IPSASB International Public Sector Accounting Standards Board

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# PROJECT HISTORY

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**December 2014**

In December 2014 the IPSASB approved the five standards comprising this project, being:

- IPSAS 34, *Separate Financial Statements*
- IPSAS 35, *Consolidated Financial Statements*
- IPSAS 36, *Investments in Associates and Joint Ventures*
- IPSAS 37, *Joint Arrangements*
- IPSAS 38, *Disclosure of Interests in Other Entities.*

The main decision made at the December 2014 meeting was to require disclosure of controlling interests in other entities that were acquired with the intention of sale or disposal. This change was made in response to feedback from constituents.

The standards are expected to be issued in January 2015, with an effective date of January 1, 2017.

**Project Histories**

In June and September 2014 the IPSASB considered responses on EDs 48 to 52 *Interests in Other Entities,* provided direction on key issues and considered proposed changes to the draft standards in response to those comments.

In December 2014 the IPSASB approved all five standards comprising this project, being:

- IPSAS 34, *Separate Financial Statements*
- IPSAS 35, *Consolidated Financial Statements*
- IPSAS 36, *Investments in Associates and Joint Ventures*
- IPSAS 37, *Joint Arrangements*
- IPSAS 38, *Disclosure of Interests in Other Entities.*

The main decision made at the December 2014 meeting was to require disclosure of controlling interests in other entities that were acquired with the intention of disposal. This change was made in response to feedback from constituents.

In addition, the IPSASB:

- Provided feedback on changes to examples and the proposed new examples;
- Noted relevant IASB projects and their impact on EDs 48 to 52 and IPSASs 34 to 38. The IPSASB agreed to clarify two of the issues raised in IASB ED/2014/2 *Investment Entities–Applying the Consolidation Exception* (Proposed amendments to IFRS 10 and IAS 28);
- Agreed the location of definitions in the various standards; and
- Reviewed the use of the term “binding arrangements” for consistent usage.

The IPSASB agreed that following finalization of the standards, the comparison between the concepts of control in these standards and the Government Finance Statistics Manual 2014 (GFSM 2014) should be updated. This will assist the IPSASB in its evaluation of the extent to which further harmonization between statistical reporting guidance and IPSASs might be feasible.

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**September 2014**

In June 2014 the IPSASB considered responses on EDs 48 to 52 *Interests in Other Entities* and provided direction on key issues arising from the analysis of responses to EDs 48 to 52. At the September 2014 meeting the IPSASB considered constituents' detailed comments on the EDs and the proposed changes to the draft standards in response to those comments.

The IPSASB was generally supportive of the proposed changes.

The IPSASB noted an updated comparison of concepts of control in ED 49 *Consolidated Financial Statements* and a pre-publication version of the Government Finance Statistics Manual 2014 (GFSM 2014). The IPSASB noted that the use of the concepts is broadly similar in both systems of reporting. The IPSASB will continue to consider whether there are any further opportunities for alignment in the context of its ongoing project on alignment.

The IPSASB also noted the impact of the draft standards on the first-time adoption proposals being considered in the project on first-time adoption. The revised proposals will be addressed in the project for first-time adoption.

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**June 2014**

The IPSASB considered responses on EDs 48, 49, 50, 51 and 52 *Interests in Other Entities* and provided directions on key issues arising from the analysis of responses to EDs 48 to 52.

The IPSASB noted that many respondents expressed their general support for the project and the approach taken in developing the EDs. A subset of respondents disagreed with the approach taken.

Despite the majority of respondents supporting the proposals, the IPSASB noted that a number of respondents had indicated concerns about the difficulties of consolidating all controlled entities, and the costs of doing so. Many of the issues raised by respondents had been considered by the IPSASB when developing the EDs, and alternative approaches had been carefully considered. The IPSASB agreed that that the Basis for Conclusions on the EDs, particularly ED 49 *Consolidated Financial Statements* should be revised to communicate this more clearly.

