IPSAS 7—INVESTMENTS IN ASSOCIATES

Acknowledgment

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History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 15, 2011.

IPSAS 7, *Investments in Associates* was issued in May 2000.

In December 2006 the IPSASB issued a revised IPSAS 7.

Since then, IPSAS 7 has been amended by the following IPSASs:

- *Improvements to IPSASs* (issued January 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- *Improvements to IPSASs* (issued November 2010)

Table of Amended Paragraphs in IPSAS 7

Paragraph Affected	How Affected	Affected By
1	Amended	IPSAS 29 January 2010 Improvements to IPSASs January 2010
2	Amended	IPSAS 29 January 2010
12	Amended	Improvements to IPSASs November 2010
20	Amended	IPSAS 29 January 2010
21	Amended	IPSAS 29 January 2010
24	Amended	IPSAS 29 January 2010
25	Amended	IPSAS 29 January 2010
37	Amended	IPSAS 29 January 2010
38	Amended	IPSAS 29 January 2010
39	Amended	IPSAS 29 January 2010
47A	New	Improvements to IPSASs January 2010

December 2006

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CONTENTS

International Public Sector Accounting Standard 7, *Investments in Associates*, is set out in paragraphs 1–49. All the paragraphs have equal authority. IPSAS 7 should be read in the context of the Basis for Conclusions and the *Preface to the International Public Sector Accounting Standards*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

IN1. IPSAS 7, *Investments in Associates*, replaces IPSAS 7, *Accounting for Investments in Associates* (issued May 2000), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 7

IN2. The IPSASB developed this revised IPSAS 7 as a response to the IASB's project on Improvements to IASs and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 7, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 28, *Accounting for Investment in Associates* made as a consequence of the IASB's improvements project, except where the original IPSAS had varied from the provisions of IAS 28 for a public sector specific reason; such variances are retained in this IPSAS 7 and are noted in the Comparison with IAS 28. Any changes to IAS 28 made subsequent to the IASB's improvements project have not been incorporated into IPSAS 7.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 7 are described below.

Name of Standard

IN5. The name of the Standard has been changed to *Investments in Associates*.

Scope

IN6. The Standard now excludes in paragraph 1 investments that would otherwise be associates or joint ventures held by venture capital organizations, mutual funds, unit trusts and similar entities that are measured at fair value in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

IN7. The Standard provides exemptions from application of the equity method to certain:

- Controlling entities, similar to those provided for financial statements in IPSAS 6, *Consolidated and Separate Financial Statements* (in paragraph 19(b)); and
- Investors which satisfy the same type of conditions that exempt controlling entities in preparing consolidated financial statements in paragraph 19(c).

Definitions

IN8. The Standard modifies the definitions of equity method and significant influence for uniform definitions in IPSASs in paragraph 7.

Significant Influence

IN9. The Standard requires in paragraphs 14–16 an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to participate in the financial and operating policy decisions of the investee (associate).

Application of the Equity Method

IN10. The Standard clarifies in paragraph 19 that investments that are held exclusively with a view to its disposal within twelve months of acquisition and that management is actively seeking a buyer shall be classified as held for trading and will be accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

IN11. The Standard clarifies in paragraph 24 that when an investor ceases to significantly influence its investment, the cost of the investment shall be accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

IN12. The Standard requires in paragraph 28 that surpluses and deficits resulting from upstream and downstream transactions between an investor and an associate to be eliminated to the extent of the investor's interest in the associate.

IN13. The Standard allows a maximum of three months between the reporting period of the investor and its associate when applying the equity method (paragraph 31).

IN14. The Standard removes the impracticable notion in paragraph 33, such that an investor has to make appropriate adjustments for transactions and other events in the associate's financial statements when the accounting policies in both entities are not similar.

IN15. The Standard requires in paragraphs 35 and 36 the entity to consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognizing its share of losses of the associate.

Impairment Losses

IN16. The Standard provides guidance in paragraphs 37–40 on when and how an entity tests for impairment of its associate.

Separate Financial Statements

IN17. The requirements and guidance for separate financial statements have been moved to IPSAS 6 in paragraphs 41 and 42. Entities will now have to refer to IPSAS 6 for guidance on how to prepare an investor's separate financial statements.

