

Update of IPSASs 6 to 8

Agenda Item 3

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Objectives of Agenda Item

- Decide whether to include an exception to consolidation for investment entities (agenda item 3.1)
- Decide whether whole of government consolidated financial statements should be optional and statistical sector reporting mandatory (agenda items 3.2 and 10)
- Decide how to proceed in developing ED, having regard to views on agenda papers 3.1 to 3.3
- Note update on related IASB projects

Overview of Progress on EDs



Consolidated Financial Statements

(IFRS 10 and IPSAS 6)



Investments in Associates and Joint Ventures

(IAS 28 and IPSAS 7)



Joint Arrangements

(IFRS 11 and IPSAS 8)



Separate Financial Statements

(IAS 27 and IPSAS 6)

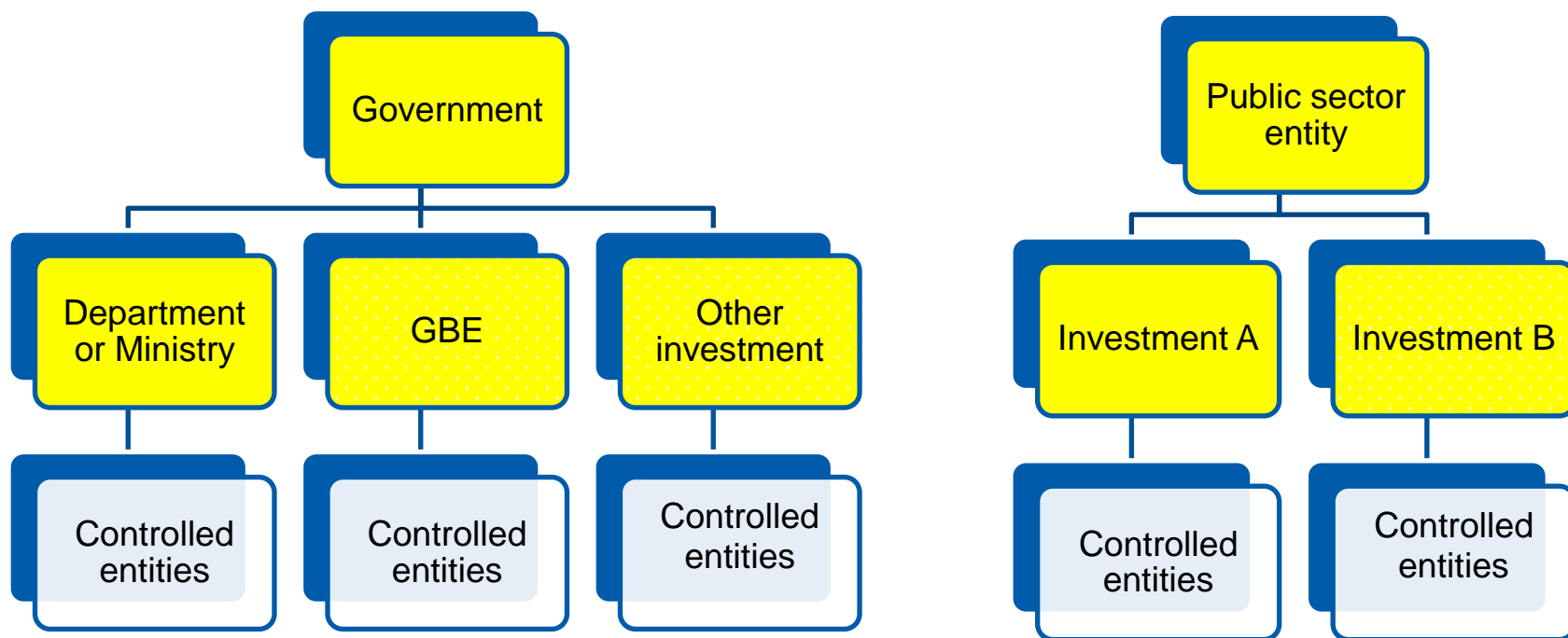


Disclosure of Interests in Other Entities

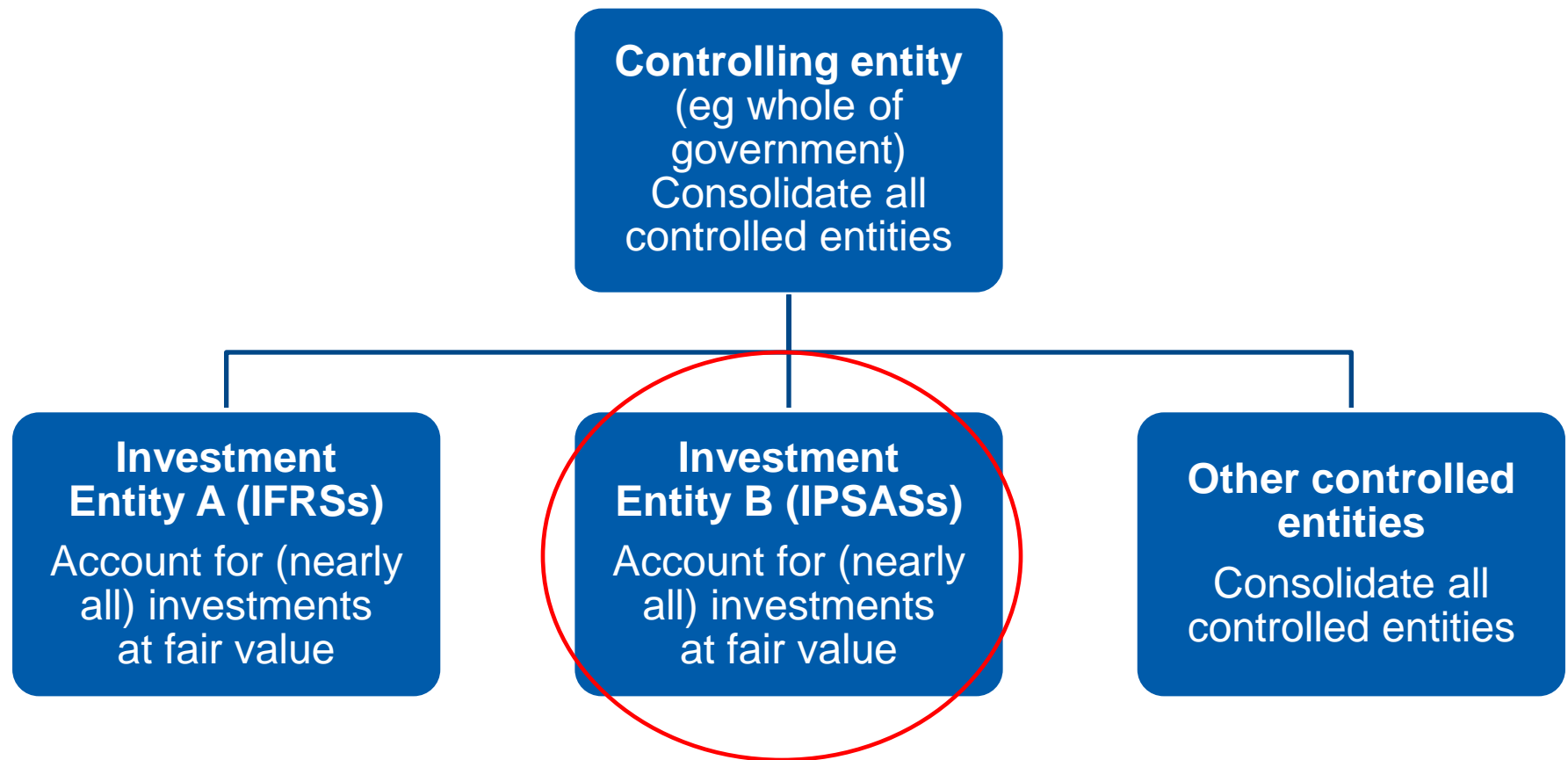
(IFRS 12 and IPSASs 6 to 8)

