A matter of interest

What do the new PBE Standards on interests in other entities mean for you?

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Building a better working world

Introduction

In January 2017, the New Zealand Accounting Standards Board (NZASB) issued five new PBE Standards that deal with accounting for, and disclosure of, a public benefit entity's (PBE's) interests in other entities. Interests in other entities could be in the form of controlled entities (also known as subsidiaries), associates or joint ventures.

Tier 1 and Tier 2 public sector and not-for-profit PBEs will be required to apply the new standards in periods beginning on or after 1 January 2019 (early adoption is allowed).

The key changes introduced by the new standards are:

- An amended definition of control.
- A new concept of investment entities (which are exempt from consolidating controlled entities).
- A new classification model for joint arrangements.
- Additional disclosure requirements regarding a PBE's interests in other entities.

This publication aims to assist those PBEs that hold interests in other entities with preparing to apply the new standards.

The new PBE Standards on interests in other entities: at a glance

What are the new standards on interests in other entities?

- PBE IPSAS 34 *Separate Financial Statements* ("PBE IPSAS 34") provides the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates in a PBE's separate (parent) financial statements.
- PBE IPSAS 35 *Consolidated Financial Statements* ("PBE IPSAS 35") establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- PBE IPSAS 36 *Investments in Associates and Joint Ventures* ("PBE IPSAS 36") prescribes the accounting for investments in associates and joint ventures, including the requirements for the application of the equity method of accounting.
- PBE IPSAS 37 *Joint Arrangements* ("PBE IPSAS 37") establishes the principles for financial reporting by entities that have interests in arrangements that are controlled jointly.
- PBE IPSAS 38 *Disclosure of Interests in Other Entities* ("PBE IPSAS 38") provides the disclosure requirements relating to a PBE's interests in other entities.

Why were the new standards issued?

At the moment, PBEs in New Zealand account for their interests in other entities in accordance with the requirements of PBE IPSAS 6 *Consolidated and Separate Financial Statements*, PBE IPSAS 7 *Investments in Associates*, and PBE IPSAS 8 *Interests in Joint Ventures*. These PBE Standards are ultimately based on an earlier version of the related for-profit standards issued by the International Accounting Standards Board (IASB) prior to 2011.

These old standards were criticised during the Global Financial Crisis for not having sufficiently robust consolidation and control requirements, allowing certain entities to remain "off balance sheet" and not providing information on the risks arising from involvement with these entities.

The IASB introduced reforms to accounting for interests in other entities by issuing IFRS 10, IFRS 11, IFRS 12, and amended versions of IAS 27 and IAS 28[1]. The issuing of PBE IPSAS 34-38 represents the inclusion of the IASB's reforms into PBE Standards. These PBE Standards are based on standards issued by the International Public Sector Accounting Standards Board (IPSASB), which are in turn based IASB's reforms.

The new standards introduce more comprehensive accounting requirements, guidance and disclosure around control and interests in other entities. They will also eliminate some of the differences that currently exist between PBE IPSAS 6-8 and their NZ IFRS equivalents, making it easier to prepare financial statements for "mixed groups" that contain both PBEs and for-profit entities.

Which PBEs need to comply with the new standards?

PBE IPSAS 34-38 will apply to all PBEs (both public sector and not-for-profit PBEs) which fall into Tier 1 or Tier 2 of the XRB's accounting standards framework.

PBEs in Tier 2 will have some disclosure concessions in relation to the requirements in PBE IPSAS 38, but all of the accounting requirements in PBE IPSAS 34-37 will apply equally to both Tier 1 and Tier 2 PBEs. There is, however, one concession for Tier 2 entities regarding the presentation of consolidated financial statements. In a similar manner to PBE IPSAS 6, PBE IPSAS 35 states that an entity that controls another entity is not required to present consolidated financial statements if it meets certain criteria. A Tier 2 entity does not have to meet all of the requirements that a Tier 1 entity has to meet in order to be exempt from presenting consolidated financial statements. Specifically a Tier 2 entity does not have to comply with the requirement that its intermediate or ultimate parent produce consolidated financial statements that are available to the public.

In addition, PBEs in Tier 3 that report under the PBE Simple Format Reporting – Accrual standard will also need to account for their interests in other entities in accordance with PBE IPSAS 34-37, although they will not need to comply with the disclosure requirements of PBE IPSAS 38.

[1] The full names of these standards are IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements*, and IAS 28 *Investment in Associates and Joint Ventures*.

When do the new standards apply?