The IPSASB also acknowledged that implementation issues have prevented widespread application of IPSAS 6 *Consolidated and Separate Financial Statements* and discussed ways in which it might assist entities to address implementation issues. Suggestions included guidance in the form of a study, and encouraging jurisdictions to share information about their consolidation experiences and the ways in which they addressed issues. The IPSASB also noted that materiality is a concept that underpins the application of all standards and that there are areas where assessments of materiality might lead to lower compliance costs.

The IPSASB agreed that there is sufficient support for this project to proceed to develop standards based on EDs 48 to 52. The IPSASB also agreed to develop standards using the same structure as the EDs.

As a result of responses from constituents and feedback from the IPSASB, work on developing proposed standards will include the following:

ED 49 *Consolidated Financial Statements*

- Change the definition of power. Remove the reference to the “right to direct the financial and operating policies of that entity” from the definition but explain, in the body of the standard, how this right can lead to power.
- Consider respondents’ comments to improve the discussion of benefits, and assessments of control where there are predetermined activities.
- Consider whether more guidance could be provided on distinguishing between fund management and ancillary services within the same investment entity.
- Reconfirmation of analysis of alignment between the proposals in ED 49 and GFS.
- Consider ways (other than through ED 49) of assisting constituents regarding implementation issues.

ED 50 *Investments in Associates and Joint Ventures*

- Change the discussion of quantifiable and non-quantifiable ownership interests in the scope and paragraphs 10 and 11 so that some quantifiable ownership interests are not inadvertently precluded.
- Change paragraph 26 to include reference to IPSAS 29 paragraph AG114.

ED 51 *Joint Arrangements*

- Review use of term “binding arrangements”.

ED 52 *Disclosure of Interests in Other Entities*

- Consider proposals to require disclosure of interests in controlled entities, associates and joint ventures that are held for sale.
- Consider proposals to require disclosure of non-quantifiable ownership interests (other than interests that give rise to control).
- Consider proposals to note that cross referencing from financial statements to other documents might not be permitted in some jurisdictions.

In all cases examples will be reviewed for consistency with the proposed standards and the Bases for Conclusions will be revised to reflect further deliberations by the IPSASB.

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**September 2013**

Subject to the changes agreed at the meeting, the IPSASB approved the five EDs that comprise this project. The IPSASB agreed that the EDs should propose the withdrawal of IPSASs 6 to 8 and the issuance of five new standards. The IPSASB agreed to issue the EDs in the following sequence:

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.*

The agenda papers proposed a due date for comments of January 31, 2014. The IPSASB considered that this would be appropriate if the EDs were issued soon after the meeting.

The IPSASB noted that it had been working on this project for some time and had previously discussed most of the issues arising from the development of the EDs. The purpose of this review was to consider remaining issues and conduct a final review of all the EDs.

The IPSASB noted that the EDs in this project propose transitional provisions for entities that are already applying IPSASs. The IPSASB agreed that this was appropriate as the transitional provisions for entities adopting the final standards based on these EDs will be addressed later in the context of the project on first-time adoption.

The key issue considered by the IPSASB was the accounting treatment of controlled investment entities in the consolidated financial statements of a controlling entity, that is not itself an investment entity. The IPSASB considered various options, including full consolidation of controlled investment entities, as required by IFRS 10 *Consolidated Financial Statements*. The IPSASB preferred option 3 set out in the agenda papers. Under Option 3 a controlling entity of an investment entity, that is not itself an investment entity, shall be required to consolidate and measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, and to consolidate the other assets and liabilities of the controlled investment entity using the usual consolidation accounting policies required by the ED. The IPSASB considered that its proposals reflect the fact that a controlling entity does not manage an investment entity itself on a fair value basis. Rather, it manages the investments of the investment entity on a fair value basis. This approach is also consistent with the accounting by an investment entity for its investments.

The IPSASB agreed that ED 49, *Consolidated Financial Statements* should include some discussion of constitutional arrangements and the determination of the economic entity.

