conduit. The sponsor must act in the best interests of all investors.

The sponsor is entitled to any residual [benefit from](#) ~~return of~~ the conduit and also provides credit enhancement and liquidity facilities to the conduit. The credit enhancement provided by the sponsor absorbs losses of up to 5 per cent of all of the conduit's assets, after losses are absorbed by the transferors. The liquidity facilities are not advanced against defaulted assets. The investors do not hold substantive rights that could affect the decision-making authority of the sponsor.

Even though the sponsor is paid a market-based fee for its services that is commensurate with the services provided, the sponsor has exposure to variability of [benefits](#)~~returns~~ from the activities of the conduit because of its rights to any residual [benefits](#)~~returns of from~~ the conduit and the provision of credit enhancement and liquidity facilities (i.e., the conduit is exposed to liquidity risk by using short-term debt instruments to fund medium-term assets). Even though each of the transferors has decision-making rights that affect the value of the assets of the conduit, the



sponsor has extensive decision-making authority that gives it the current ability to direct the activities that most significantly affect the [benefits from the conduit's returns](#) (i.e., the sponsor established the terms of the conduit, has the right to make decisions about the assets (approving the assets purchased and the transferors of those assets) and the funding of the conduit (for which new investment must be found on a regular basis)). The right to residual [benefits from returns of](#) the conduit and the provision of credit enhancement and liquidity facilities expose the sponsor to variability of [benefits returns](#) from the activities of the conduit that is different from that of the other investors. Accordingly, that exposure indicates that the sponsor is a principal and thus the sponsor concludes that it controls the conduit. The sponsor's obligation to act in the best interest of all investors does not prevent the sponsor from being a principal.

[IFRS 10, Example 16]

## Comparison with IFRS 10

[This comparison will be completed when the Exposure Draft is completed]

IPSAS X, *Consolidated Financial Statements* is drawn primarily from IFRS 10, *Consolidated Financial Statements* (originally issued in 2011, including amendments published in July 2012). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of certain IFRSs referred to in IFRS 10. These standards include:

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

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

- IPSAS X does not provide any exemptions in respect of investment entities. IFRS 10 exempts investment entities from its consolidation requirements.
- IPSAS X provides an exemption in respect of ....[*Insert details of any scope exemption agreed by the IPSASB*]
- Commentary additional to that in IFRS 10 has been included in IPSAS 6 to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS X uses different terminology, in certain instances, from IFRS 10. The most significant examples are the use of the terms “statement of financial performance,” “net assets/equity,” “economic entity,” “controlling entity,” and “controlled entity” in IPSAS X. The equivalent terms in IFRS 10 are “income statement,” “equity,” “group,” “parent,” and “subsidiary.”
- IPSAS X contains more guidance on non-financial benefits.
- IPSAS X contains additional illustrative examples that reflect the public sector context.

FOR NOTING

**IPSAS X—JOINT ARRANGEMENTS [BASED ON IFRS 11]****CONTENTS**

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## Objective

1. The objective of this [Standard](#)~~IFRS~~ is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e., *joint arrangements*).

### ~~Meeting the Objective~~

2. To meet the objective in paragraph 1, this [Standard](#)~~IFRS~~ defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

## Scope

3. This [Standard](#)~~IFRS~~ shall be applied by all entities that are a party to a joint arrangement.
  - 3.1. [This Standard applies to all public sector entities other than Government Business Enterprises \(GBEs\).](#)
  - 3.2. [The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, \*Presentation of Financial Statements\*.](#)

## Definitions

### [3.3. The following terms are used in this Standard with the meanings specified:](#)

[A joint arrangement](#) **is** an arrangement of which two or more parties have joint control.

[Joint control](#) **is** the ~~contractually~~ agreed sharing of control of an arrangement [by way of a binding arrangement \(including rights from contracts or other legal rights\)](#), which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

[A joint operation](#) **is** a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

[A joint operator](#) **is** a party to a joint operation that has joint control of that joint operation.

[A joint venture](#) **is** a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

[A joint venturer](#) **is** a party to a joint venture that has joint control of that joint venture.

[A party to a joint arrangement](#) **is** an entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

[A separate vehicle](#) **is** a separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality.

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

3.4. For the purposes of this Standard a binding arrangement, as referred to in the definition of joint control, describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights. [Based on IPSAS 31.20]

~~The following terms are defined in IAS 27 (as amended in 2011), IAS 28 (as amended in 2011) or IFRS 10 Consolidated Financial Statements and are used in this IFRS with the meanings specified in those IFRSs:~~

- ~~• control of an investee~~
  - ~~• equity method~~
  - ~~• power~~
  - ~~• protective rights~~
  - ~~• relevant activities~~
  - ~~• separate financial statements~~
  - ~~• significant influence.~~

## Joint Arrangements (see paragraphs AG2–AG33)

4. A joint arrangement is an arrangement of which two or more parties have joint control.
5. A joint arrangement has the following characteristics:
  - (a) The parties are bound by a binding contractual arrangement (see paragraphs AG2–AG4).
  - (b) The contractual binding arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13).
6. A joint arrangement is either a joint operation or a joint venture.

## Joint Control

7. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The sharing of control may have been agreed by way of a binding arrangement or result from legislative or executive authority.
8. An entity that is a party to an arrangement shall assess whether the binding contractual arrangement or legislative or executive authority gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the benefits from ~~returns of~~ the arrangement (i.e., the relevant activities).
9. Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.
10. In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.
11. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This Standard ~~IFRS~~ distinguishes between parties that have joint control of a joint

arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement.

12. An entity will need to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances (see paragraphs AG5–AG11).
13. If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

### **Types of Joint Arrangement**

14. **An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.**
15. **A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.**
16. **A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.**
17. An entity applies judgment when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the ~~binding contractual~~ arrangement or established by legislative or executive authority and, when relevant, other facts and circumstances (see paragraphs AG12–AG33).
18. Sometimes the parties are bound by a framework agreement that sets up the general ~~contractual~~ terms for undertaking one or more activities. The framework agreement might set out that the parties establish different joint arrangements to deal with specific activities that form part of the agreement. Even though those joint arrangements are related to the same framework agreement, their type might be different if the parties' rights and obligations differ when undertaking the different activities dealt with in the framework agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.
19. If facts and circumstances change, an entity shall reassess whether the type of joint arrangement in which it is involved has changed.

### **Financial Statements of Parties to a Joint Arrangement (see paragraphs AG34–AG36)**

#### **Joint Operations**

20. **A joint operator shall recognize in relation to its interest in a joint operation:**
  - (a) **Its assets, including its share of any assets held jointly;**
  - (b) **Its liabilities, including its share of any liabilities incurred jointly;**
  - (c) **Its revenue from the sale of its share of the output arising from the joint operation;**

- (d) **Its share of the revenue from the sale of the output by the joint operation; and**
- (e) **Its expenses, including its share of any expenses incurred jointly.**

21. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the ~~IPSASs~~~~IFRSs~~ applicable to the particular assets, liabilities, revenues and expenses.
22. The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in paragraphs AG34–AG37.
23. A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with paragraphs 20–22 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the ~~IPSASs~~~~IFRSs~~ applicable to that interest.

#### **Joint Ventures**

24. **A joint venturer shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IPSAS 7, [IAS 28] *Investments in Associates and Joint Ventures* (~~Amended~~ [Date]) unless the entity is exempted from applying the equity method as specified in that standard.**
25. A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with ~~the IPSASs dealing with financial instruments, being IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, ~~IFRS 9—Financial Instruments: Recognition and Measurement~~, and IPSAS 30, *Financial Instruments: Disclosures*~~~~IFRS 9—Financial Instruments~~, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with IPSAS 7 [IAS 28] (~~as a~~ ~~Amended~~ ~~in~~ [Date]2014).

#### **Separate Financial Statements**

26. **In its separate financial statements, a joint operator or joint venturer shall account for its interest in:**
  - (a) **A joint operation in accordance with paragraphs 20–22;**
  - (b) **A joint venture in accordance with paragraph 10 of IPSAS 6, [IAS 27] *Separate Financial Statements* (~~Amended~~ [Date]).**
27. **In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:**
  - (a) **A joint operation in accordance with paragraph 23;**
  - (b) **A joint venture in accordance with IPSAS 29 [IFRS 9], unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 10 of IPSAS 6 [IAS 27] (~~as~~ ~~Amended~~ ~~in~~ [Date]2014).**

## **Transitional Provisions**

27.1. Notwithstanding the requirements of paragraph ~~3328~~ of ~~IPSAS 3~~~~IAS 8~~, *Accounting Policies, Changes in Accounting Estimates and Errors*, when this ~~Standard~~~~IFRS~~ is first applied, an entity need only present the quantitative information required by paragraph ~~3328~~(f) of ~~IPSAS 3~~~~IAS 8~~, for the annual period immediately preceding the first annual period for which [this Standard](#) [IFRS 11] is applied (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so. [Based on paragraph C1B]

### **Joint Ventures—Transition from Proportionate Consolidation to the Equity Method**

27.2. When changing from proportionate consolidation to the equity method, an entity shall recognize its investment in the joint venture as at the beginning of the immediately preceding period. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any [purchased goodwill arising from acquisition transactions \(guidance on accounting for the acquisition of an entity and the allocation of goodwill to joint ventures can be found in the relevant international or national standards on entity combinations and joint arrangements\)](#). ~~If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.~~ [Based on paragraph C2]

27.3. The opening balance of the investment determined in accordance with paragraph ~~27.2C2~~ is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 40–43 of [IPSAS 7](#) [IAS 28] ~~(as Amended in [Date]2011)~~ to the opening balance of the investment to assess whether the investment is impaired and shall recognize any impairment loss as an adjustment to [accumulated surplus or deficit](#) ~~retained earnings~~ at the beginning of the immediately preceding period. ~~The initial recognition exception in paragraphs 15 and 24 of IAS 12 *Income Taxes* does not apply when the entity recognizes an investment in a joint venture resulting from applying the transition requirements for joint ventures that had previously been proportionately consolidated.~~ [Based on paragraph C3]

27.4. If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, an entity shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the entity shall recognize the corresponding liability. If the entity concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognize the corresponding liability but it shall adjust [accumulated surplus or deficit](#) ~~retained earnings~~ at the beginning of the immediately preceding period. The entity shall disclose this fact, along with its cumulative unrecognized share of losses of its joint ventures as at the beginning of the immediately preceding period and at the date at which this ~~Standard~~~~IFRS~~ is first applied. [Based on paragraph C4]

27.5. An entity shall disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning of the immediately preceding period. That disclosure shall be prepared in an aggregated manner for all joint ventures for which an entity applies the transition requirements referred to in paragraphs ~~27.2–27.6C2–C6~~. [Based on paragraph C5]

27.6. After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with [IPSAS 7](#) [IAS 28] ~~(as Amended in [Date]2011)~~. [Based on paragraph C6]



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

- 27.7. When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the beginning of the immediately preceding period, derecognize the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of IPSAS 7 [IAS 28] (~~as Amended in~~ [in](#) ~~[Date]2014~~) and recognize its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment. [Based on paragraph C7]
- 27.8. An entity shall determine its interest in the assets and liabilities relating to the joint operation on the basis of its rights and obligations in a specified proportion in accordance with the ~~binding contractual~~ arrangement. An entity measures the initial carrying amounts of the assets and liabilities by disaggregating them from the carrying amount of the investment at the beginning of the immediately preceding period on the basis of the information used by the entity in applying the equity method. [Based on paragraph C8]
- 27.9. Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of IPSAS 7 [IAS 28] (~~as Amended in~~ [in](#) ~~[Date]2014~~), and the net amount of the assets and liabilities, including any goodwill, recognized shall be:
- (a) Offset against any goodwill relating to the investment with any remaining difference adjusted against ~~accumulated surplus or deficit retained earnings~~ at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognized is higher than the investment (and any other items that formed part of the entity's net investment) derecognized.
  - (b) Adjusted against retained earnings at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognized is lower than the investment (and any other items that formed part of the entity's net investment) derecognized. [Based on paragraph C9]
- 27.10. An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognized, and the assets and liabilities recognized, together with any remaining difference adjusted against ~~accumulated surplus or deficit retained earnings~~, at the beginning of the immediately preceding period. [Based on paragraph C10]
- ~~C11 The initial recognition exception in paragraphs 15 and 24 of IAS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation.~~

## Transition<sup>a</sup> Provisions in an Entity's Separate Financial Statements

Note to the IPSASB:

In its project on first-time adoption the IPSASB is considering permitting a deemed cost concession based on IFRS 1.D15 and clarifying that an entity could apply relevant transitional provisions in various IPSASs in respect of joint arrangement assets and liabilities. This ED will need to include a cross reference to any transitional provisions proposed in an ED on first-time adoption.