PBE IPSAS 34-38 are effective for periods beginning 1 January 2019 and onwards. Early application is permitted, as long as all five standards are adopted at the same time.

What do the new standards change?

In brief, the new standards require the following:

- **Consolidation and control:** PBEs that control other entities are still required to consolidate all controlled entities in their group financial statements. However, the definition of control is somewhat different, with additional focus on the link between the power and benefit elements of control, and the new standard includes extensive new guidance on control. Therefore the determination of which entities are controlled by a PBE could change in certain circumstances.

Under the new standards, you may find that your PBE controls entities that previously were not consolidated.

- **Investment entities:** The new standards introduce a new concept of an investment entity (IE) and exempts entities that meet the definition of an IE from consolidating their controlled entities. Instead, an IE is required to recognise its investments in controlled entities at fair value through surplus or deficit. Additionally, where a PBE is not itself an IE but is the parent of an IE, the PBE will need to recognise the IE's investments in controlled entities at fair value through surplus or deficit, rather than consolidating these controlled entities.

It is unlikely that a PBE will meet the definition of an IE. However, if your PBE controls an entity that meets the definition of an IE, you will need to stop consolidating the IE's controlled entities, and instead account for them as investments at fair value through surplus or deficit.

- **Accounting for associates and joint arrangements:** The new standards recognise only two types of joint arrangements – joint operations and joint ventures – as opposed to the three types that are currently recognised under PBE IPSAS 8. Under the new standards, all joint ventures and all investments in associates are to be accounted for using the equity method. A PBE with an interest in a joint operation is required recognise in its financial statements the assets, liabilities, revenue and expenses that arise from its interest in the joint operation. The proportionate consolidation method is not permitted.

PBEs will be required to reassess their investments in joint arrangements to determine the accounting treatment under the new standards. This could result in different accounting for joint arrangements.

- **Disclosure:** The new standards require PBEs to disclose information about the nature of its interests in other entities, the risks and financial effects arising from involvement with these entities, and the judgements applied by the PBE to classify its interests in other entities as controlled entities, associates, joint arrangements, unconsolidated structured entities, etc.

If a PBE has interests in other entities, it is expected that the disclosure requirements will increase as a result of the new standards.

Please refer to the appendix "Summary of new requirements and key considerations" for a more detailed explanation of the new standards' requirements.

Next steps

The new standards will become effective for accounting periods beginning on or after 1 January 2019, but early adoption is allowed. Whether or not you intend to adopt these standards before their effective date, we recommend that you start preparing for them early by doing the following:

- Identify your interests in other entities, i.e. the entities where you have some ownership interests (e.g. through shareholding), and other entities in whose operations you are involved (e.g. through legislative or administrative arrangements).
- Assess whether you have control, significant influence, or joint control over each identified entity in accordance with PBE IPSAS 35-37, or whether your relationship with the entity does not constitute any of these interest types (bearing in mind that this assessment may lead to different conclusions than the ones you previously reached under PBE IPSAS 6-8).
- If you have joint arrangements, determine their classification (i.e. joint operations or joint ventures), as per the requirements of PBE IPSAS 37.
- Assess whether there are any structured entities among those entities that you control, and among those entities in which you have interests but no control.
- Ascertain the applicable accounting method for your interests in other entities under the new standards, and whether there are any differences between the new requirements and those that you currently apply under PBE IPSAS 6-7 (note that such differences may require you to restate prior period information in your financial statements).
- Identify whether you need to collect any additional information to be able to comply with the accounting and disclosure requirements of the new standards (e.g. your information systems may need to be updated to capture additional information about interests in other entities).
- Consider the transitional provisions of each standard and how it will be applied on initial adoption.

How EY can help

Issue and steps	How EY can help
Gain a general understanding of the new standards on interests in other entities	‣ Design and deliver training sessions for personnel on the accounting implications of the new standards.
Perform a preliminary assessment of the impact of the new standards on the financial statements	‣ Perform pre-implementation impact assessments, including: ‣ Assessing the expected impact of implementing accounting standards on surplus or deficit and the statement of financial position. ‣ Assessing the expected impact on key financial ratios and performance measures. ‣ Identifying new or changed financial statement disclosure requirements.
Interpreting and implementing the new standards on interests in other entities	‣ Assist with the interpretation of the new standards. ‣ Assist management in developing an implementation plan. ‣ Advise on project management, including timeline, tasks and resource allocation.
Benchmarking accounting policy decisions and financial statement disclosures against peers and others in the sector	‣ Provide observations of how others are approaching the new standards, problems they are identifying and solutions developed. ‣ Assist in the comparison of peers and similar entities' accounting policy decisions, disclosures and expected impact on the financial statements.
Advising management during implementation	‣ Prepare progress reports and advise on the impact of the new standards. ‣ Review and provide input into accounting manuals that management will approve.
Checking that the financial statements are prepared in accordance with the new standard	‣ Perform financial statement GAAP compliance reviews, which will include a review of disclosures around interests in other entities.
Communicating the effect of changes in accounting policy decisions or reporting requirements to the public	‣ Advise on developing a communication plan. ‣ Advise on drafting communications.