Whilst confirming its earlier views on defining investment entities and establishing separate requirements for investment entities, the IPSASB agreed that the proposed requirements and guidance needed to be revised to more appropriately reflect the public sector environment. The IPSASB agreed that the typical characteristics of an investment entity, as outlined in IFRS 10, would not generally be typical in the public sector and decided not to separately identify typical characteristics of investment entities. The IPSASB agreed to retain some of the guidance on typical characteristics, to the extent that it can be directly linked to the definition of an investment entity. The characteristic referring to related parties is to be omitted from the ED. The IPSASB agreed to provide additional examples of entities that would not be investment entities and to require the disclosure of judgments and assumptions made in determining that an entity is an investment entity.

The IPSASB agreed that the Basis for Conclusions should include a description of the approach taken in developing the ED. The process included having regard to the public sector guidance in IPSAS 6 and the requirements for establishing whether control exists in the forthcoming GFSM 2013.

**June 2013:**

The IPSASB considered which reporting entities should be required to comply with the consolidation requirements in the Exposure Draft (ED) based on IFRS 10, *Consolidated Financial Statements*. In particular, the IPSASB considered:

(a) Whether to include an exception from consolidation for investment entities;

(b) Whether to mandate the presentation of consolidated financial information by statistical sectors (at a whole-of-government level) and, in conjunction with this, make the presentation of consolidated financial statements optional;

(c) How to proceed in developing an ED based on IFRS 10, *Consolidated Financial Statements*.

The IPSASB also noted an update on related IASB projects.

In relation to the proposals regarding investment entities the IPSASB tentatively agreed that the exposure draft based on IFRS 10 should:

(a) Include the investment entity exception from consolidation that is in IFRS 10 and require that investment entities account for their investments at fair value, as required by IFRS 10;

(b) Use the same definition and typical characteristics of an investment entity as in IFRS 10, together with an explanation of situations in which these characteristics might be absent in the public sector; and

(c) Include, in the Basis for Conclusions:

   (i) An explanation of the types of entities that might be investment entities;

   (ii) The views that the arguments for and against an exception from consolidation for investment entities (at the investment entity level) are similar in the private and public sectors; there do not appear to be significant public sector differences that would warrant a different accounting treatment in the investment entity's financial statements; and it would be desirable to have the same accounting requirements for investment entities in IPSASs and IFRSs to reduce the opportunity for accounting arbitrage when determining which accounting standards an investment entity should be required to apply.

In addition, the IPSASB agreed that it would like to consider further alternative accounting treatments for incorporating an investment entity in the consolidated financial statements of a controlling entity that is not itself an investment entity. IFRS 10 requires that a controlling entity consolidate any controlled investment entities on a line by line basis (in the same way that other controlled entities are consolidated). In addition to the treatment required by IFRS 10, the IPSASB would also like to consider the consequences of a controlling entity accounting for its investment in a controlled investment entity using (i) the fair value of the investment entity, or (ii) the fair value of the investment entity's investments. The next version of the draft ED based on IFRS 10 to be considered by the IPSASB will present these three options and include draft Basis for Conclusions text in relation to these options.

In relation to the proposals regarding statistical sector reporting, the IPSASB:

(a) Agreed not to proceed with the proposal outlined in agenda paper 3.2 to permit optional presentation of consolidated financial statements (in conjunction with mandatory sector reporting) at a whole of government level in the context of this project; and

(b) Agreed that the issue of whether IPSAS 22 should be mandatory should be considered in the context of the project on *Alignment of IPSASs with Public Sector Statistical Reporting Guidance* and the full analysis of submissions on the recent CP.

In relation to providing guidance on how to proceed in drafting the ED based on IFRS 10 and seeking feedback from constituents the IPSASB:

(a) Agreed to propose the consolidation of all controlled entities, other than the exception(s) from consolidation relating to investment entities discussed under agenda paper 3.1;

(b) Agreed to seek the views of constituents as to whether there are any categories of entities that should not be consolidated, with a request that any proposals for non-consolidation be justified having regard to user needs. In addition, respondents should be asked to indicate their preferred accounting treatment for any controlled entities that are not consolidated;

(c) Agreed to seek the views of constituents on the definition of control, noting that this definition and related guidance is what will determine the scope of the standard; and

(d) Agreed that the Basis for Conclusions for this ED should reflect the wide ranging discussions of the IPSASB over previous meetings.