27.11. An entity that, in accordance with paragraph 10 of IPSAS 6 [\(Amended \[Date\]\)](#) [IAS 27], was previously accounting in its separate financial statements for its interest in a joint operation as an investment at cost or in accordance with IPSAS 29 [IFRS 9] shall:

- (a) Derecognize the investment and recognize the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraphs [27.7–27.9](#)~~C7–C9~~.
- (b) Provide a reconciliation between the investment derecognized, and the assets and liabilities recognized, together with any remaining difference adjusted in [accumulated surplus or deficit](#)~~retained earnings~~, at the beginning of the immediately preceding period. [Based on paragraph C12]

#### References to the “Immediately Preceding Period”

27.12. Notwithstanding the references to the “immediately preceding period” in paragraphs [27.2–27.11](#)~~C2–C12~~, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the “immediately preceding period” in paragraphs [27.11–27.11](#)~~C2–C12~~ shall be read as the “earliest adjusted comparative period presented”. [Based on paragraph C12A]

27.13. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis. [Based on paragraph C12B]

~~C13 The initial recognition exception in paragraphs 15 and 24 of IAS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation in its separate financial statements resulting from applying the transition requirements for joint operations referred to in paragraph C12.~~

#### References to IFRS 9

~~C14 If an entity applies this IFRS but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.~~

#### Effective Date

27.14. An entity shall apply this [Standard IFRS](#) for annual [financial statements covering](#) periods beginning on or after [Date]~~1 January 2013~~. Earlier application is [encouraged](#)~~permitted~~. If an entity applies this [Standard for a period beginning before \[Date\]](#)~~IFRS earlier~~, it shall disclose that fact and apply IPSAS X [IFRS 10], IPSAS X, [IFRS 12] *Disclosure of Interests in Other Entities*, IPSAS 6 [IAS 27] (~~as Amended in [Date]2014~~) and IPSAS 7 [IAS 28] (~~as Amended in [Date]2011~~) at the same time. [Based on paragraph C1]

~~C1A Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12), issued in June 2012, amended paragraphs C2–C5, C7–C10 and C12 and added paragraphs C1B and C12A–C12B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies IFRS 11 for an earlier period, it shall apply those amendments for that earlier period.~~

#### Withdrawal of [IPSAS 8](#) ~~other IFRSs~~

27.15. This [Standard IFRS](#) supersedes [IPSAS 8, \*Interests in Joint Ventures\* \(2006\)](#). ~~the following IFRSs:~~

~~(a) IAS 31 *Interests in Joint Ventures*; and~~

~~(b) SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. [Based on paragraph C15]~~

## Application Guidance

*This Appendix is an integral part of IPSAS X [IFRS 11].*

- AG1. [B1] The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS X [IFRS 11].

## Joint Arrangements

### BindingContractual Arrangement and Legislative or Executive Authority (paragraph 5)

- AG2. [B2] ~~BindingContractual~~ arrangements can be evidenced in several ways. An ~~binding enforceable contractual~~ arrangement is often, but not always, in writing, ~~usually~~ in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to binding arrangements, either on their own or in conjunction with contracts between the parties. The discussion of binding arrangements in this Standard is also relevant to enforceable arrangements created by legislative or executive authority.
- AG3. [B3] When joint arrangements are structured through a separate vehicle (see paragraphs AG19–AG33), the ~~binding contractual~~ arrangement, or some aspects of the ~~bindingcontractual~~ arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.
- AG4. [B4] The ~~binding contractual~~ arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The ~~binding contractual~~ arrangement generally deals with such matters as:
- (a) The purpose, activity and duration of the joint arrangement.
  - (b) How the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.
  - (c) The decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the ~~binding contractual~~ arrangement establishes joint control of the arrangement (see paragraphs AG5–AG11).
  - (d) The capital or other contributions required of the parties.
  - (e) How the parties share assets, liabilities, revenues, expenses or surplus or deficit profit or loss relating to the joint arrangement.

### Joint Control (paragraphs 7–13)

- AG5. [B5] In assessing whether an entity has joint control of an arrangement, an entity shall assess first whether all the parties, or a group of the parties, control the arrangement. IPSAS X [IFRS 10] defines control and shall be used to determine whether all the parties, or a group of the parties, are exposed, or have rights, to variable ~~returns-benefits~~ from their involvement with the arrangement and have the ability to affect those ~~returns-benefits~~ through their power over the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the

activities that significantly affect the ~~returns-benefits~~ of the arrangement (i.e., the relevant activities), the parties control the arrangement collectively.

AG6. [B6] After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity shall assess whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. Assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties, or controlled by one of its parties alone, can require judgment.

AG7. [B7] Sometimes the decision-making process that is agreed upon by the parties in their ~~binding contractual~~ arrangement implicitly leads to joint control. For example, assume two parties establish an arrangement in which each has 50 per cent of the voting rights and the ~~binding contractual~~ arrangement between them specifies that at least 51 per cent of the voting rights are required to make decisions about the relevant activities. In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.

AG8. [B8] In other circumstances, the ~~binding contractual~~ arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the ~~binding contractual~~ arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement.

### Application examples

#### Example 1

Assume that three parties establish an arrangement: A has 50 per cent of the voting rights in the arrangement, B has 30 per cent and C has 20 per cent. The ~~binding contractual~~ arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their ~~binding contractual~~ arrangement requiring at least 75 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.

#### Example 2

Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The ~~binding contractual~~ arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (i.e., either A and B or A and C). In such a situation, to be a joint arrangement the ~~binding contractual~~ arrangement between the

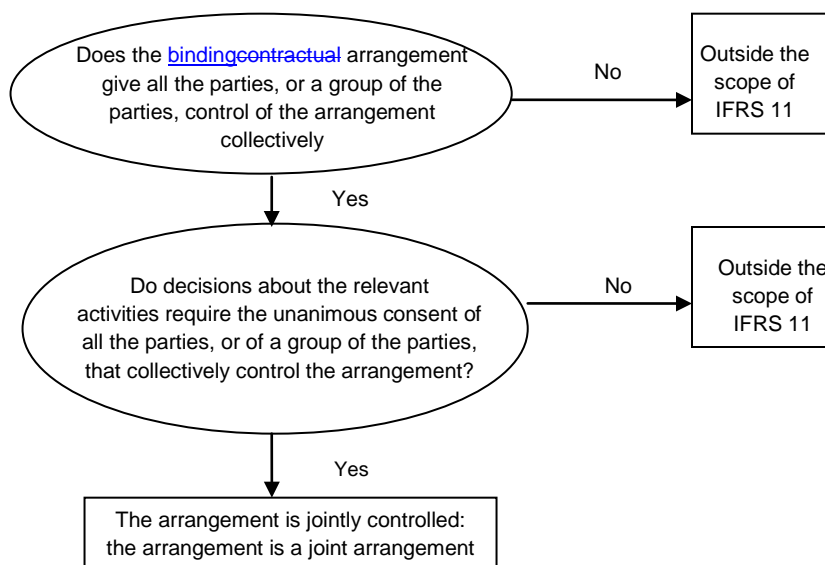
parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.

### Example 3

Assume an arrangement in which A and B each have 35 per cent of the voting rights in the arrangement with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. A and B have joint control of the arrangement only if the ~~binding contractual~~ arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

- AG9. [B9] The requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent. If the requirement for unanimous consent relates only to decisions that give a party protective rights and not to decisions about the relevant activities of an arrangement, that party is not a party with joint control of the arrangement.
- AG10. [B10] A ~~binding contractual~~ arrangement might include clauses on the resolution of disputes, such as arbitration. These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control. The existence of such provisions does not prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement.

### Assessing Joint Control



- AG11. [B11] When an arrangement is outside the scope of IPSAS X [IFRS 11], an entity accounts for its interest in the arrangement in accordance with relevant [IPSASs/IFRSs](#), such as IPSAS X [IFRS 10], IPSAS 7 [IAS 28] (~~as Amended in~~ [Date]2014) or IPSAS 29 [IFRS 9].

## Types of Joint Arrangement (paragraphs 14–19)

- AG12. [B12] Joint arrangements are established for a variety of purposes (e.g., as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets), and can be established using different structures and legal forms.
- AG13. [B13] Some arrangements do not require the activity that is the subject of the arrangement to be undertaken in a separate vehicle. However, other arrangements involve the establishment of a separate vehicle.
- AG14. [B14] The classification of joint arrangements required by this [Standard/IFRS](#) depends upon the parties' rights and obligations arising from the arrangement in the normal course of [business operations](#). This [Standard/IFRS](#) classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs AG16–AG33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

## Classification of a Joint Arrangement

- AG15. [B15] As stated in paragraph AG14, the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:
- (a) The structure of the joint arrangement (see paragraphs AG16–AG21).
  - (b) When the joint arrangement is structured through a separate vehicle:
    - (i) The legal form of the separate vehicle (see paragraphs AG22–AG24);
    - (ii) The terms of the [binding contractual](#) arrangement (see paragraphs AG25–AG28); and
    - (iii) When relevant, other facts and circumstances (see paragraphs AG29–AG33).

## Structure of the Joint Arrangement

### *Joint Arrangements not Structured Through a Separate Vehicle*

- AG16. [B16] A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the [binding contractual](#) arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.
- AG17. [B17] The [binding contractual](#) arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to [deliver services or](#) manufacture a product together, with each party being responsible for [a specific areas task](#) and each using its own assets and incurring its own liabilities. The [binding contractual](#) arrangement could also specify how

the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognizes in its financial statements the assets and liabilities used for the specific task, and recognizes its share of the revenues and expenses in accordance with the [binding contractual](#) arrangement.

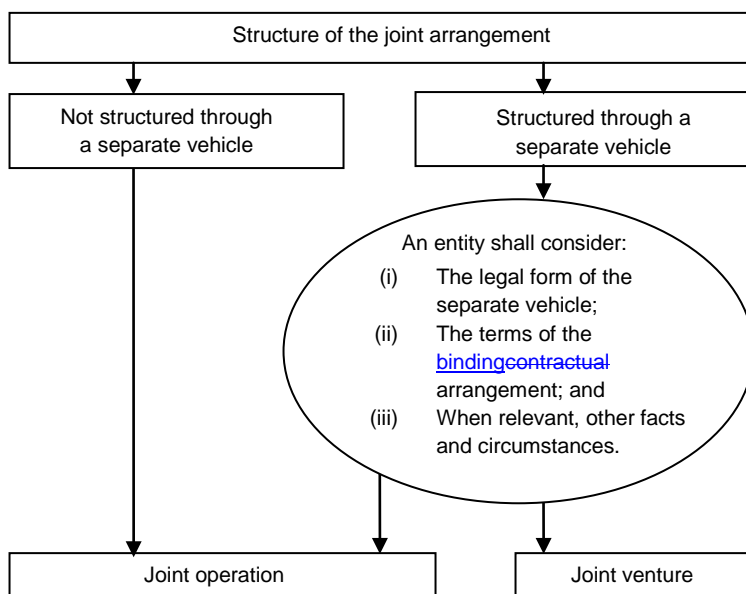
- AG18. [B18] In other cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. In such a case, the [binding contractual](#) arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each joint operator accounts for its share of the joint asset and its agreed share of any liabilities, and recognizes its share of the output, revenues and expenses in accordance with the [binding contractual](#) arrangement.