Disclosure

IN18. The Standard requires in paragraph 43 more detailed disclosures on investments in associates, including:

- The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements) on the ability of associates to transfer funds to the investor;
- The unrecognized share of losses of an associate if any investor has discontinued recognition of its share of losses of an associate; and
- The reasons why:
    - An investment is considered to have significant influence when it holds less than 20 percent of the voting or potential voting power of the investee;
    - An investment is not considered to have significant influence when it holds more than 20 percent of the voting or potential voting power of the investee; and
    - The reporting date of the financial statements of the associate and investor is different.

Scope

1. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting by an investor for 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. However, it does not apply to investments in associates held by:**

   (a) **Venture capital organizations; or**

   (b) **Mutual funds, unit trusts and similar entities including investment-linked insurance funds;**

   that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*. An entity holding such an investment shall make the disclosures required by paragraph 43(f).

2. Guidance on recognition and measurement of interests identified in paragraph 1 that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change, can be found in IPSAS 29.

3. This Standard provides the basis for accounting for ownership interests in associates. That is, the investment in the other entity confers on the investor the risks and rewards incidental to an ownership interest. This Standard applies only to investments in the formal equity structure (or its equivalent) of an investee. 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 investor'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.

4. 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.

5. **This Standard applies to all public sector entities other than Government Business Enterprises.**

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

Definitions

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

   An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence, and that is neither a controlled entity nor an interest in a joint venture.

   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 net assets/equity of the investee. The surplus or deficit of the investor includes the investor's share of the surplus or deficit of the investee.

   Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over 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.

8. Financial statements of an entity that does not have a controlled entity, associate, or venturer's interest in a joint venture are not separate financial statements.

9. Separate financial statements are those presented in addition to (a) consolidated financial statements, (b) financial statements in which investments are accounted for using the equity method, and (c) financial statements in which the venturer's interests in joint ventures are proportionately consolidated. Separate financial statements may or may not be appended to, or accompany, those financial statements.

10. Entities that are exempted in accordance with (a) paragraph 16 of IPSAS 6, *Consolidated and Separate Financial Statements*, from consolidation, (b) paragraph 3 of IPSAS 8, *Interests in Joint Ventures*, from applying proportionate consolidation, or (c) paragraph 19(c) of this Standard from applying the equity method may present separate financial statements as their only financial statements.

Significant Influence

11. 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.

12. The existence of significant influence by an investor 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 distributions;

    (c) Material transactions between the investor and the investee;

    (d) Interchange of managerial personnel; or

    (e) Provision of essential technical information.

13. If the investor's ownership interest is in the form of shares, and it holds, directly or indirectly (e.g., through controlled entities), 20 percent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (e.g., through controlled entities), less than 20 percent of the voting power of the investee, it is presumed that the investor 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 investor from having significant influence.

14. An entity may own (a) share warrants, (b) share call options, (c) debt or equity instruments that are convertible into ordinary shares, or (d) other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or 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.

15. 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 binding arrangements, whether considered individually or in combination) that affect potential rights,

except the intention of management and the financial ability to exercise or convert.

16. 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 binding agreement.

Equity Method

17. Under the equity method, the investment in an associate is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of surplus or deficit of the investee after the date of acquisition. The investor's share of the surplus or deficit of the investee is recognized in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. 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 equity that have not been recognized in the investee's surplus or deficit. 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 directly in net assets/equity of the investor.

18. When potential voting rights exist, the investor's share of surplus or deficit of the investee and of changes in the investee's net assets/equity is determined on the basis of present ownership interests, and does not reflect the possible exercise or conversion of potential voting rights.

Application of the Equity Method

19. **An investment in an associate shall be accounted for using the equity method, except when:**

    (a) **There is evidence that the investment is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;**

    (b) **The exception in paragraph 16 of IPSAS 6, allowing a controlling entity that also has an investment in an associate not to present consolidated financial statements, applies; or**

    (c) **All of the following apply:**

(i) **The investor is:**

- **A wholly-owned controlled entity, and users of financial statements prepared by applying the equity method are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements; or**

- **A partially owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;**

(ii) **The investor'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 investor 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) **The ultimate or any intermediate controlling entity of the investor produces consolidated financial statements available for public use that comply with IPSASs.**

20. **Investments described in paragraph 19(a) shall be classified as held for trading and accounted for in accordance with IPSAS 29.**

21. When an investment in an associate previously accounted for in accordance with IPSAS 29 is not disposed of within twelve months, it shall be accounted for using the equity method as from the date of acquisition. Financial statements for the periods since acquisition shall be restated.