The revised ED based on IFRS 10, taking account of these tentative decisions, will be considered for approval at a future meeting.

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**March 2013**

The IPSASB provided feedback on issues arising from the development of two Exposure Drafts (EDs):

(a) ED X, *Separate Financial Statements* (based on IAS 27 as amended in 2011); and

(b) ED X, *Investments in Associates and Joint Ventures* (based on IAS 28 as amended in 2011).

The IPSASB also considered unresolved issues arising from consideration of other EDs within this project at previous meetings. The key issues were (i) possible exemptions from the consolidation requirements in ED X, *Consolidated Financial Statements* and alternative accounting methods for any such entities; (ii) in the event that consolidation is required, alternative ways of presenting information on certain controlled entities in consolidated financial statements and (iii) possible ways of limiting the structured entity disclosures within ED X, *Disclosure of Interests in Other Entities* to ensure appropriate disclosures in the public sector context.

In relation to ED X, *Separate Financial Statements* the IPSASB:

- Noted that the International Accounting Standards Board (IASB) has amended IAS 27 to give effect to an exemption for investment entities from the consolidation requirements in IFRS 10, *Consolidated Financial Statements* and agreed to reconsider the relevance of the concept of investment entities in the public sector, including the accounting treatment for investment entities;
- Agreed to reinstate the use of the equity method in separate financial statements and to monitor the IASB's project proposing to reinstate the equity method in IAS 27 (an IASB ED proposing to amend IAS 27 is expected later this year);
- Noted that if the IPSASB decides to exempt certain types of entities from the consolidation requirements in ED X, *Consolidated Financial Statements*, it would also need to specify the

accounting requirements for the separate financial statements of such entities in ED X, *Separate Financial Statements*; and

- Provided detailed feedback on the contents of the draft ED.

In relation to ED X, *Investments in Associates and Joint Ventures* the IPSASB:

- Agreed 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* to the extent that they are relevant. If these amendments have not been finalized by the IASB by the time the IPSASB's ED is issued, the IPSASB agreed that constituents' views should be sought on any such amendments included in the ED;
- Agreed 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;
- Agreed, in the context of the regular liaison meetings with the IASB, to indicate the IPSASB's interest in the IASB's research project on the usefulness of the equity method of accounting and to monitor this project; and
- Provided detailed feedback on the contents of the draft ED.

The IPSASB had an extensive discussion, but has not yet concluded on which, if any controlled entities should be exempt from the consolidation requirements in ED X, *Consolidated Financial Statements* or the alternative ways of presenting information on such entities in consolidated financial statements.

The IPSASB noted the potential difficulties in operationalizing exemptions and the risk that such exemptions could lead to dissimilar accounting treatment for similar entities. Key issues arising from the discussion were as follows:

- As noted above, the concept of investment entities is to be considered at the next meeting.
- All controlled entities including Government Business Enterprises and entities where control was obtained in circumstances of financial distress form part of the economic entity but some members still consider that the use of the equity method is more appropriate than consolidation for certain entities.
- There was very little support for Option 1 in the agenda papers, being line by line consolidation of all controlled entities together with the presentation of an extra column in which certain controlled entities could be accounted for as investments. Members were generally concerned that the size of certain controlled entities could limit the usefulness of line by line consolidation and that an additional column would clutter the face of the financial statements.
- There was mixed support for Options 2 and 3 in the agenda papers, both of which proposed consolidation of all controlled entities. Under Option 2 certain controlled entities would not be consolidated on a line by line basis – instead consolidated information would be presented in respect of aggregates such as total assets or non-current assets. Under Option 3 additional information on certain controlled entities would be presented in the notes. It was noted that there could be practical difficulties in implementing Option 2. Views were mixed as to the usefulness of the additional note disclosure proposed under Option 3.