*Joint Arrangements Structured through a Separate Vehicle*

- AG19. [B19] A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.
- AG20. [B20] Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement that are held in the separate vehicle.
- AG21. [B21] As stated in paragraph AG15, when the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the [binding contractual](#) arrangement and, when relevant, any other facts and circumstances give them:
- (a) Rights to the assets, and obligations for the liabilities, relating to the arrangement (i.e., the arrangement is a joint operation); or
  - (b) Rights to the net assets of the arrangement (i.e., the arrangement is a joint venture).



### Classification of a Joint Arrangement: Assessment of the Parties' Rights and Obligations Arising from the Arrangement



#### The Legal Form of the Separate Vehicle

- AG22. [B22] The legal form of the separate vehicle is relevant when assessing the type of joint arrangement. The legal form assists in the initial assessment of the parties' rights to the assets and obligations for the liabilities held in the separate vehicle, such as whether the parties have interests in the assets held in the separate vehicle and whether they are liable for the liabilities held in the separate vehicle.
- AG23. [B23] For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their ~~binding~~ contractual arrangement (see paragraphs AG25–AG28) and, when relevant, other facts and circumstances (see paragraphs AG29–AG33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.
- AG24. [B24] The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

## Assessing the Terms of the ~~Binding Contractual~~ Arrangement

- AG25. [B25] In many cases, the rights and obligations agreed to by the parties in their ~~binding contractual~~ arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured.
- AG26. [B26] In other cases, the parties use the ~~binding contractual~~ arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

### Application example

#### Example 4

Assume that two parties structure a joint arrangement in an incorporated entity. Each party has a 50 per cent ownership interest in the incorporated entity. The incorporation enables the separation of the entity from its owners and as a consequence the assets and liabilities held in the entity are the assets and liabilities of the incorporated entity. In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the parties have rights to the net assets of the arrangement.

However, the parties modify the features of the corporation through their ~~binding contractual~~ arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporated entity in a specified proportion. Such ~~binding contractual~~ modifications to the features of a corporation can cause an arrangement to be a joint operation.

- AG27. [B27] The following table compares common terms in ~~binding contractual~~ arrangements of parties to a joint operation and common terms in ~~binding contractual~~ arrangements of parties to a joint venture. The examples of the ~~binding contractual~~ terms provided in the following table are not exhaustive.

Assessing the Terms of the <del>Binding contractual</del> Arrangement		
	Joint Operation	Joint Venture
<b>The terms of the <del>binding contractual</del> arrangement</b>	The <del>binding contractual</del> arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The <del>binding contractual</del> arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (i.e., it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
<b>Rights to assets</b>	The <del>binding contractual</del> arrangement establishes that the parties to the joint arrangement share all interests (e.g., rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The <del>binding contractual</del> arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (i.e., no rights, title or ownership) in the assets of the arrangement.
<b>Obligations for liabilities</b>	The <del>binding contractual</del> arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The <del>binding contractual</del> arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.
		The <del>binding contractual</del> arrangement establishes that the parties to the joint arrangement are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both.

Assessing the Terms of the <del>Binding contractual</del> Arrangement		
	Joint Operation	Joint Venture
	The <del>binding contractual</del> arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.	The <del>binding contractual</del> arrangement states that creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
<b>Revenues, expenses, <del>surplus or deficit</del>profit or loss</b>	The <del>binding contractual</del> arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the <del>binding contractual</del> arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement. In other instances, the parties might have agreed to share the <del>surplus or deficit</del> profit or loss relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.	The <del>binding contractual</del> arrangement establishes each party's share in the <del>surplus or deficit</del> profit or loss relating to the activities of the arrangement.

Assessing the Terms of the <del>Binding contractual</del> Arrangement		
	Joint Operation	Joint Venture
<b>Guarantees</b>	The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).	

- AG28. [B28] When the ~~binding contractual~~ arrangement specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances (paragraphs ~~AGB29~~–~~BAG33~~) for the purposes of classifying the joint arrangement.

#### Assessing Other Facts and Circumstances

- AG29. [B29] When the terms of the ~~binding contractual~~ arrangement do not specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, the parties shall consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.
- AG30. [B30] A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The ~~binding contractual~~ terms agreed among the parties might not specify the parties' rights to the assets and obligations for the liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation. This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.
- AG31. [B31] When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the economic benefits of the assets of the arrangement. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.
- AG32. [B32] The effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement.

## Application example

### Example 5

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The ~~binding contractual~~ arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the ~~binding contractual~~ arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

From the fact pattern above, the following facts and circumstances are relevant:

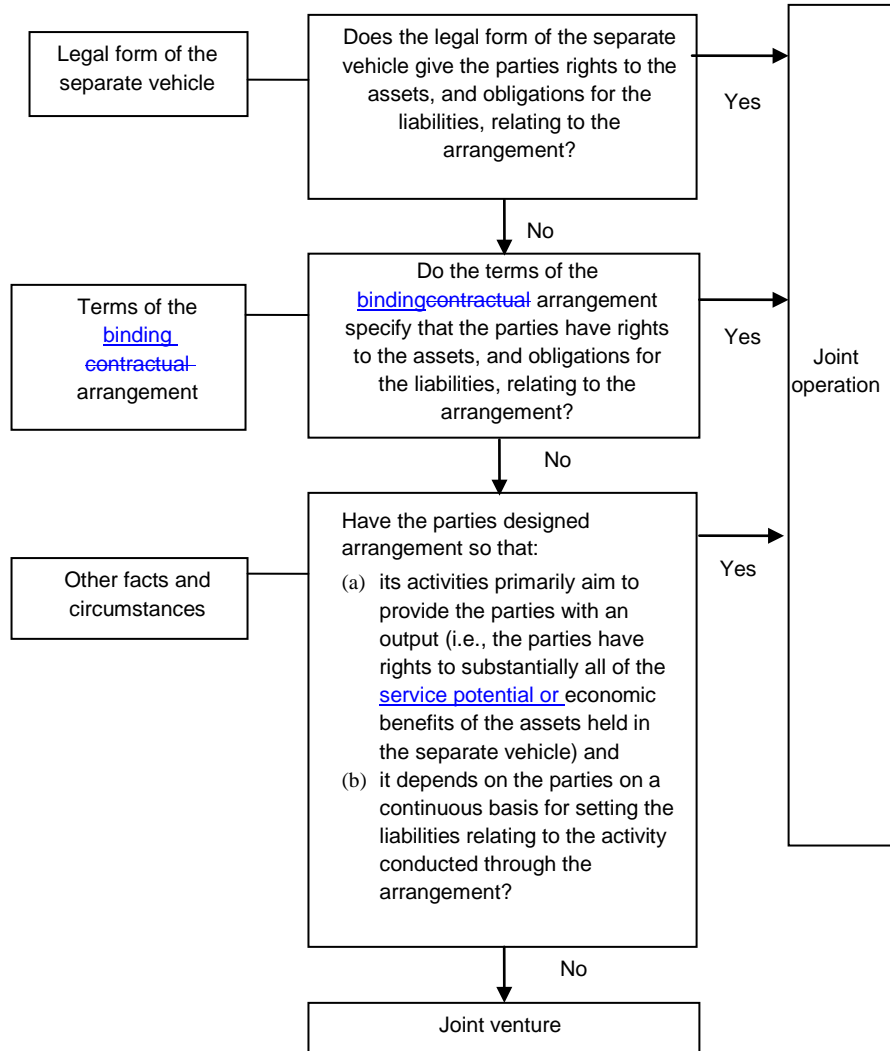
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties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

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the ~~binding contractual~~ arrangement so that the arrangement was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

AG33. [B33] The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle:

### Classification of a Joint Arrangement Structured Through a Separate Vehicle



## **Financial Statements of Parties to a Joint Arrangement (paragraph 22)**

### **Accounting for Sales or Contributions of Assets to a Joint Operation**

- AG34. [B34] When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognize gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.
- AG35. [B35] When such transactions provide evidence of a reduction in the net realizable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses shall be recognized fully by the joint operator.

### **Accounting for Purchases of Assets from a Joint Operation**

- AG36. [B36] When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognize its share of the gains and losses until it resells those assets to a third party.
- AG37. [B37] When such transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognize its share of those losses.



## Amendments to Other IPSASs

### Note to IPSASB

The consequential amendments set out in IFRS 11 have been used as a basis for developing this appendix.

Amendments to the following IASB pronouncements (that were amended as a result of IFRS 11) are not shown in this Appendix because there is no equivalent IPSAS:

- IFRS 1, *First-time Adoption of International Financial Reporting Standards*
- IFRS 2, *Share-based Payment*
- IFRS 4, *Insurance Contracts*
- IFRS 9, *Financial Instruments* (2009)
- IFRS 9, *Financial Instruments* (2010)
- IAS 12, *Income Taxes*
- IAS 33, *Earnings per Share*

## IPSAS 2, *Cash Flow Statements*

Paragraphs 47, 48 and 61 are amended and paragraph 63C added as follows:

47. When accounting for an investment in an associate, a joint venture, or a controlled entity accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends or similar distributions and advances.
48. ~~An entity that reports its interest in a jointly controlled entity using proportionate consolidation includes in its consolidated cash flow statement its proportionate share of the jointly controlled entity's cash flows. An entity that reports its such an interest in an associate or a joint venture using the equity method includes in its cash flow statement (a) the cash flows in respect of its investments in the associate or joint venture, jointly controlled entity, and (b) distributions and other payments or receipts between it and the associate or joint venture jointly controlled entity.~~
61. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged, and may include:
- (a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and
  - ~~(b) The aggregate amounts of the cash flows from each of operating, investing, and financing activities related to interests in joint ventures reported using proportionate consolidation; and~~
  - ~~(be)~~ The amount and nature of restricted cash balances.

**63C. IPSAS X [IFRS 10] and IPSAS X, [IFRS 11] Joint Arrangements, issued in [Date], amended paragraphs 47, 48, added paragraphs 52A and 52B and deleted paragraph 61(b). An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].**

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

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

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:
  - (a) In accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement*;
  - (b) In translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation, ~~proportionate consolidation~~, or by the equity method; and
  - (c) In translating an entity's financial performance and financial position into a presentation currency.
10. **The following terms are used in this Standard with the meanings specified:**

...

**Foreign operation is an entity that is a controlled entity, associate, joint ~~venture arrangement~~, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.**
13. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate, or joint ~~venture arrangement~~):

...
21. Many reporting entities comprise a number of individual entities (e.g., an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint ~~ventures arrangements~~. ....
38. When a monetary item forms part of a reporting entity's net investment in a foreign operation, and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 32. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 32. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 32. Such exchange differences are reclassified to the separate component of net assets/equity in the financial statements that include the foreign operation and the reporting entity (i.e., financial statements in which the foreign operation is consolidated, ~~proportionately consolidated~~, or accounted for using the equity method).
50. Paragraphs 51–56, in addition to paragraphs 43–49, apply when the financial performance and financial position of a foreign operation are translated into a presentation currency, so that the foreign operation

can be included in the financial statements of the reporting entity by consolidation, ~~proportionate consolidation~~, or the equity method.