22. Exceptionally, an entity may have found a buyer for an associate described in paragraph 19(a), but may not have completed the sale within twelve months, because of the need for approval by regulators or others. The entity is not required to apply the equity method to an investment in such an associate if (a) the sale is in process at the reporting date, and (b) there is no reason to believe that it will not be completed shortly after the reporting date.

23. The recognition of revenue on the basis of distributions received may not be an adequate measure of the revenue earned by an investor on an investment in an associate, because the distributions received may bear little relation to the performance of the associate. In particular, where the associate has not-for-profit objectives, investment performance will be determined by factors such as the cost of outputs and overall service delivery. Because the investor has significant influence over the associate, the investor has an interest in the

associate'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 surpluses or deficits of such an associate. As a result, application of the equity method provides more informative reporting of the net assets/equity and surplus or deficit of the investor.

24. **An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate, and shall account for the investment in accordance with IPSAS 29 from that date, provided the associate does not become a controlled entity or a joint venture as defined in IPSAS 8.**

25. **The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset in accordance with IPSAS 29.**

26. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in IPSAS 6. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a controlled entity are also adopted in accounting for the acquisition of an investment in an associate.

27. An economic entity's share in an associate is the aggregate of the holdings in that associate by the controlling entity and its controlled entities. The holdings of the economic entity's other associates or joint ventures are ignored for this purpose. When an associate has controlled entities, associates, or joint ventures, the surpluses or deficits and net assets taken into account in applying the equity method are those recognized in the associate's financial statements (including the associate's share of the surpluses or deficits and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 32 and 33).

28. Surpluses and deficits resulting from upstream and downstream transactions between an investor (including its consolidated controlled entities) and an associate are recognized in the investor's financial statements only to the extent of unrelated investors' interests in the associate. Upstream transactions are, for example, sales of assets from an associate to the investor. Downstream transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's surpluses and deficits resulting from these transactions is eliminated.

29. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. Guidance on accounting for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is treated as goodwill (guidance can be found in the relevant international or national accounting standard dealing with business combinations). Goodwill relating to an associate is included in the carrying

amount of the investment. Appropriate adjustments to the investor's share of the surpluses or deficits after acquisition are made to account, for example, for depreciation of the depreciable assets, based on their fair values at the date of acquisition.

30. **The most recent available financial statements of the associate are used by the investor in applying the equity method. When the reporting dates of the investor and the associate are different, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.**

31. **When, in accordance with paragraph 30, the financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. In any case, the difference between the reporting date of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.**

32. **The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**

33. If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.

34. If an associate has outstanding cumulative preferred shares that are held by parties other than the investor, and classified as net assets/equity, the investor computes its share of surpluses or deficits after adjusting for the dividends on such shares, whether or not the dividends have been declared.

35. If an investor's share of deficits of an associate equals or exceeds its interest in the associate, the investor discontinues recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method, together with any long-term interests that, in substance, form part of the investor's net investment in the associate. 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. 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. Losses recognized under the equity method in excess of the investor's investment in ordinary shares are applied to the other

components of the investor's interest in an associate in the reverse order of their seniority (i.e., priority of liquidation).

36. After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the investor has incurred legal or constructive obligations, or made payments on behalf of the associate. If the associate subsequently reports surpluses, the investor resumes recognizing its share of those surpluses only after its share of the surpluses equals the share of deficits not recognized.

Impairment Losses

37. After application of the equity method, including recognizing the associate's losses in accordance with paragraph 35, the investor applies the requirements of IPSAS 29 to determine whether it is necessary to recognize any additional impairment loss with respect to the investor's net investment in the associate.

38. The investor also applies the requirements IPSAS 29 to determine whether any additional impairment loss is recognized with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of the impairment loss.