Appendix
Interests in other entities: The new requirements and key considerations

PBE IPSAS 34 *Separate Financial Statements*

Key accounting/ disclosure requirements:

The requirements of PBE IPSAS 34 are similar to the current requirements for separate (or "parent only") financial statements in PBE IPSAS 6. The new standard does not specifically require an entity to prepare separate financial statement, but instead provides guidance on the requirements if they are prepared.

When a PBE prepares separate financial statements, it may account for its investments in controlled entities, joint ventures and associates using the equity method, or at cost, or as a financial instrument in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (PBE IPSAS 29). However, the PBE must apply the same method consistently to all investments within each category.

(NB: The financial statements of a PBE that does not have any controlled entities, associates or joint ventures are not separate financial statements, they are individual financial statements, and hence PBE IPSAS 34 is not applicable to such entities.)

PBE IPSAS 35 *Consolidated Financial Statements*

Key accounting/ disclosure requirements:

Consolidation requirement: A PBE that controls one or more entities must present consolidated financial statements that include the assets, liabilities, equity, revenue, expenses, and cash flows of its controlled entities. However, investment entities (see below) are exempt from the requirement to consolidate their controlled entities.

Control determination: A PBE controls another entity if the PBE:

- Has power over the entity.
- Is exposed, or has rights to, variable benefits (either financial or non-financial) from its involvement with that entity.
- Is able to use its power to affect the nature or amount of the variable benefits to which the PBE is exposed as a result of its involvement with the entity.

Under this control model, a PBE has power over another entity when the PBE has existing rights that currently enable it to direct the relevant activities of the entity.

The relevant activities of the entity are those that significantly affect that entity's benefits.

Investment entities: An investment entity (IE) is an entity that.

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services.
- Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both.
- Measures and evaluates the performance of substantially all of its investments on a fair value basis.

For example, a managed investment fund would normally meet the definition of an IE.

An IE will not consolidate its controlled entities in its financial statements. Instead, the IE must account for its controlled entities as financial instruments at fair value through surplus and deficit, as per PBE IPSAS 29. In addition, the parent of an IE, which is not itself an IE, needs to measure the IE's controlled entities at fair value. For example, a PBE that controls a for-profit entity that meets the definition of an IE would not need to consolidate any controlled entities of that IE and would instead measure the IE's controlled entities at fair value. This is in contrast to the requirements under NZ IFRS 10 which requires a non-IE parent that controls an IE to unwind the fair value accounting for the IE's controlled entities and consolidate them.

Additional considerations:

Substantive rights: For power to exist, a PBE must have a practical ability to exercise those rights that allow it to direct the relevant activities of the entity. That is, the rights must be substantive. If the PBE cannot exercise these rights in practice, then the PBE has no power – and no control – over the entity.

Protective rights: Protective rights do not constitute power. For example, a PBE that lends money to another entity may have the right to seize that other entity's asset upon default. This is a protective right, but it does not mean that the PBE has power over the borrowing entity. Similarly, when a PBE that is party to a network or partner agreement grants another entity the right to use its operating model and brand, and in return gains some decision-making rights over the operations of that entity, the PBE should consider whether these rights are merely protective rights (designed to protect its brand name), or whether the granting party has established rights that constitute power and lead to control.

Pre-determination of activities: When a PBE establishes another entity and determines the purpose and design of the entity upon establishment, it may pre-determine the entity's relevant activities such that they cannot be changed once the entity begins operating. In this case, the PBE might not have the ability to direct the entity's activities on a day-to-day basis, as the activities cannot be changed. However, the PBE has already exercised its right to direct the entity's relevant activities when it established the entity, by pre-determining the entity's activities. Thus, by virtue of the purpose and design of the entity, the PBE has power over the entity.

Examples: Elements of the definition of control

Example 1: Power – substantive vs protective rights

Scenario: PBE A's mission is to promote a healthy lifestyle and awareness of health issues for families and children. PBE A operates a model in which it assists other entities ("service delivery entities") to set-up family health education centres and run information sessions for families and in schools. PBE A provides the service delivery entities with an operating manual complete with policies and procedures for running the health education centres. PBE A also offers training, marketing services, and resources on family health matters to the service delivery entities.