51. The incorporation of the financial performance and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS X, Consolidated Financial Statements ~~IPSAS 6 and IPSAS 8, Interests in Joint Ventures.~~)
55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS X6 [IFRS 10]. The same approach is used in applying the equity method to associates and joint ventures, ~~and in applying proportionate consolidation to joint ventures in accordance with IPSAS 7 (as Amended in [Date]), Investments in Associates, and IPSAS 8.~~

#### **Disposal or Partial Disposal of a Foreign Operation**

57. **On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation and accumulated in a deferred in the separate component of net assets/equity relating to that foreign operation shall be reclassified from net assets/equity to recognized in surplus or deficit (as a reclassification adjustment) when the gain or loss on disposal is recognized (see IPSAS 1, Presentation of Financial Statements).**
- 57A. In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals:
- (a) When the partial disposal involves the loss of control of a controlled entity that includes a foreign operation, regardless of whether the entity retains a non-controlling interest in its former controlled entity after the partial disposal; and
  - (b) When the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation. [Based on IAS 21 paragraph 48A), including amendments from IFRS 11]
- 57B. On disposal of a controlled entity that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be transferred directly to accumulated surplus/deficit.
- 57C. **On the partial disposal of a controlled entity that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences accumulated in a separate category of net assets/equity to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall transfer to accumulated surplus/deficit only the proportionate share of the cumulative amount of the exchange differences accumulated in net assets/equity.**
- 57D. A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph 57A that are accounted for as disposals.
58. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital, or abandonment of all or part of that entity. The payment of a dividend or similar distribution is part of a disposal only when it constitutes a return of the investment, for example when the dividend or similar distribution is paid out of pre-acquisition surplus. ~~In the case of a partial~~

~~disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss. A writedown of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the entity holding the interest, does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized in surplus or deficit at the time of a writedown.~~

[Note: Guidance on partial disposals has been deleted from this paragraph because partial disposals are now dealt with in paragraph 57C.]

**71A. IPSAS X [IFRS 10] and IPSAS X, [IFRS 11] *Joint Arrangements*, issued in [Date], amended paragraphs 3(b), 10, 13, 21, 22, 38, 47, 50 to 51, 53, 55, and 57 to 58. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].**

## **IPSAS 9, *Revenue from Exchange Transactions***

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

10. This Standard does not deal with revenues arising from:

- (a) Lease agreements (see IPSAS 13, *Leases*);
- (b) Dividends or similar distributions arising from investments that are accounted for under the equity method (see IPSAS 7, *Investments in Associates and Joint Ventures*);

....

**42A. IPSAS X, [IFRS 11] *Joint Arrangements*, issued in [Date], amended paragraph 10(b). An entity shall apply that amendment when it applies IPSAS X [IFRS 11].**

## **IPSAS 18, *Segment Reporting***

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

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

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

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

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

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

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

~~circumstances, segment revenue and segment expense will include the segment's share of revenue and expense of a jointly controlled entity that is accounted for by proportionate consolidation.~~

**77A. IPSAS X, [IFRS 11] *Joint Arrangements*, issued in [Date], amended paragraphs (the descriptions of segment assets, segment expenses, segment liabilities and segment revenue), 32 and 61 to 63. An entity shall apply those amendments when it applies IPSAS X [IFRS 11].**

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

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

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

**111B. IPSAS X [IFRS 11] issued in [Date], amended paragraph 37. An entity shall apply that amendment when it applies IPSAS X [IFRS 11].**

## **IPSAS 20, *Related Party Disclosures***

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

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

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

- (a) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity;
- (b) Associates (see IPSAS 7, *Investments in Associates and Joint Ventures*);

...

15. The definition of related party includes entities owned by key management personnel, close family members of such individuals or major shareholders (or equivalent where the entity does not have a formal equity structure) of the reporting entity. The definition of related party also includes circumstances in which one party has the ability to exercise significant influence over the other party. In the public sector, an individual or entity may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. For the purposes of this Standard, significant influence is defined to encompass joint ventures ~~entities subject to joint control~~.

**42A. IPSAS X [IFRS 10], IPSAS X, [IFRS 11] *Joint Arrangements* and IPSAS X [IFRS 12], issued in [Date], amended paragraphs 4 and 15. An entity shall apply that amendment when it applies IPSAS X [IFRS 10], IPSAS X [IFRS 11] and IPSAS X [IFRS 12].**

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

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

13. Investments in:

....

- (b) Associates, as defined in IPSAS 7, *Investments in Associates and Joint Ventures*; and
- (c) Joint arrangements ventures, as defined in ~~IPSAS 8, *Interests in Joint Ventures*~~ IPSAS X, [IFRS 11] *Joint Arrangements*;

**82C. IPSAS X [IFRS 11] issued in [Date], amended paragraph 13. An entity shall apply that amendment when it applies IPSAS X [IFRS 11].**

## **IPSAS 26, *Impairment of Cash-Generating Assets***

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

12. Investments in:

...

- (b) Associates, as defined in IPSAS 7, *Investments in Associates and Joint Ventures*; and
- (c) Joint arrangements ventures, as defined in ~~IPSAS 8, *Interests in Joint Ventures*~~ IPSAS X, [IFRS 11] *Joint Arrangements*;

**47A. IPSAS X [IFRS 10] and IPSAS X [IFRS 12] issued in [date], amended paragraph 12. An entity shall apply that amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].**

## **IPSAS 28, *Financial Instruments: Presentation***

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

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

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

**60A. IPSAS X [IFRS 10] and IPSAS X [IFRS 11], issued in [date], amended paragraph 3. An entity shall apply this amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].**

## **IPSAS 29 *Financial Instruments: Recognition and Measurement***

Paragraphs 2(a) is amended and paragraph 125B added as follows:

2. This Standard shall be applied by all entities to all types of financial instruments, except:

- (a) Those interests in controlled entities, associates and joint ventures that are accounted for ~~under~~ in accordance with IPSAS X, *Consolidated Financial Statements*, IPSAS 6, ~~*Consolidated and Separate Financial Statements*~~, or IPSAS 7, *Investments in Associates and Joint Ventures*, ~~or IPSAS 8, *Interests in Joint Ventures*~~. However, entities shall apply

this Standard to an interest in a controlled entity, associate, or joint venture that according to IPSAS 6, or IPSAS 7, or ~~IPSAS 8~~ is accounted for under this Standard. ...

125B. IPSAS X [IFRS 10] and IPSAS X, *Joint Arrangements*, issued in [date], amended paragraph 2(a), 17, AG2, AG14 and C2. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].

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

*Investments in Controlled Entities, Associates, and Joint Ventures*

AG2. Sometimes, an entity makes what it views as a “strategic investment” in equity instruments issued by another entity, with the intention of establishing or maintaining a long-term operating relationship with the entity in which the investment is made. The investor or joint venturer entity uses IPSAS 7 to determine whether the equity method of accounting is appropriate for such an investment. ~~Similarly, the investor entity uses IPSAS 8 to determine whether proportionate consolidation or the equity method is appropriate for such an investment. If neither the equity method nor proportionate consolidation is not appropriate, the entity applies this Standard to that strategic investment.~~

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

- (a) The entity is a venture capital organization, mutual fund, unit trust or similar entity whose business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or similar distributions and changes in fair value. ~~IPSAS 7 and IPSAS 8 allows~~ such investments to be ~~excluded from their scope provided they are~~ measured at fair value through surplus or deficit in accordance with this Standard. An entity may apply the same accounting policy to other investments managed on a total return basis but over which its influence is insufficient for them to be within the scope of IPSAS 7 ~~or IPSAS 8~~.

In Appendix C paragraph C2 is amended as follows:

C2. Hedge accounting of the foreign currency risk arising from a net investment in a foreign operation will apply only when the net assets of that foreign operation are included in the financial statements. This will be the case for consolidated financial statements, financial statements in which investments such as associates or joint ventures are accounted for using the equity method, ~~and financial statements in which venturers’ interests in joint ventures are proportionately consolidated~~ and financial statements that include a branch or a joint operation as defined in IPSAS X, [IFRS 11] *Joint Arrangements*. The item being hedged with respect to the foreign currency risk arising from the net investment in a foreign operation may be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation.

## **IPSAS 30, *Financial Instruments: Disclosures***

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

3. This Standard shall be applied by all entities to all types of financial instruments, except:
  - (a) Those interests in controlled entities, associates, or joint ventures that are accounted for in accordance with IPSAS X, *Consolidated Financial Statements*, IPSAS 6, *Consolidated and Separate Financial Statements*, or IPSAS 7, *Investments in Associates and Joint Ventures*, ~~or IPSAS 8, *Interests in Joint Ventures*~~. However, in some cases, IPSAS 6, or IPSAS 7, ~~or~~

**~~IPSAS 8~~ permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; in those cases ....**

**52A. IPSAS X [IFRS 10] and IPSAS X [IFRS 11], *Joint Arrangements*, issued in [date], amended paragraph 3(a). An entity shall apply that amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].**

## **IPSAS 31, *Intangible Assets***

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

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:
- (a) ...
  - (d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS X, *Consolidated Financial Statements*, IPSAS 6, ~~*Consolidated and Separate Financial Statements*~~, and IPSAS 7, *Investments in Associates and Joint Ventures*, ~~and IPSAS 8, *Interests in Joint Ventures*~~; and....

**132A. IPSAS X [IFRS 10] and IPSAS X, *Joint Arrangements*, issued in [date], amended paragraph 6(d). An entity shall apply that amendment when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 11].**



## Basis for Conclusions

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

To be developed following the IPSASB's decisions and the reasons for those decisions.
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### Objective

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

### Classification of Joint Arrangements

- BC2. IPSAS X classifies joint arrangements as joint ventures or joint operations based on whether an entity has (i) rights to assets and obligations for liabilities, or (ii) rights to net assets. This differs from IPSAS 8 which referred to three types of arrangements, being jointly controlled entities, jointly controlled operations and jointly controlled assets. [Insert any IPSASB views on classification requirements]

### Elimination of Accounting Option

- BC3. IPSAS X requires that joint ventures be accounted for in consolidated financial statements using the equity method. Previously IPSAS 8 permitted jointly controlled entities to be accounted for using either the equity method or proportionate consolidation. The IPSASB agreed that the accounting treatments permitted by IPSAS X should be consistent with IFRS 11.

## ILLUSTRATIVE EXAMPLES

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## Illustrative Examples

*These examples accompany, but are not part of, IPSAS X [IFRS 11]. ~~They illustrate aspects of IFRS 11 but are not intended to provide interpretative guidance.~~*

- IE1. These examples portray hypothetical situations illustrating the judgements that might be used when applying IPSAS X [IFRS 11] in different situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS X [IFRS 11].

### Example 1 – Construction Services

- IE2. A and B (the parties) are two ~~entities~~companies whose ~~activities~~businesses includeare the provision of many types of public and private construction services. Entity A is a private sector entity. Entity B is government owned. They set up a ~~binding contractual~~ arrangement to work together for the purpose of fulfilling a contract with a government for the design and construction of a road between two cities. The ~~binding contractual~~ arrangement determines the participation shares of A and B and establishes joint control of the arrangement, the subject matter of which is the delivery of the road.
- IE3. The parties set up a separate vehicle (entity Z) through which to conduct the arrangement. Entity Z, on behalf of A and B, enters into the contract with the government. In addition, the assets and liabilities relating to the arrangement are held in entity Z. The main feature of entity Z's legal form is that the parties, not entity Z, have rights to the assets, and obligations for the liabilities, of the entity.
- IE4. The ~~binding contractual~~ arrangement between A and B additionally establishes that:
- (a) The rights to all the assets needed to undertake the activities of the arrangement are shared by the parties on the basis of their participation shares in the arrangement;
  - (b) The parties have several and joint responsibility for all operating and financial obligations relating to the activities of the arrangement on the basis of their participation shares in the arrangement; and
  - (c) The ~~surplus~~profit or ~~deficit~~loss resulting from the activities of the arrangement is shared by A and B on the basis of their participation shares in the arrangement.
- IE5. For the purposes of co-ordinating and overseeing the activities, A and B appoint an operator, who will be an employee of one of the parties. After a specified time, the role of the operator will rotate to an employee of the other party. A and B agree that the activities will be executed by the operator's employees on a "no gain or loss" basis.
- IE6. In accordance with the terms specified in the contract with the government, entity Z invoices the construction services to the government on behalf of the parties.

### Analysis

- IE7. The joint arrangement is carried out through a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e., the assets and liabilities held in entity Z are the parties' assets and liabilities). This is reinforced by the terms agreed by the parties in their ~~binding contractual~~ arrangement, which state that A and B have rights to the assets, and obligations for the liabilities, relating to the arrangement that is conducted through entity Z. The joint arrangement is a joint operation.