39. If application of the requirements in IPSAS 29 indicates that the investment 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. Based on IPSAS 26, an entity estimates:

    (a) Its share of the present value of the estimated future cash flows expected to the generated by the investee, including the cash flows from the operations of the investee and the proceeds on 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.

    Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with IPSAS 26.

40. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Separate Financial Statements

41. **An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs 58–64 of IPSAS 6.**

42. This Standard does not mandate which entities produce separate financial statements available for public use.

Disclosure

43. **The following disclosures shall be made:**

    (a) **The fair value of investments in associates for which there are published price quotations;**

    (b) **Summarized financial information of associates, including the aggregated amounts of assets, liabilities, revenues, and surplus or deficit;**

    (c) **The reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 percent of the voting or potential voting power of the investee but concludes that it has significant influence;**

    (d) **The reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 percent or more of the voting power of the investee but concludes that it does not have significant influence;**

    (e) **The reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;**

    (f) **The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends or similar distributions, or repayment of loans or advances;**

    (g) **The unrecognized share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;**

    (h) **The fact that an associate is not accounted for using the equity method in accordance with paragraph 19; and**

    (i) **Summarized financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues, and surpluses or deficits.**

44. **Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the surplus or deficit of such associates, and the carrying amount of these investments shall be separately disclosed. The investor's share of any discontinuing operations of such associates shall also be separately disclosed.**

45. **The investor's share of changes recognized directly in the associate's net assets/equity shall be recognized directly in net assets/equity by the investor and shall be disclosed in the statement of changes in net assets/equity as required by IPSAS 1.**

46. **In accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, the investor shall disclose:**

    (a) **Its share of the contingent liabilities of an associate incurred jointly with other investors; and**

    (b) **Those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.**

Effective Date

47. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

47A. **Paragraph 1 was amended by *Improvements to IPSASs* issued in January 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2011. If an entity applies the amendment for a period beginning before January 1, 2011, it shall disclose that fact and apply for that earlier period paragraph 3 of IPSAS 28, *Financial Instruments: Presentation*, paragraph 1 of IPSAS 8, and paragraph 3 of IPSAS 30, *Financial Instruments: Disclosures*. An entity is encouraged to apply the amendments prospectively.**

48. 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.

Withdrawal of IPSAS 7 (2000)

49. This Standard supersedes IPSAS 7, *Accounting for Investments in Associates*, issued in 2000.

Appendix

Amendments to Other IPSASs

In IPSASs applicable at January 1, 2008, references to the current version of IPSAS 7, *Accounting for Investments in Associates*, are amended to IPSAS 7, *Investments in Associates*.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 7.

Revision of IPSAS 7 as a result of the IASB's General Improvements Project 2003

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSASs with IFRSs issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure, and text of the IFRSs, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the *Comparison with IFRS* included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IASs[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.

BC4. IPSAS 7, issued in May 2000, was based on IAS 28 (Reformatted 1994), *Accounting for Investments in Associates*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC), [2] actioned an IPSAS improvements project to converge where appropriate IPSASs with the improved IASs issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 28 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases

1 The International Accounting Standards (IASs) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

2 The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 28 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 7 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

Revision of IPSAS 7 as a result of the IASB's Improvements to IFRSs issued in 2008

BC7. The IPSASB reviewed the revisions to IAS 28 included in the *Improvements to IFRSs* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Comparison with IAS 28

IPSAS 7, *Investments in Associates* is drawn primarily from IAS 28, *Investments in Associates* and includes an amendment made to IAS 28 as part of the *Improvements to IFRSs* issued in May 2008. The main differences between IPSAS 7 and IAS 28 are as follows:

- Commentary additional to that in IAS 28 has been included in IPSAS 7 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 7 applies to all investments in associates where the investor holds an ownership interest in the associate in the form of a shareholding or other formal equity structure. IAS 28 does not contain similar ownership interest requirements. However, it is unlikely that equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure.
- IPSAS 7 uses different terminology, in certain instances, from IAS 28. The most significant examples are the use of the terms “statement of financial performance,” and “net assets/equity” in IPSAS 7. The equivalent terms in IAS 28 are “income statement,” and “equity.”
- IPSAS 7 does not use the term “income,” which in IAS 28 has a broader meaning than the term “revenue.”