The service delivery entities retain control over a number of key decisions, including their own legal form, their funding arrangements, the location of the centres and which schools they visit, and the material that they cover in information sessions. However, the service delivery entities are required to comply with PBE A's operating procedures, and report on their compliance to PBE A. Non-compliance may result in PBE A revoking the agreement. If PBE A revokes the agreement, the service delivery entities can continue to operate the education centres, but they cannot use PBE A's name in the name of their centres or in any promotional/educational material, nor are they entitled to any other benefits provided by PBE A.

Control assessment - Power: The owners of the service delivery entities have the current ability to make decisions that significantly affect the returns from operating the health education centres. The owners' ability to make these decisions is not restricted by PBE A. PBE A's right to revoke the agreement is a protective right intended to protect its brand. Therefore, PBE A does not have power over the service delivery entities, and does not control these entities.

Example 2: Power – pre-determination of relevant activities

Scenario: Charity A aims to improve access to housing for lower-income earners by promoting construction and maintenance of affordable housing, and facilitates access to housing finance. Charity A establishes a separate trust, Trust B, and narrowly defines the Trust's objective as providing housing loans to people who earn income below a specified level. Charity A does not have on-going decision-making rights over the Trust's activities. Trust B funds its loans by issuing mortgage bonds. While Charity A guarantees these bonds, Trust B does not receive funding from Charity A.

Control assessment - Power: Charity A is exposed to variable benefits from its involvement with Trust B, both through guaranteeing the Trust's bonds and because the Trust's activities help with achieving Charity A's objective of improving access to housing for lower-income earners. However, to determine whether it controls Trust B, Charity A will need to determine whether it has power over the Trust. The relevant activities of Trust B is the provision of loans to people whose income is below a specified level. Charity A pre-determined these relevant activities when it established the Trust and set up the Trust Deed. Therefore, although Charity A does not have decision-making rights over the activities of Trust B on a day-to-day basis, it had already exercised this right upon the establishment of Trust B, and has prevented anyone else from subsequently directing Trust B's activities. Thus PBE A has power over Trust B.

Given that Charity A is exposed to variable returns from its involvement with the Trust, and that Charity A has power over Trust B (through its pre-determination of the Trust's activities), Charity A concludes that it controls Good Trust.

Example 3: Exposure to variable returns - non-financial benefits

Scenario: Good Trust undertakes projects and initiatives to keep Good City clean. Good Trust provide services such as organising street and beach clean-ups and running anti-littering programmes in local schools. The Trust was established by the local authority, Good City Council. Keeping Good City clean is also one of the Council's objectives, so if the Trust did not exist, the Council would have to find another way to deliver these services.

Control assessment - Exposure to variable returns: For the purpose of the control model in PBE IPSAS 35, variable returns could be in the form of financial and/or non-financial benefits. The Council benefits from the Trust's activities, as keeping the city clean is also one of the Council's objectives; therefore, the Trust's activities helps the Council achieve its own objectives. Thus the fact that the Trust's activities are complementary to those of the Council create a non-financial benefit for the Council. The benefits are subject to variability, as they depend on the Trust's level of success in implementing its projects and initiatives. Hence, the Council is exposed to variable benefits from its involvement with the Trust.

If it is also determined that Good City Council has power over Good Trust, and can use this power to affect the abovementioned variable returns (which is explored in Example 4 below), then the Council will conclude that it controls Good Trust.

Example 4: Link between power and benefits

Scenario: As in Example 3 above: Good Trust was set up by Good City Council, and undertakes projects to keep Good City clean, which is also an objective of Good City Council. The Council appoints all of Good Trust's trustees, which then appoints the management team. The Council may remove Trustees or members of the management team. The Trust receives funding from the Council (as well as donations from local businesses and community groups). The Council has the right to approve or veto operating and capital budgets relating to the abovementioned activities of the Trust, as well as any significant changes to the Trust, such as the sale of major assets. Any changes to the Trust Deed must be approved by the Trustees and the Council.

Control assessment - ability to use power to affect variable returns: As the Trust's activities are complementary to the Council's objectives, and given that the Council also funds the Trust, the Council is exposed to variable returns from its involvement with the Trust, both due to the economic effects of the services provided by the Trust and the quality of these services. However, the Council will only control the Trust if it has power over the Trust and is able to affect these variable returns using its power over the Trust. The Council is able to direct the relevant activities (the services) of the Trust in such a way that it can affect the costs and quality of the services being provided. For example, it can use its right to appoint Trustees and to remove Trustees and management personnel, as well as its right to approve or veto budgets, to affect the nature and quality of services provided by the Trust in terms of keeping the city clean. Therefore, the Council is able to use its power to affect the level of the abovementioned variable returns that it receives/is exposed to from its involvement with the Trust. On this basis, the Council controls the Trust.