- IE8. A and B each recognise in their financial statements their share of the assets (e.g., property, plant, and equipment, accounts receivable) and their share of any liabilities resulting from the arrangement (e.g., accounts payable to third parties) on the basis of their agreed participation share. Each also recognises its share of the revenue and expenses resulting from the construction services provided to the government through entity Z.

## Example 2 – Service Shopping Centre Operated Jointly

- IE9. Two ~~entities~~real estate companies (the parties) set up a separate vehicle (entity X) for the purpose of ~~establishing~~ acquiring and operating a joint serviceshopping centre. The ~~binding contractual~~ arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form is that the entity, not the parties, has rights to the assets, and obligations for the liabilities, relating to the arrangement. These activities include the allocation of office space to services~~rental of the retail units~~, managing the car park, maintaining the centre and its equipment, such as lifts, ~~and~~ building the reputation of the centre and managing the client customer base for the centre ~~as a whole~~.
- IE10. The terms of the ~~binding contractual~~ arrangement are such that:
- (a) Entity X owns the serviceshopping centre. The ~~binding contractual~~ arrangement does not specify that the parties have rights to the serviceshopping centre.
  - (b) The parties are not liable in respect of the debts, liabilities or obligations of entity X. If entity X is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party will be limited to the unpaid amount of that party's capital contribution.
  - (c) The parties have the right to sell or pledge their interests in entity X.
  - (d) Each party pays for its share of expenses for ~~receives a share of the income from~~ operating the serviceshopping centre ~~(which is the rental income net of the operating costs)~~ in accordance with its interest in entity X.

## Analysis

- IE11. The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the ~~binding contractual~~ arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the ~~binding contractual~~ arrangement establish that the parties have rights to the net assets of entity X.
- IE12. On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.
- IE13. The parties recognise their rights to the net assets of entity X as investments and account for them using the equity method.

### Example 3 – Joint Manufacturing and Distribution of a Product

- IE14. ~~Entities~~Companies A and B (the parties) have set up a strategic and operating agreement (the framework agreement) in which they have agreed the terms according to which they will conduct the manufacturing and distribution of a product (product P) in different markets.
- IE15. The parties have agreed to conduct manufacturing and distribution activities by establishing joint arrangements, as described below:
- (a) Manufacturing activity: the parties have agreed to undertake the manufacturing activity through a joint arrangement (the manufacturing arrangement). The manufacturing arrangement is structured in a separate vehicle (entity M) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity M are the assets and liabilities of entity M and not the assets and liabilities of the parties). In accordance with the framework agreement, the parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement in accordance with their ownership interests in entity M. The parties subsequently sell product P to another arrangement, jointly controlled by the two parties themselves, that has been established exclusively for the distribution of product P as described below. Neither the framework agreement nor the ~~binding contractual~~ arrangement between A and B dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity.
  - (b) Distribution activity: the parties have agreed to undertake the distribution activity through a joint arrangement (the distribution arrangement). The parties have structured the distribution arrangement in a separate vehicle (entity D) whose legal form causes it to be considered in its own right (i.e., the assets and liabilities held in entity D are the assets and liabilities of entity D and not the assets and liabilities of the parties). In accordance with the framework agreement, the distribution arrangement orders its requirements for product P from the parties according to the needs of the different markets where the distribution arrangement sells the product. Neither the framework agreement nor the ~~binding contractual~~ arrangement between A and B dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.
- IE16. In addition, the framework agreement establishes:
- (a) That the manufacturing arrangement will produce product P to meet the requirements for product P that the distribution arrangement places on the parties;
  - (b) The commercial terms relating to the sale of product P by the manufacturing arrangement to the parties. The manufacturing arrangement will sell product P to the parties at a price agreed by A and B that covers all production costs incurred. Subsequently, the parties sell the product to the distribution arrangement at a price agreed by A and B.
  - (c) That any cash shortages that the manufacturing arrangement may incur will be financed by the parties in accordance with their ownership interests in entity M.

### Analysis

- IE17. The framework agreement sets up the terms under which parties A and B conduct the manufacturing and distribution of product P. These activities are undertaken through joint arrangements whose purpose is either the manufacturing or the distribution of product P.

- IE18. The parties carry out the manufacturing arrangement through entity M whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the ~~binding contractual~~ arrangement dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, when considering the following facts and circumstances the parties have concluded that the manufacturing arrangement is a joint operation:
- (a) The parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement. Consequently, A and B have rights to substantially all the service potential or economic benefits of the assets of the manufacturing arrangement.
  - (b) The manufacturing arrangement manufactures product P to meet the quantity and quality needs of the parties so that they can fulfil the demand for product P of the distribution arrangement. The exclusive dependence of the manufacturing arrangement upon the parties for the generation of cash flows and the parties' commitments to provide funds when the manufacturing arrangement incurs any cash shortages indicate that the parties have an obligation for the liabilities of the manufacturing arrangement, because those liabilities will be settled through the parties' purchases of product P or by the parties' direct provision of funds.
- IE19. The parties carry out the distribution activities through entity D, whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the ~~binding contractual~~ arrangement dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.
- IE20. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the distribution arrangement or that the parties have an obligation for the liabilities relating to that arrangement. The distribution arrangement is a joint venture.
- IE21. A and B each recognise in their financial statements their share of the assets (e.g., property, plant and equipment, cash) and their share of any liabilities resulting from the manufacturing arrangement (e.g., accounts payable to third parties) on the basis of their ownership interest in entity M. Each party also recognises its share of the expenses resulting from the manufacture of product P incurred by the manufacturing arrangement and its share of the revenues relating to the sales of product P to the distribution arrangement.
- IE22. The parties recognise their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

#### **Variation**

- IE23. Assume that the parties agree that the manufacturing arrangement described above is responsible not only for manufacturing product P, but also for its distribution to third-party customers.
- IE24. The parties also agree to set up a distribution arrangement like the one described above to distribute product P exclusively to assist in widening the distribution of product P in additional specific markets.
- IE25. The manufacturing arrangement also sells product P directly to the distribution arrangement. No fixed proportion of the production of the manufacturing arrangement is committed to be purchased by, or to be reserved to, the distribution arrangement.

## Analysis

- IE26. The variation has affected neither the legal form of the separate vehicle in which the manufacturing activity is conducted nor the ~~binding contractual~~ terms relating to the parties' rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, it causes the manufacturing arrangement to be a self-financed arrangement because it is able to undertake trade on its own behalf, distributing product P to third-party customers and, consequently, assuming demand, inventory and credit risks. Even though the manufacturing arrangement might also sell product P to the distribution arrangement, in this scenario the manufacturing arrangement is not dependent on the parties to be able to carry out its activities on a continuous basis. In this case, the manufacturing arrangement is a joint venture.
- IE27. The variation has no effect on the classification of the distribution arrangement as a joint venture.
- IE28. The parties recognise their rights to the net assets of the manufacturing arrangement and their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

## Example 4 – Bank Operated Jointly

- IE29. Banks A, a government owned bank, and Bank B, a privately owned bank, (the parties) agreed to combine ~~certain their~~ corporate, investment banking, asset management and services activities by establishing a separate vehicle (bank C). Both parties expect the arrangement to benefit them in different ways. Bank A believes that the arrangement could enable it to achieve its strategic plans to ~~improve its profitability increase its size, offering an opportunity to exploit its full potential for organic growth~~ through an enlarged offering of products and services. Bank B expects the arrangement to reinforce its offering in financial savings and market products.
- IE30. The main feature of bank C's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). Banks A and B each have a 40 per cent ownership interest in bank C, with the remaining 20 per cent being listed and widely held. The ~~shareholders'~~ agreement between bank A and bank B establishes joint control of the activities of bank C.
- IE31. In addition, bank A and bank B entered into an irrevocable agreement under which, even in the event of a dispute, both banks agree to provide the necessary funds in equal amount and, if required, jointly and severally, to ensure that bank C complies with the applicable legislation and banking regulations, and honours any commitments made to the banking authorities. This commitment represents the assumption by each party of 50 per cent of any funds needed to ensure that bank C complies with legislation and banking regulations.

## Analysis

- IE32. The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the ~~binding contractual~~ arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of bank C, but it establishes that the parties have rights to the net assets of bank C. The commitment by the parties to provide support if bank C is not able to comply with the applicable legislation and banking regulations is not by itself a determinant that the parties have an obligation for the liabilities of bank C. There are no other facts and circumstances that indicate that the parties have rights to substantially all the

economic benefits of the assets of bank C and that the parties have an obligation for the liabilities of bank C. The joint arrangement is a joint venture.

- IE33. Both banks A and B recognise their rights to the net assets of bank C as investments and account for them using the equity method.

## Example 5 – Oil and Gas Exploration, Development and Production Activities

- IE34. ~~Entities~~~~Companies~~ A and B (the parties) set up a separate vehicle (entity H) and a Joint Operating Agreement (JOA) to undertake oil and gas exploration, development and production activities in country O. The main feature of entity H's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).
- IE35. Country O has granted entity H permits for the oil and gas exploration, development and production activities to be undertaken in a specific assigned block of land (fields).
- IE36. The ~~shareholders'~~ agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarised below.

### ~~Shareholders'~~ Agreement

- IE37. The board of entity H consists of a director from each party. Each party has a 50 per cent ~~share~~holding in entity H. The unanimous consent of the directors is required for any resolution to be passed.

### Joint Operating Agreement (JOA)

- IE38. The JOA establishes an Operating Committee. This Committee consists of one representative from each party. Each party has a 50 per cent participating interest in the Operating Committee.
- IE39. The Operating Committee approves the budgets and work programmes relating to the activities, which also require the unanimous consent of the representatives of each party. One of the parties is appointed as operator and is responsible for managing and conducting the approved work programmes.
- IE40. The JOA specifies that the rights and obligations arising from the exploration, development and production activities shall be shared among the parties in proportion to each party's shareholding in entity H. In particular, the JOA establishes that the parties share:
- (c) the rights and the obligations arising from the exploration and development permits granted to entity H (e.g., the permits, rehabilitation liabilities, any royalties and taxes payable);
  - (b) the production obtained; and
  - (c) all costs associated with all work programmes.
- IE41. The costs incurred in relation to all the work programmes are covered by cash calls on the parties. If either party fails to satisfy its monetary obligations, the other is required to contribute to entity H the amount in default. The amount in default is regarded as a debt owed by the defaulting party to the other party.

### Analysis

- IE42. The parties carry out the joint arrangement through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The parties have been able to reverse the



initial assessment of their rights and obligations arising from the legal form of the separate vehicle in which the arrangement is conducted. They have done this by agreeing terms in the JOA that entitle them to rights to the assets (e.g., exploration and development permits, production, and any other assets arising from the activities) and obligations for the liabilities (e.g., all costs and obligations arising from the work programmes) that are held in entity H. The joint arrangement is a joint operation.

- IE43. Both ~~entitycompany~~ A and ~~entitycompany~~ B recognise in their financial statements their own share of the assets and of any liabilities resulting from the arrangement on the basis of their agreed participating interest. On that basis, each party also recognises its share of the revenue (from the sale of their share of the production) and its share of the expenses.