Public sector reporting entities

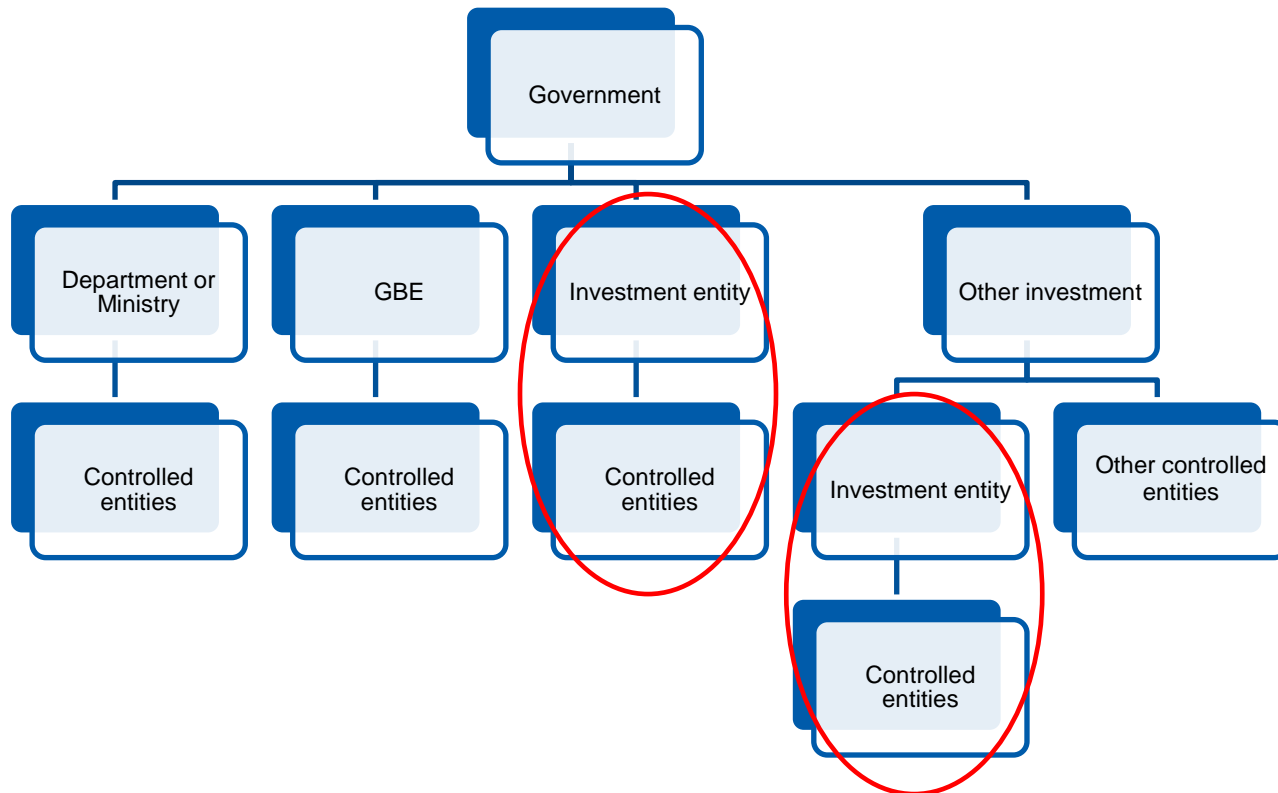
All these controlling reporting entities would apply the ED



Investment entities – the proposal



Investment entities – exception applies only to investment entity



Definition of an investment entity

An entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

It must also have an exit strategy for “substantially all of its equity investments and non-financial asset investments”.