- There was some support for Option 4, being the use of equity accounting for certain controlled entities. There were mixed views as to the usefulness of additional note disclosure intended to allow users to recast the financial statements as if such entities had been consolidated. Some members saw equity accounting asbeing an acceptable option in the context of moving towards full consolidation over time.
- Some members raised other options for consideration, including combinations of the options in the agenda papers, and the separate presentation of consolidated financial information by function or by statistical sector such as the General Government Sector.

The IPSASB agreed to give these matters further consideration at its next meeting, with an emphasis on the concept of investment entities, full line by line consolidation with additional note disclosure and separate presentation of information on the general government sector. The IPSASB noted that the diversity of current practice and the range of views held by members might appropriately be reflected in an ED that outlines alternative accounting treatments or exemptions and seeks views on those alternative treatments or exemptions.

The IPSASB has previously expressed concern about the consequences of applying the IASB's definition of a structured entity to public sector entities, many of which are dependent on a government for ongoing funding. The IPSASB considered two options for limiting application of the structured entity disclosures in the public sector. The first option (set out in the agenda papers) was to limit the disclosures to profit-oriented structured entities. The second option (raised in the meeting) was to limit the definition of structured entities to entities that have been designed so that voting or similar rights, including administrative arrangements or statutory provisions, are not the dominant factor in determining control of the entity. The IPSASB agreed to incorporate the second approach in ED X, *Disclosure of Interests in Other Entities*

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**December 2012**

The IPSASB provided feedback on issues arising from the development of three Exposure Drafts (EDs):

(a) ED X, *Consolidated Financial Statements* (based on IFRS 10);

(b) ED X, *Joint Arrangements* (based on IFRS 11); and

(c) ED X, *Disclosure of Interests in Other Entities* (based on IFRS 12).

The IPSASB confirmed a number of issues is respect of ED X, *Consolidated Financial Statements* but has yet to make a decision regarding whether there should be an exemption from consolidation for temporarily controlled entities.

In relation to ED X, *Joint Arrangements t*he IPSASB confirmed the definitions of joint ventures and joint arrangements. The IPSASB noted that IFRS 11 no longer permits the use of proportionate consolidation and confirmed that joint ventures should be accounted for using the equity method.

In relation to ED X, *Disclosure of Interests in Other Entities* the IPSASB considered the appropriateness of the concept of structured entities and the disclosures in respect of structured entities.  The IPSASB agreed to consider this matter further, having regard to the risk disclosures currently required by IPSASs.

All five draft EDs comprising this project will be included in the March 2013 agenda papers.

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**September 2012**

The IPSASB considered an analysis of differences between the definitions of control in relevant financial reporting standards and the definitions of control and indicators of control in the Government Finance Statistics Manual. The IPSASB agreed that there were opportunities for aligning the definitions of control and to clarify the nature of differences.

The IPSASB provided feedback on an Exposure Draft based on IFRS 10, *Consolidated Financial Statements*. A revised draft of this Exposure Draft, together with Exposure Drafts based on IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities* will be considered at the December 2012 meeting.

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**June 2012**

The Board IPSASB considered a number of issues related to this project. The IPSASB noted the IASB's project on investment entities and agreed to monitor that project.

The Board decided that IFRS 5 *Non-current Assets Held-for-sale and Discontinued Operations* should remain outside the scope of the project. However, the Board noted that the temporary control exemptions in existing standards would be re-examined as part of this project.

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**September 2011**

The IPSASB discussed the issue of whether the temporary control exemption from consolidation in IPSAS 6 should be retained. The IPSASB had differing views as to whether this exemption should be retained and agreed to explore the issue further at a future meeting.

A finalized Project Brief was issued.

The Board agreed that the public sector modifications in IPSASs 6-8, together with other issues identified by the Board would be a useful starting point for identifying possible departures from these IFRSs. The Board noted the work currently being done by the Australian Accounting Standards Board and that other jurisdictions also have similar projects.

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**June 2011**

The IPSASB approved a Project Brief, *Revision of IPSASs 6-8*. The IPSASB identified the issues above as relevant to this project.