## Example 6 – Liquefied Natural Gas Arrangement

- IE44. ~~EntityCompany~~ A owns an undeveloped gas field that contains substantial gas resources. ~~EntityCompany~~ A determines that the gas field will be economically viable only if the gas is sold to customers in overseas markets. To do so, a liquefied natural gas (LNG) facility must be built to liquefy the gas so that it can be transported by ship to the overseas markets.
- IE45. ~~EntityCompany~~ A enters into a joint arrangement with ~~entitycompany~~ B in order to develop and operate the gas field and the LNG facility. Under that arrangement, ~~entities companies~~ A and B (the parties) agree to contribute the gas field and cash, respectively, to a new separate vehicle, entity C. In exchange for those contributions, the parties each take a 50 per cent ownership interest in entity C. The main feature of entity C's legal form is that it causes the separate vehicle to be considered in its own right (i.e., the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).
- IE46. The ~~binding contractual~~ arrangement between the parties specifies that:
- (a) ~~Entitiescompanies~~ A and B must each appoint two members to the board of entity C. The board of directors must unanimously agree the strategy and investments made by entity C.
  - (b) Day-to-day management of the gas field and LNG facility, including development and construction activities, will be undertaken by the staff of ~~entitycompany~~ B in accordance with the directions jointly agreed by the parties. Entity C will reimburse B for the costs it incurs in managing the gas field and LNG facility.
  - (c) Entity C is liable for taxes and royalties on the production and sale of LNG as well as for other liabilities incurred in the ordinary course of business, such as accounts payable, site restoration and decommissioning liabilities.
  - (d) ~~EntitiesCompanies~~ A and B have equal shares in the ~~surplusprofit~~ from the activities carried out in the arrangement and, as such, are entitled to equal shares of any dividends ~~or similar distributions made distributed~~ by entity C.
- IE47. The ~~binding contractual~~ arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity C.
- IE48. The board of entity C decides to enter into a financing arrangement with a syndicate of lenders to help fund the development of the gas field and construction of the LNG facility. The estimated total cost of the development and construction is CU1,000 million.<sup>1</sup>

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

- IE49. The lending syndicate provides entity C with a CU700 million loan. The arrangement specifies that the syndicate has recourse to ~~entities~~~~companies~~ A and B only if entity C defaults on the loan arrangement during the development of the field and construction of the LNG facility. The lending syndicate agrees that it will not have recourse to ~~entities~~~~companies~~ A and B once the LNG facility is in production because it has assessed that the cash inflows that entity C should generate from LNG sales will be sufficient to meet the loan repayments. Although at this time the lenders have no recourse to ~~entities~~~~companies~~ A and B, the syndicate maintains protection against default by entity C by taking a lien on the LNG facility.

### Analysis

- IE50. The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the ~~binding contractual~~ arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of entity C, but they establish that the parties have rights to the net assets of entity C. The recourse nature of the financing arrangement during the development of the gas field and construction of the LNG facility (i.e., ~~entities~~~~companies~~ A and B providing separate guarantees during this phase) does not, by itself, impose on the parties an obligation for the liabilities of entity C (i.e., the loan is a liability of entity C). ~~Entities~~~~Companies~~ A and B have separate liabilities, which are their guarantees to repay that loan if entity C defaults during the development and construction phase.
- IE51. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets of entity C and that the parties have an obligation for the liabilities of entity C. The joint arrangement is a joint venture.
- IE52. The parties recognise their rights to the net assets of entity C as investments and account for them using the equity method.

### Comparison with IFRS 11

[This comparison will be completed when the Exposure Draft is completed]

IPSAS X, *Joint Arrangements* is drawn primarily from IFRS 11, *Joint Arrangements* (originally issued in 2011, including amendments published in July 2012). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 11 are therefore replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS X and IFRS 11 are as follows:

- Commentary additional to that in IFRS 11 has been included in IPSAS X to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS X uses different terminology, in certain instances, from IFRS 11. The most significant examples are the use of the terms “binding arrangement” “controlling entity”, “surplus or deficit” and “accumulated surplus or deficit” in IPSAS X. The equivalent terms in IFRS 11 are “contractual arrangement”, “parent,” “profit or loss” and “retained earnings.”
- IPSAS X does not provide guidance on the allocation of goodwill to joint ventures. Such guidance is included in IFRS 11.
- IPSAS X contains additional illustrative examples that reflect the public sector context.

FOR NOTING

**IPSAS X— DISCLOSURE OF INTERESTS IN OTHER ENTITIES  
[BASED ON IFRS 12]**

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## Objective

1. The objective of this ~~Standard~~[IFRS](#) is to require an entity to disclose information that enables users of its financial statements to evaluate:
  - (a) The nature of, and risks associated with, *its interests in other entities*; and
  - (b) The effects of those interests on its financial position, financial performance and cash flows.

## ~~Meeting the objective~~

2. To meet the objective in paragraph 1, an entity shall disclose:
  - (a) The significant judgments and assumptions it has made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest (paragraphs 7–9); and
  - (b) Information about its interests in:
    - (i) ~~Controlled entities~~[Subsidiaries](#) (paragraphs 10–19);
    - (ii) Joint arrangements and associates (paragraphs 20–23); and
    - (iii) *Structured entities* that are not controlled by the entity (unconsolidated structured entities) (paragraphs 24–31).  
[Note to IPSASB: If the IPSASB decides to permit any exemptions from consolidation then disclosure of such entities might be appropriate.]
3. If the disclosures required by this ~~Standard~~[IFRS](#), together with disclosures required by other ~~IPSASs~~[IFRSs](#), do not meet the objective in paragraph 1, an entity shall disclose whatever additional information is necessary to meet that objective.
4. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements in this ~~Standard~~[IFRS](#). It shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics (see paragraphs AG2–AG6).

## Scope

5. This ~~Standard~~[IFRS](#) shall be applied by an entity that has an interest in any of the following:
  - (a) ~~Controlled entities~~[subsidiaries](#);
  - (b) Joint arrangements (i.e., joint operations or joint ventures);
  - (c) Associates; [or](#)
  - (d) Unconsolidated structured entities.
6. This ~~Standard~~[IFRS](#) does not apply to:
  - (a) Post-employment benefit plans or other long-term employee benefit plans to which [IPSAS 25](#), ~~IAS 19~~ *Employee Benefits* applies.

- (b) An entity's separate financial statements to which [IPSAS 6, IAS 27 Separate Financial Statements \(Amended \[Date\]\)](#) applies. However, if an entity has interests in unconsolidated [profit-oriented](#) structured entities and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraphs 24–31 when preparing those separate financial statements. [Note to IPSASB: Paragraph 6(b) to be updated if the IPSASB decides to provide any further exemptions from consolidation]
- (c) An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a [profit-oriented](#) structured entity.
- (d) An interest in another entity that is accounted for in accordance with [IPSAS 29, IFRS 9 Financial Instruments: Recognition and Measurement](#). However, an entity shall apply this [Standard](#) ~~IFRS~~:
  - (i) When that interest is an interest in an associate or a joint venture that, in accordance with [IPSAS 7, IAS 28 Investments in Associates and Joint Ventures \(Amended \[Date\]\)](#), is measured at fair value through [surplus or deficit](#) ~~profit or loss~~; or
  - (ii) When that interest is an interest in an unconsolidated [profit-oriented](#) structured entity.

**6.1 This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**

**6.2 The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.**

## Definitions

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

**An interest in another entity**, for the purpose of this [Standard](#) ~~IFRS~~, ~~an interest in another entity~~ refers to ~~contractual and non-contractual~~ involvement [by way of binding arrangements \(including rights from contracts or other legal rights\) or otherwise](#) that exposes an entity to variability of ~~benefits~~ [returns](#) from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical [funder/recipient or customer/supplier](#) relationship.

Paragraphs AG7–AG9 provide further information about interests in other entities.

Paragraphs AG55–AG57 of IPSAS X [IFRS 10] explain variability of ~~benefits~~ [returns](#).

**Revenue** ~~income~~ from a structured entity, for the purpose of this [Standard](#) ~~IFRS~~, ~~income from a structured entity~~ includes, but is not limited to, recurring and non-recurring fees, interest, dividends [or similar distributions](#), gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

**A structured entity** [is](#) an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to

administrative tasks only and the relevant activities are directed by means of binding contractual arrangements.

A profit-oriented structured entity is an entity that is a Government Business Enterprise or similar entity that is concerned with, or focused, on financial gain. The term excludes entities where it is obvious, in the context of a particular jurisdiction, that the relevant national, state or local Government is committed to providing ongoing financial support to the entity.

Paragraphs AG22–AG24 provide further information about structured entities.

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

~~The following terms are defined in IAS 27 (as amended in 2011), IAS 28 (as amended in 2011), IFRS 10 and IFRS 11 *Joint Arrangements* and are used in this IFRS with the meanings specified in those IFRSs:~~

- ~~• associate~~
- ~~• consolidated financial statements~~
- ~~• control of an entity~~
- ~~• equity method~~
- ~~• group~~
- ~~• joint arrangement~~
- ~~• joint control~~
- ~~• joint operation~~
- ~~• joint venture~~
- ~~• non-controlling interest~~
- ~~• parent~~
- ~~• protective rights~~
- ~~• relevant activities~~
- ~~• separate financial statements~~
- ~~• separate vehicle~~
- ~~• significant influence~~
- ~~• subsidiary~~

6.4. For the purposes of this Standard a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights. [Based on IPSAS 31.20]

## Significant Judgments and Assumptions

7. An entity shall disclose the methodology used to~~information about significant judgments and assumptions it has made (and changes to those judgments and assumptions)~~ in determining:
  - (a) That it has control of another entity, ~~ie an investee~~ as described in paragraphs 5 and 6 of IPSAS X, [IFRS 10] *Consolidated Financial Statements*;
  - (b) That it has joint control of an arrangement or significant influence over another entity; and
  - (c) The type of joint arrangement (i.e., joint operation or joint venture) when the arrangement has been structured through a separate vehicle.
8. The disclosures required by paragraph 7 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete. significant judgments and assumptions disclosed in accordance with paragraph 7 include those made by the entity when changes in facts and circumstances are such that the conclusion about whether it has control, joint control or significant influence changes during the reporting period.~~[Based on IPSAS 30 paragraph AG6]~~

9. To comply with paragraph 7, an entity shall disclose, for example, the factors considered significant judgments and assumptions made in determining that:
- (a) It controls a specific entity (or similar category of entities) where the interest in the other entity is not evidenced by the holding of equity or debt instruments; [New: proposed because this would be a common scenario in the public sector]
  - ~~(a)(b)~~ It does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities). [Similar to IPSAS 6.62(e).]
  - ~~(b)(c)~~ It controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities). [Similar to IPSAS 6.62(d)]
  - ~~(e)(d)~~ It is an agent or a principal (see paragraphs AG58–AG72 of IPSAS X [IFRS 10]).
  - ~~(d)(e)~~ It does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity. [Similar to IPSAS 7.43(d)]
  - ~~(e)(f)~~ It has significant influence even though it holds less than 20 per cent of the voting rights of another entity. [Similar to IPSAS 7.43(c)]

## Interests in Controlled Entities~~Subsidiaries~~

10. An entity shall disclose information that enables users of its consolidated financial statements:
- (a) **To understand:**
    - (i) The composition of the economic entity~~group~~; and
    - (ii) The interest that non-controlling interests have in the economic entity's~~group's~~ activities and cash flows (paragraph 12); and
  - (b) **To evaluate:**
    - (i) The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the economic entity~~group~~ (paragraph 13);
    - (ii) The nature of, and changes in, the risks associated with its interests in consolidated profit-oriented structured entities (paragraphs 14–17);
    - (iii) The consequences of changes in its ownership interest in a controlled entity~~subsidiary~~ that do not result in a loss of control (paragraph 18); and
    - (iv) The consequences of losing control of a controlled entity~~subsidiary~~ during the reporting period (paragraph 19).
11. When the financial statements of a controlled entity~~subsidiary~~ used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (see paragraphs ~~B92 and BG93~~ 21.7 of IPSAS X [IFRS 10]), an entity shall disclose:
- (a) The date of the end of the reporting period of the financial statements of that controlled entity~~subsidiary~~; and
  - (b) The reason for using a different date or period.



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

12. An entity shall disclose for each of its controlled entities~~subsidiaries~~ that have non-controlling interests that are material to the reporting entity:
- (a) The name of the controlled entity~~subsidiary~~.
  - (b) The domicile and legal form of the controlled entity and the jurisdiction in which it operates. The principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary. [Based on IPSAS 1.1.50(a)]
  - (c) The proportion of ownership interests held by non-controlling interests.
  - (d) The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.
  - (e) The profit or loss surplus or deficit allocated to non-controlling interests of the controlled entity~~subsidiary~~ during the reporting period.
  - (f) Accumulated non-controlling interests of the controlled entity~~subsidiary~~ at the end of the reporting period.
  - (g) Summarized financial information about the controlled entity~~subsidiary~~ (see paragraph AG10).