Typical characteristics of an investment entity

An entity that:

- (a) has more than one investment
- (b) has more than one investor
- (c) has investors that are not related parties of the entity
- (d) has ownership interests in the form of equity or similar interest

These characteristics are typical, not essential

Arguments for an investment entity exception

- Arguments made by respondents to IASB included:
 - Fair value provides most relevant and decision-useful information
 - Investors make decisions based on performance – performance is assessed using fair value
 - Fair value reflects how investment entities are managed
- Consistency between similar entities applying IFRSs and IPSASs

Arguments against an investment entity exception

- Concept of control is fundamental
- Financial reporting should be principles based - exceptions should be rare
- Would create a precedent for further departures from the framework
- Relative importance of decision usefulness vs principles?
- The exception is rules-based, leading to structuring opportunities
- More arguments in agenda papers....

Possible public sector investment entities

- Some sovereign wealth funds (Note: SWFs can have explicit policy goals other than investment returns)
- Some pension funds
- Some funds holding controlling interests in PPP/PFI projects

These entities may apply IPSASs, IFRSs or national standards

Investment entities – Public sector modifications

Definition

- Replace “business purpose” with “mandate”
 - Should the ability to change the mandate be restricted?
 - Do the exit strategy requirements need to be modified?

Typical characteristics

- Keep four typical characteristics but acknowledge public sector entities will not always have all four characteristics
- Redraft discussion of ownership interests

