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Interests in Other Entities—Summary of Five Exposure Drafts

This summary provides an overview of five Exposure Drafts (EDs):

ED 48, *Separate Financial Statements*

ED 49, *Consolidated Financial Statements*

ED 50, *Investments in Associates and Joint Ventures*

ED 51, *Joint Arrangements*

ED 52, *Disclosure of Interests in Other Entities*

Project objective: The International Public Sector Accounting Standards Board (IPSASB) has published these five EDs as part of its on-going improvements to International Public Sector Accounting Standards (IPSASs). The EDs propose to update the requirements in IPSASs 6 to 8.

The project and stage: The IPSASB issued EDs 48-52 in October 2013.

Next steps: The IPSASB seeks feedback to guide it in developing final standards.

Comment deadline: The EDs are open for public comment until February 28, 2014.

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Why is the IPSASB Undertaking this Project?

The purpose of the IPSASB's project is to update its requirements on reporting on interests in other entities, specifically controlled entities, associates and joint arrangements.

Updating IPSASs 6 to 8

This project aims to update three existing IPSASs—IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures*—having regard to the relevant International Financial Reporting Standards (IFRSs).

Convergence

A key part of the IPSASB's strategy is to converge IPSASs, to the extent appropriate, with the IFRSs issued by the International Accounting Standards Board (IASB).

Public sector differences

This project also considers the implications of public sector differences, to ensure that public sector arrangements involving interests in other entities are classified and accounted for appropriately.

Five EDs

The IPSASB has developed five EDs, which will replace the current requirements in IPSASs 6-8.

These five EDs have been developed having regard to the relevant IFRSs:

- IFRS 10, *Consolidated Financial Statements*;
- IFRS 11, *Joint Arrangements*;
- IFRS 12, *Disclosure of Interests in Other Entities*;
- IAS 27, *Separate Financial Statements* (as amended in 2011); and
- IAS 28, *Investments in Associates and Joint Ventures* (as amended in 2011).

The IPSASB is proposing significant changes to make the standards appropriate for application in the public sector.

Proposed Changes

Comparison with IPSASs 6-8

The five Exposure Drafts:

- *Retain some of the fundamental requirements in IPSASs 6-8; and also*
- *Propose some significant changes.*

Entities will need to reassess the existence of control and joint control, and the nature of joint arrangements.

Significant changes

- New definitions of *control* and *joint control*;
- A new category of entity, referred to as an "*investment entity*". There are different accounting requirements for investment entities and entities that control investment entities. There are disclosure requirements regarding investment entities;
- A new category of entity, referred to as a "*structured entity*". There are disclosure requirements regarding structured entities;
- New classifications of joint arrangements;
- Removal of proportionate consolidation as a method of accounting for a joint arrangement; and
- All disclosure requirements located in one standard.

ED 48, Separate Financial Statements

Similar to IPSAS 6

Specifies the methods of accounting that may be used in separate financial statements.

Similar to IPSAS 6

Requirements are very similar to current requirements for separate financial statements in IPSAS 6.

Methods of accounting

Entities preparing separate financial statements account for investments in controlled entities, joint ventures and associates either:

- Using the equity method;
- At cost; or
- In accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement.*

The entity applies the same method of accounting to each category of investments.

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ED 49, Consolidated Financial Statements

Significant changes:

- *New definition of control;*
- *Identify investment entities; and*
- *No special treatment for temporary control.*

New definition of control

Control exists when an entity has:

- *Power* over the other entity;
- Exposure, or rights, to variable *benefits* from its involvement with the other entity; and
- The *ability to use its power* to affect the nature or amount of the benefits from its involvement with the other entity.

ED 49 contains detailed guidance on assessing control.

Generally a controlling entity consolidates controlled entities.

Different requirements apply if the controlling entity is an investment entity or controls an investment entity.

Investment entity

An *investment entity*:

(a) Obtains funds from one or more investors for the purpose of providing them with investment management services;

(b) Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and

(c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.

Generally an investment entity measures its investments in controlled entities at *fair value through surplus or deficit* in accordance with IPSAS 29.

An entity that controls an investment entity retains this method of accounting for an investment entity's investments in its consolidated financial statements.

Temporary control

Entities under temporary control are subject to the same requirements as other controlled entities.

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ED 50, Investments in Associates and Joint Ventures

What is the same?

- *Description of the equity method;*
- *Definition of associates; and*
- *Accounting for associates.*

Significant changes:

- *Accounting for joint ventures;*
- *No special treatment for temporary control/ significant influence; and*
- *Quantifiable ownership interests.*

Equity method

The equity method is a method of accounting whereby the investment is initially recognized at cost and is 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.

Associates

Associates are defined by reference to "significant influence".

An entity accounts for its interest in an associate using the equity method.

Joint ventures

A joint venture is defined in ED 51 as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

An entity accounts for its interest in a joint venture using the equity method. Previously IPSAS 8 permitted an entity to account for its interest in a jointly controlled entity using proportionate consolidation or the equity method.

Temporary control/significant influence

ED 50 does not propose any special requirements for entities over which there is temporary joint control or temporary significant influence.

Quantifiable ownership interests

Investments in joint ventures can take many forms, including arrangements without formal equity structures. ED 50's proposed scope is limited to investments where there are "quantifiable ownership interests".

ED 51, Joint Arrangements

Joint arrangements—two or more parties have joint control.

Types of joint arrangements:

- *Joint operations; and*
- *Joint ventures.*

Joint control

Joint control is the 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.

Joint operation

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 recognizes assets, liabilities, revenue, and expenses arising from its interest in the joint operation.

Joint venture

The parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint venturer recognizes its interest in a joint venture as an investment, using the equity method of accounting.

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ED 52, Disclosure of Interests in Other Entities

New disclosure standard.

Specifies a disclosure objective.

Requires information about assessments and judgments.

Introduces concept of structured entities.

New disclosure standard

Brings together disclosures in IPSASs 6-8.

Introduces new disclosure requirements, including disclosures related to investment entities and *structured entities* that are not consolidated.

Disclosure objective

The *objective* is to require disclosures that enable users of financial statements to evaluate:

(a) The nature of, and risks associated with an entity's interests in other entities; and

(b) The effects of those interests on an entity's financial position, financial performance and cash flows.

The ED specifies minimum disclosures that an entity must provide. If the minimum disclosures required are not sufficient to meet the disclosure objective, an entity discloses additional information to meet the objective.

Assessments and judgments

Requires disclosure of factors that an entity considered in:

- Forming an opinion on the existence of control, significant influence, and joint control;
- Classifying interests in joint arrangements; and
- Identifying investment entities.

Structured entity

A structured entity is:

(a) An entity designed so that administrative arrangements or legislation are *not* the dominant factor in deciding who controls the entity, where administrative arrangements or legislation are normally the dominant factors in deciding control; or

(b) An entity that has been designed so that voting or similar rights are *not* the dominant factor in deciding who controls the entity, where voting or similar rights are normally the dominant factor in deciding control.

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Next Steps:

The deadline for comments is February 28, 2014.

During the comment period, the IPSASB members are available to discuss the proposals with a wide range of parties.

How Can I Comment on the Proposals?

The ED includes Specific Matters for Comment (SMC) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think we should consider in forming our views.

Comment letters will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and, as usual, discuss responses to the proposals at its public meetings after the comment period has ended.

The IPSASB plans to issue the final standards based on these five EDs, reflecting its actions to address respondents' comments, in 2014 or early in 2015.

Stay Informed

The IPSASB will announce on its website the dates and location of meetings at which it will discuss feedback on the EDs.

To stay up to date about the project, please visit the IPSASB Projects page.