## **The Nature and Extent of Significant Restrictions**

13. An entity shall disclose:
- (a) Significant restrictions (e.g., statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the economic entity~~group~~, such as:
    - (i) Those that restrict the ability of a controlling entity~~parent~~ or its controlled entities~~subsidiaries~~ to transfer cash or other assets to (or from) other entities within the economic entity~~group~~.
    - (ii) Guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the economic entity~~group~~. [Similar to IPSAS 6.62(g)]
  - (b) The nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the economic entity~~group~~ (such as when a controlling entity~~parent~~ is obliged to settle liabilities of a controlled entity~~subsidiary~~ before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a controlled entity~~subsidiary~~).
  - (c) The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

## **Nature of the Risks Associated with an Entity's Interests in Consolidated Profit-oriented Structured Entities**

14. An entity shall disclose the terms of any binding~~contractual~~ arrangements (including rights from contracts or other legal rights) that could require the controlling entity~~parent~~ or its controlled entities~~subsidiaries~~ to provide financial support to a consolidated profit-oriented structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating

triggers associated with obligations to purchase assets of the structured entity or provide financial support).

15. If during the reporting period a controlling entity~~parent~~ or any of its controlled entities~~subsidiaries~~ has, without having an ~~contractual~~ obligation under a binding arrangement (including rights from contracts or other legal rights) to do so, provided financial or other support to a consolidated profit-oriented structured entity (e.g., purchasing assets of or instruments issued by the structured entity), the entity shall disclose:
  - (a) The type and amount of support provided, including situations in which the controlling entity~~parent~~ or its controlled entities~~subsidiaries~~ assisted the structured entity in obtaining financial support; and
  - (b) The reasons for providing the support.
16. If during the reporting period a controlling entity~~parent~~ or any of its controlled entities~~subsidiaries~~ has, without having an ~~contractual~~ obligation under a binding arrangement (including rights from contracts or other legal rights) to do so, provided financial or other support to a previously unconsolidated profit-oriented structured entity and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision.
17. An entity shall disclose any current intentions to provide financial or other support to a consolidated profit-oriented structured entity, including intentions to assist the structured entity in obtaining financial support.

**Consequences of Changes in a Controlling Entity's~~Parent's~~ Ownership Interest in a Controlled Entity~~Subsidiary~~ that do not Result in a Loss of Control**

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

**Consequences of Losing Control of a Controlled Entity~~subsidiary~~ During the Reporting Period**

19. An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph 25 of IPSAS X [IFRS 10], and:
  - (a) The portion of that gain or loss attributable to measuring any investment retained in the former controlled entity~~subsidiary~~ at its fair value at the date when control is lost; and
  - (b) The line item(s) in surplus or deficit ~~profit or loss~~ in which the gain or loss is recognized (if not presented separately).

**Interests in Joint Arrangements and Associates**

20. **An entity shall disclose information that enables users of its financial statements to evaluate:**
  - (a) **The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22); and**
  - (b) **The nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 23).**

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

21. An entity shall disclose:

- (a) For each joint arrangement and associate that is material to the reporting entity:
  - (i) The name of the joint arrangement or associate.
  - (ii) The nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities).
  - (iii) The domicile and legal form of the joint arrangement or associate and the jurisdiction in which it operates~~principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate. [Based on IPSAS 1.1.50(a)]~~
  - (iv) The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable). [Similar to IPSAS 8.63, in part]
- (b) For each joint venture and associate that is material to the reporting entity:
  - (i) Whether the investment in the joint venture or associate is measured using the equity method or at fair value. [Similar to IPSAS 7.43 and IPSAS 8.64]
  - (ii) Summarized financial information about the joint venture or associate as specified in paragraphs AG12 and AG13. [These disclosures require information about *each material* joint venture or associate, as opposed to IPSAS 7.43(b) and (i) and IPSAS 8.63 which required only *aggregate* information]
  - (iii) If the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment. [Similar to IPSAS 7.43(a)]
- (c) Financial information as specified in paragraph AG16 about the entity's investments in joint ventures and associates that are not individually material:
  - (i) In aggregate for all individually immaterial joint ventures; ~~and, separately,~~
  - (ii) In aggregate for all individually immaterial associates. This aggregated information is to be disclosed separately from the aggregated information on joint ventures.

22. An entity shall also disclose:

- (a) The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements or ~~contractual binding~~ arrangements (including rights from contracts or other legal rights) between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends or similar distributions, or to repay loans or advances made by the entity.
- (b) When the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:
  - (i) The date of the end of the reporting period of the financial statements of that joint venture or associate; and
  - (ii) The reason for using a different date or period.

- (c) The unrecognized share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognizing its share of losses of the joint venture or associate when applying the equity method.

### **Risks Associated with an Entity's Interests in Joint Ventures and Associates**

- 23. An entity shall disclose:
  - (a) Commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs AG18–AG20.
  - (b) In accordance with [IPSAS 19](#), ~~IAS 37~~ *Provisions, Contingent Liabilities and Contingent Assets*, unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.

### **Interests in Unconsolidated [Profit-oriented](#) Structured Entities**

- 24. An entity shall disclose information that enables users of its financial statements:
  - (a) To understand the nature and extent of its interests in unconsolidated [profit-oriented](#) structured entities (paragraphs 26–28); and
  - (b) To evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated [profit-oriented](#) structured entities (paragraphs 29–31).
- 25. The information required by paragraph 24(b) includes information about an entity's exposure to risk from involvement that it had with unconsolidated [profit-oriented](#) structured entities in previous periods (e.g., sponsoring the structured entity), even if the entity no longer has any ~~contractual~~ involvement [by way of binding arrangement \(including rights from contracts or other legal rights\)](#) with the structured entity at the reporting date.

### **Nature of Interests**

- 26. An entity shall disclose qualitative and quantitative information about its interests in unconsolidated [profit-oriented](#) structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.
- 27. If an entity has sponsored an unconsolidated [profit-oriented](#) structured entity for which it does not provide information required by paragraph 29 (e.g., because it does not have an interest in the entity at the reporting date), the entity shall disclose:
  - (a) How it has determined which structured entities it has sponsored;
  - (b) ~~Revenue~~[Income](#) from those structured entities during the reporting period, including a description of the types of ~~revenue~~[income](#) presented; and
  - (c) The carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.
- 28. An entity shall present the information in paragraph 27(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs AG2–AG6).

## Nature of Risks

29. An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:
- (a) The carrying amounts of the assets and liabilities recognized in its financial statements relating to its interests in unconsolidated [profit-oriented](#) structured entities.
  - (b) The line items in the statement of financial position in which those assets and liabilities are recognized.
  - (c) The amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated [profit-oriented](#) structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated [profit-oriented](#) structured entities it shall disclose that fact and the reasons.
  - (d) A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated [profit-oriented](#) structured entities and the entity's maximum exposure to loss from those entities.
30. If during the reporting period an entity has, without having an ~~contractual~~ obligation [under a binding arrangement \(including rights from contracts or other legal rights\)](#) to do so, provided financial or other support to an unconsolidated [profit-oriented](#) structured entity in which it previously had or currently has an interest (for example, purchasing assets of or instruments issued by the structured entity), the entity shall disclose:
- (a) The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and
  - (b) The reasons for providing the support.
31. An entity shall disclose any current intentions to provide financial or other support to an unconsolidated [profit-oriented](#) structured entity, including intentions to assist the structured entity in obtaining financial support.

## Transitional Provisions

Note to the IPSASB:

This ED will need to include a cross reference to any transitional provisions proposed in an ED on first-time adoption.

- 31.1. An entity is encouraged to provide information required by this ~~Standard~~[IFRS](#) earlier than annual periods beginning on or after [Date]~~1 January 2013~~. Providing some of the disclosures required by this ~~Standard~~[IFRS](#) does not compel the entity to comply with all the requirements of this ~~Standard~~[IFRS](#) or to apply IPSAS X [IFRS 10], IPSAS X [IFRS 11], IPSAS 6 [IAS 27] (~~as Amended in~~ [Date]~~2014~~) and IPSAS 7 [IAS 28](~~as Amended in~~ [Date]~~2014~~) early. [Based on paragraph C2]
- 31.2. The disclosure requirements of this ~~Standard~~[IFRS](#) need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which IPSAS X [IFRS 12] is applied. [Based on paragraph C2A]
- 31.3. The disclosure requirements of paragraphs 24–31 and the corresponding guidance in paragraphs AG21–AG26 of this ~~Standard~~[IFRS](#) need not be applied for any period presented that begins before the first annual period for which IPSAS X [IFRS 12] is applied. [Based on paragraph C2B]

## Effective Date

31.4. An entity shall apply this ~~Standard~~[IFRS](#) for annual [financial statements covering](#) periods beginning on or after [Date]~~1 January 2013~~. Earlier application is ~~encouraged~~[permitted](#). [Based on paragraph C1]

~~C1A Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12), issued in June 2012, added paragraphs C2A–C2B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies IFRS 12 for an earlier period, it shall apply those amendments for that earlier period.~~

## References to IFRS 9

~~C3 If an entity applies this IFRS but does not yet apply IFRS 9, any reference to IFRS 9 shall be read as a reference to IAS 39 *Financial Instruments: Recognition and Measurement*.~~

## Appendix A

### Application Guidance

*This Appendix is an integral part of [IPSAS X](#) ~~the Standard~~. It describes the application of paragraphs 1–31 and has the same authority as the other parts of the Standard.*

AG1. [B1] The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying [this Standard](#)~~IFRS 12~~.

### Aggregation (paragraph 4)

AG2. [B2] An entity shall decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

AG3. [B3] An entity may aggregate the disclosures required by this [Standard](#)~~IFRS~~ for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in paragraph AG4, and does not obscure the information provided. An entity shall disclose how it has aggregated its interests in similar entities.

AG4. [B4] An entity shall present information separately for interests in:

- (a) [Controlled entities](#)~~Subsidiaries~~;
- (b) Joint ventures;
- (c) Joint operations;
- (d) Associates; and
- (e) Unconsolidated [profit-oriented](#) structured entities.

AG5. [B5] In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and [benefit](#)~~return~~ characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity shall present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.

AG6. [B6] Examples of aggregation levels within the classes of entities set out in paragraph AG4 that might be appropriate are:

- (a) Nature of activities (e.g., a research and development entity, a revolving credit card securitization entity).
- (b) Industry classification. [\[Note: Disclosure not changed because other IPSASs refer to industries\]](#)
- (c) Geography (e.g., country or region).



## Interests in Other Entities

- AG7. [B7] An interest in another entity refers to ~~contractual and non-contractual~~ involvement by way of binding arrangements (including rights from contracts or other legal rights) or otherwise that exposes the reporting entity to variability of ~~benefits~~returns from the performance of the other entity. Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in this ~~Standard~~IFRS. That assessment shall include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entity and other parties.
- AG8. [B8] A reporting entity is typically exposed to variability of ~~benefits~~returns from the performance of another entity by holding instruments (such as equity or debt instruments issued by the other entity) or having another involvement that absorbs variability. For example, assume a structured entity holds a loan portfolio. The structured entity obtains a credit default swap from another entity (the reporting entity) to protect itself from the default of interest and principal payments on the loans. The reporting entity has involvement that exposes it to variability of ~~benefits~~returns from the performance of the structured entity because the credit default swap absorbs variability of benefits, in the form of returns, of the structured entity.
- AG9. [B9] Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of ~~benefits~~returns for the other entity but do not typically expose the reporting entity to variability of ~~benefits~~returns from the performance of the other entity. For example, assume a structured entity is established to provide investment opportunities for investors who wish to have exposure to entity Z's credit risk (entity Z is unrelated to any party involved in the arrangement). The structured entity obtains funding by issuing to those investors notes that are linked to entity Z's credit risk (credit-linked notes) and uses the proceeds to invest in a portfolio of risk-free financial assets. The structured entity obtains exposure to entity Z's credit risk by entering into a credit default swap (CDS) with a swap counterparty. The CDS passes entity Z's credit risk to the structured entity in return for a fee paid by the swap counterparty. The investors in the structured entity receive ~~a higher~~ benefitsreturn that reflects both the structured entity's return from its asset portfolio and the CDS fee. The swap counterparty does not have involvement with the structured entity that exposes it to variability of ~~benefits~~returns from the performance of the structured entity because the CDS transfers variability to the structured entity, rather than absorbing variability of ~~benefits~~returns of the structured entity.