Disclosures

- Appear appropriate. No modification proposed

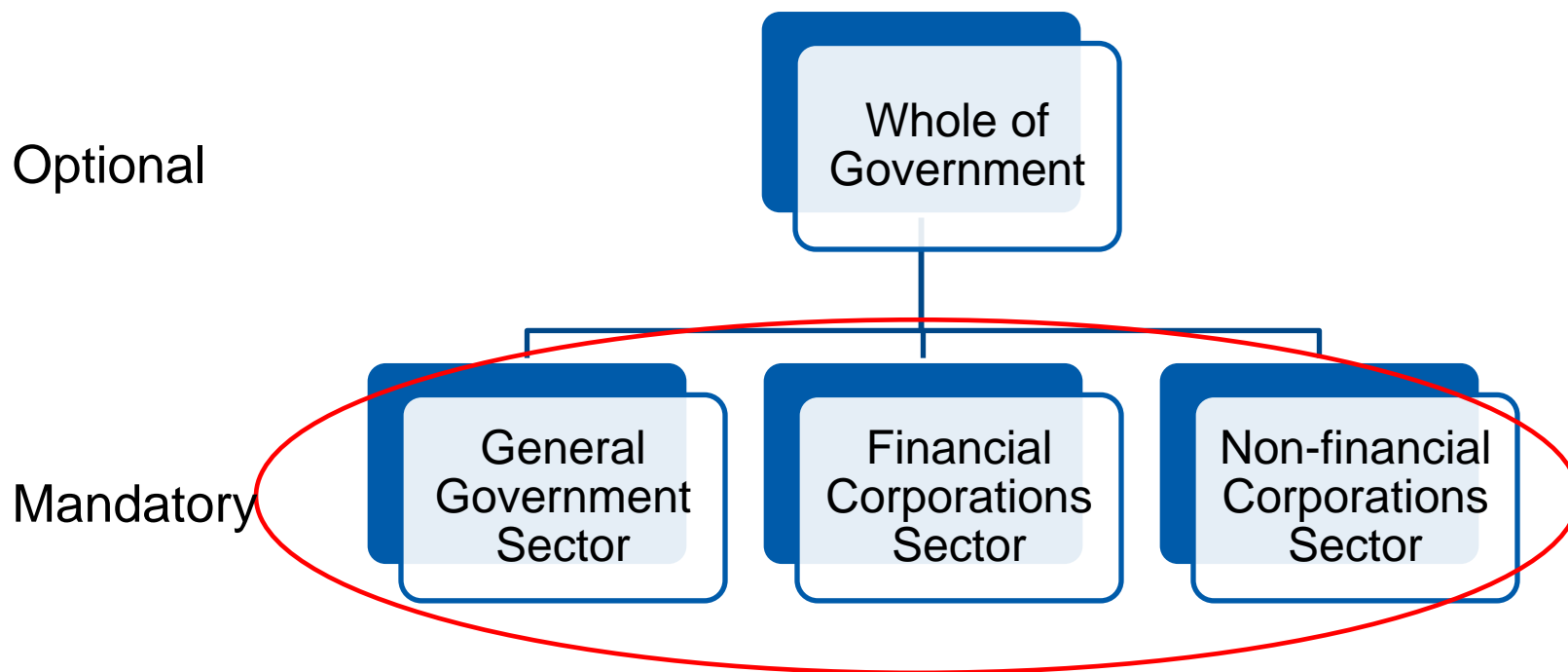
Investment entities – Recommendations

- Note matters set out in paragraph 34 of agenda paper 3.1
- Agree in ED based on IFRS 10:
 - Mandatory exception from consolidation for investment entities
 - Limit the exception to the investment entity
 - Use the IFRS 10 definition and typical characteristics
 - Basis for Conclusions to include
 - Examples investment entities
 - Arguments for exception are similar to the private sector
 - Support for consistent reporting in private sector and public sector

Investment entities – Recommendations continued

- Agree in ED based on IFRS 12:
 - Require the same disclosures as IFRS 12
 - Basis for Conclusions: view that disclosures are appropriate in the public sector

Consolidation and Statistical Reporting – the proposal



Proposal is relevant at whole of government level only

Mandatory sector reporting

Points to consider:

- Need to reassess costs and benefits – IPSAS 22 BC
- Mandatory for all governments or national governments only?
- Need to revise IPSAS 22 (and possibly other IPSASs)
 - Accounting policy requirements?
 - Presentation and disclosure requirements?
- Of more interest in jurisdictions where governments issue GFS information alongside budgets
- Some constituents prefer reconciliations to GFS information

Optional consolidation at whole of government level

- Would address concerns about impact of consolidating entities such as financial institutions
- Would reduce compliance costs
- Consistent with the way some jurisdictions manage finances
- Goes against using the principle of control
- Presents structuring opportunities
- Recent calls for more whole of government reporting
- Could lead to incomplete reporting on fiscal activities

Whole of government reporting

- “Fiscal reporting should offer a panoramic view of the public sector, as well as close-ups of meaningful subsectors like central government, local government, and public corporations”
- Addresses “risks from hidden or implicit obligations to public corporations and PPPs outside the general government perimeter”
- IFAC notes the importance of “Including all entities that have fiscal implications for governmentsin fiscal forecasting, budgeting, and financial reporting”
- EPSAS conference: there was a request for a comprehensive framework that consolidates all publically controlled entities

Recommendations

- Note responses to consultation paper on *Alignment*
- Note staff view that proposal would require detailed review of IPSAS 22 and its interaction with other standards
- Note IPSASs say statistical reporting alone would be unlikely to meet requirements of IPSAS 18
- Agree not to permit optional presentation of consolidated financial statements (in conjunction with mandatory sector reporting) at a whole of government level
- Agree to consider issue of mandatory IPSAS 22 in context of *Alignment* project

Reflection on views expressed and how to proceed

- The IPSASB has now considered two specific proposals
- Having regard to the IPSASB's views on these proposals, and the background information in agenda item 3.3, how does the IPSASB wish to proceed in developing the ED?

Concluding Recommendations

- Require consolidation of all controlled entities other than investment entities
- Seek the views of constituents on exemptions
- Request that any proposals for non-consolidation be justified having regard to user needs

Directions sought for drafting ED

- Agree any exceptions to consolidation of controlled entities
- Agree key points for Basis for Conclusions
 - Issues and options considered
 - Reasons for proposals set out in ED
- Agree key questions for respondents