## Summarized Financial Information for Controlled Entities~~Subsidiaries~~, Joint Ventures and Associates (paragraphs 12 and 21)

- AG10. [B10] For each subsidiary-controlled entity that has non-controlling interests that are material to the reporting entity, an entity shall disclose:
- (a) Dividends or similar distributions paid to non-controlling interests.
  - (b) Summarized financial information about the assets, liabilities, surplus or deficit~~profit or loss~~ and cash flows of the subsidiary-controlled entity that enables users to understand the interest that non-controlling interests have in the economic entity's~~group's~~ activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities non-current liabilities, revenue, and surplus or deficit~~profit or loss and total comprehensive income~~.



- AG11. [B11] The summarized financial information required by paragraph AG10(b) shall be the amounts before inter-~~entity~~company eliminations.
- AG12. [B12] For each joint venture and associate that is material to the reporting entity, an entity shall disclose:
- (a) Dividends or similar distributions received from the joint venture or associate.
  - (b) Summarized financial information for the joint venture or associate (see paragraphs AG14 and AG15) including, but not necessarily limited to:
    - (i) Current assets.
    - (ii) Non-current assets.
    - (iii) Current liabilities.
    - (iv) Non-current liabilities.
    - (v) Revenue.
    - (vi) Tax expense~~Profit or loss from continuing operations.~~
    - (vii) Post-tax profit or loss from discontinued operations. Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations
    - (viii) Surplus or deficit~~Other comprehensive income.~~
    - (ix) Total comprehensive income. [Aligned with IPSAS 1.102]
- AG13. [B13] In addition to the summarized financial information required by paragraph AG12, an entity shall disclose for each joint venture that is material to the reporting entity the amount of:
- (a) Cash and cash equivalents included in paragraph AG12(b)(i).
  - (b) Current financial liabilities (excluding taxes and transfers payable, payables under exchange transaction~~trade and other payables~~ and provisions) included in paragraph AG12(b)(iii). [Aligned with IPSAS 1.88(j) to (l)]
  - (c) Non-current financial liabilities (excluding taxes and transfers payable, payables under exchange transaction~~trade and other payables~~ and provisions) included in paragraph AG12(b)(iv).
  - (d) Depreciation and amortization.
  - (e) Interest ~~income~~revenue.
  - (f) Interest expense.
  - (g) Income tax expense~~or income~~.
- AG14. [B14] The summarized financial information presented in accordance with paragraphs AG12 and AG13 shall be the amounts included in the IPSAS~~IFRS~~ financial statements of the joint venture or associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:
- (a) The amounts included in the IFRS~~IPSAS~~ financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity

method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

- (b) The entity shall provide a reconciliation of the summarized financial information presented to the carrying amount of its interest in the joint venture or associate.

AG15. [B15] An entity may present the summarized financial information required by paragraphs AG12 and AG13 on the basis of the joint venture's or associate's financial statements if:

- (a) The entity measures its interest in the joint venture or associate at fair value in accordance with IPSAS 7~~IAS 28~~ (as Amended in [Date]2011); and
- (b) The joint venture or associate does not prepare IPSAS/IFRS financial statements and preparation on that basis would be impracticable or cause undue cost.

In that case, the entity shall disclose the basis on which the summarized financial information has been prepared.

AG16. [B16] An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

- (a) Revenue~~Profit or loss from continuing operations.~~
- (b) Tax expense~~Post-tax profit or loss from discontinued operations.~~
- (c) Other comprehensive income~~Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinued operations.~~
- (d) Surplus or deficit~~Total comprehensive income.~~ [Aligned with IPSAS 1.102]

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

[Similar to the aggregate disclosures required by IPSAS 7.43(b) and IPSAS 8.63 in respect of all joint ventures or associates.]

AG17. [B17] When an entity's interest in a subsidiary~~controlled entity is not consolidated in accordance with paragraph 4.1 of IPSAS, Consolidated Financial Statements, or its interest in~~ a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is not accounted for using the equity method in accordance with paragraph x of IPSAS X, Investments in Associates and Joint Ventures (Amended [2011])~~classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations~~, the entity is not required to disclose summarized financial information for that controlled entity~~subsidiary~~, joint venture or associate in accordance with paragraphs AG10–AG16.

[Note: This paragraph would be appropriate if the IPSASB decides to permit an exemption from consolidation or equity accounting. If not, the paragraph will be omitted.]

## Commitments for Joint Ventures (paragraph 23(a))

AG18. [B18] An entity shall disclose total commitments it has made but not recognized at the reporting date (including its share of commitments made jointly with other investors with joint control of a joint venture) relating to its interests in joint ventures. Commitments are those that may give rise to a future outflow of cash or other resources. [For comparison see IPSAS 8.72]

- AG19. [B19] Unrecognized commitments that may give rise to a future outflow of cash or other resources include:
- (a) Unrecognized commitments to contribute funding or resources as a result of, for example:
    - (i) The constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period).
    - (ii) Capital-intensive projects undertaken by a joint venture.
    - (iii) Unconditional purchase obligations, comprising procurement of equipment, inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture.
    - (iv) Unrecognized commitments to provide loans or other financial support to a joint venture.
    - (v) Unrecognized commitments to contribute resources to a joint venture, such as assets or services.
    - (vi) Other non-cancellable unrecognized commitments relating to a joint venture.
  - (b) Unrecognized commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future.
- AG20. [B20] The requirements and examples in paragraphs AG18 and AG19 illustrate some of the types of disclosure required by paragraph [2748](#) of [IPSAS 20, AS 24](#) *Related Party Disclosures*.

## Interests in Unconsolidated [Profit-oriented](#) Structured Entities (paragraphs 24–31)

### Structured Entities

- AG21. [B21] A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of [binding contractual](#) arrangements.
- AG22. [B22] A structured entity often has some or all of the following features or attributes:
- (a) Restricted activities.
  - (b) A narrow and well-defined objective, such as to ~~effect a tax-efficient lease~~, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.
  - (c) Insufficient [net assets](#)/equity to permit the structured entity to finance its activities without subordinated financial support.
  - (d) Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).
- AG23. [B23] Examples of entities that are regarded as structured entities include, but are not limited to:
- (a) Securitization vehicles.

- (b) Asset-backed financings.
- (c) Some investment funds.

AG24. [B24] An entity that is controlled by voting rights is not a structured entity simply because, for example, it receives funding from third parties following a restructuring.

## **Nature of Risks from Interests in Unconsolidated Profit-oriented Structured Entities (paragraphs 29–31)**

AG25. [B25] In addition to the information required by paragraphs 29–31, an entity shall disclose additional information that is necessary to meet the disclosure objective in paragraph 24(b).

AG26. [B26] Examples of additional information that, depending on the circumstances, might be relevant to an assessment of the risks to which an entity is exposed when it has an interest in an unconsolidated profit-oriented structured entity are:

- (a) The terms of an arrangement that could require the entity to provide financial support to an unconsolidated profit-oriented structured entity (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support), including:
  - (i) A description of events or circumstances that could expose the reporting entity to a loss.
  - (ii) Whether there are any terms that would limit the obligation.
  - (iii) Whether there are any other parties that provide financial support and, if so, how the reporting entity's obligation ranks with those of other parties.
- (b) Losses incurred by the entity during the reporting period relating to its interests in unconsolidated profit-oriented structured entities.
- (c) The types of ~~income-revenue~~ the entity received during the reporting period from its interests in unconsolidated profit-oriented structured entities.
- (d) Whether the entity is required to absorb losses of an unconsolidated profit-oriented structured entity before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity's interest in the unconsolidated profit-oriented structured entity.
- (e) Information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in unconsolidated profit-oriented structured entities.
- (f) Any difficulties an unconsolidated profit-oriented structured entity has experienced in financing its activities during the reporting period.
- (g) In relation to the funding of an unconsolidated profit-oriented structured entity, the forms of funding (e.g., commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analyses of the assets and funding of an unconsolidated profit-oriented structured entity if the structured entity has longer-term assets funded by shorter-term funding.

## Amendments to Other IPSASs

### Note to IPSASB

The consequential amendments set out in IFRS 12 have been used as a basis for developing this appendix.

Amendments to the following IASB pronouncements (that were amended as a result of IFRS 12) are not shown in this Appendix because there is no IPSAS equivalent:

IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

IFRS 9, *Financial Instruments* (2010)

Amendments to the following IASB pronouncements (that were amended as a result of IFRS 12) are not shown in this Appendix because they have already been amended in IPSAS X [IFRS 11]:

- IAS 36 *Impairment of Assets* (IPSAS 21 and 26)

## IPSAS 1, *Presentation of Financial Statements*

Paragraphs 134 and 139 are amended and paragraph 153E added as follows:

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IPSAS 16, *Investment Property*) ~~a venturer recognizes its interest in a jointly controlled entity using proportionate consolidation or the equity method (see IPSAS 8, *Interests in Joint Ventures*.) ...~~
139. Some of the disclosures made in accordance with paragraph 137 are required by other IPSASs. For example, IPSAS X, [IFRS 12] *Disclosure of Interests in Other Entities* requires an entity to disclose the judgments it has made in determining whether it controls another entity ~~IPSAS 6 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a controlled entity, even though more than half of its voting or potential voting power is owned directly or indirectly through controlled entities.~~ IPSAS 16, *Investment Property*, requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property, and from property held for sale in the ordinary course of business, when classification of the property is difficult.
- 153E. IPSAS X [IFRS 10] and IPSAS X [IFRS 12], issued in [Date], amended paragraphs 4, 12, 88(n), 95(d), 97, 103, 118, 134, 135 and 139. An entity shall apply those amendments when it applies IPSAS X [IFRS 10] and IPSAS X [IFRS 12].**

## Basis for Conclusions

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

To be developed following the IPSASB's decisions and the reasons for those decisions.
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### Objective

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

### Terminology

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

### Significant Judgments and Assumptions (paragraphs 7 to 9)

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

### Definition of Structured Entity (paragraphs )

- BC4. The IPSASB agreed..... [To be completed once the IPSASB has provided feedback on the proposals in agenda paper 7.1]

### Consolidated Structured Entities (paragraphs )

- BC5. The IPSASB agreed..... [To be completed once the IPSASB has provided feedback on the proposals in agenda paper 7.1]

### Unconsolidated Structured Entities Entity (paragraphs )

- BC6. The IPSASB agreed..... [To be completed once the IPSASB has provided feedback on the proposals in agenda paper 7.1]

### Comparison with IFRS 12

[This comparison will be completed when the Exposure Draft is completed]

IPSAS X, *Disclosure of Interests in Other Entities* is drawn primarily from IFRS 12, *Disclosure of Interests in Other Entities* (originally issued in 2011, including amendments published in July 2012). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 12 are therefore replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS X and IFRS 12 are as follows:

- Commentary additional to that in IFRS 12 has been included in IPSAS X to clarify the applicability of the Standard to accounting by public sector entities. In particular, the structured entity disclosures have been limited to profit-oriented structured entities.
- IPSAS X uses different terminology, in certain instances, from IFRS 12. The most significant examples are the use of the terms “net assets/equity,” “economic entity,” “controlling entity,” “controlled entity,” “revenue” in IPSAS X. The equivalent terms in IFRS 12 are “equity,” “group,” “parent,” “subsidiary” and “income.”