Difference and impact on reporting:

The main differences between the requirements of PBE IPSAS 35 and the current requirements of PBE IPSAS 6 around consolidation and control are:

- The definition of control in PBE IPSAS 35 is somewhat different: although it still requires a power element and a benefits element, a key requirement of the new standard is that in order to meet the definition of control, there needs to be a more explicit link between the two elements.
- PBE IPSAS 35 emphasises, arguably to a greater extent than PBE IPSAS 6, that control can be achieved without majority voting rights.
- PBE IPSAS 35 contains more guidance on assessing control in a range of circumstances where there are substantive rights, protective rights and predetermined activities.
- PBE IPSAS 35 identifies investment entities as a separate type of entity, which are subject to different requirements than for other controlling and controlled entities.

Because of the above differences, PBE IPSAS 35 may cause you to identify new controlled entities that were previously not identified as such. All controlled entities (except those controlled by an IE) will need to be consolidated.

On the other hand, entities controlled by an IE will no longer need to be consolidated, but will be accounted for as investments at fair value through surplus or deficit.

PBE IPSAS 36 *Investments in Associates and Joint Ventures*

Key accounting requirements:

Associates are those entities over which the investor has significant influence, but not control or joint control (see the next page).

Joint ventures (JVs) are joint arrangements (see the next page) whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A PBE must account for its investment in associates and JVs using the equity method: the investment in the associate/JV is initially recognised at cost, and is subsequently adjusted for the post-acquisition changes in the PBE's share of the associate's or joint venture's net assets/equity. The mechanics of the equity method have not changed from PBE IPSAS 7.

Investment entities (IEs - see PBE IPSAS 35 on the previous page) and venture capital organisations (VCO) may account for their investments in associates and JVs as financial instruments at fair value through surplus and deficit, as per PBE IPSAS 29. This also applies to associates and JVs that are held by a PBE indirectly through an IE or a VCO.

Additional considerations:

The requirements of this standard apply only when a PBE has a quantifiable interest in the associate or JV, but this quantifiable interest does not necessarily need to be a formal equity instrument.

Difference and impact on reporting:

The main differences between the requirements of PBE IPSAS 36 and the current requirements of PBE IPSAS 7 and PBE IPSAS 8 is that it is no longer possible to account for an investment in a JV using proportionate consolidation – only the equity method must be used. If you previously used proportionate consolidation to account for a JV, transitioning to the equity method may result in significant differences.

PBE IPSAS 37 *Joint Arrangements*

Key accounting requirements:

A joint arrangement (JA) is an arrangement over which two or more parties have joint control. The meaning of control in this case is the same as per PBE IPSAS 35 (please see above). Joint control exists when:

- There is a binding agreement between the parties involved in the arrangement.
- This agreement requires the relevant activities of the arrangement to be decided by unanimous consent from all parties involved in the arrangement.

PBE IPSAS 37 recognises two types of joint arrangement, which must be accounted for in the following way:

Type of joint arrangement	Definition	Accounting requirements in the financial statements
Joint operation (JO)	JA where the parties have rights to the assets, and obligation for the liabilities, relating to the arrangement.	A joint operator must recognise in its financial statements the assets, liabilities, revenue and expenses that arise from its interest in the JO. That is, the joint operator recognises: ▸ Its assets, liabilities and expenses incurred in relation to the JO (including any share of assets/liabilities held jointly). ▸ Its revenue from the sale of its share of the JO's output. ▸ Its share of revenue and expenses of the JO.
Joint venture (JV)	JA where the parties have rights to the net assets of the joint arrangement.	A joint venturer must recognise its interest in the JV as an investment, using the equity method of accounting as per PBE IPSAS 36 (see the previous page).

Additional considerations:

The classification of a joint arrangement as either a JO or a JV depends on the rights and obligations of the parties in the arrangement.

That is, if the parties have rights to the assets, and obligations for the liabilities, relating to the joint arrangement, then the arrangement is a JO. On the other hand, if the parties have rights to the net assets of the joint arrangement, then the arrangement is a JV.

These rights and obligations are determined by considering the joint arrangement's structure, its legal form, the terms of the binding agreement and other relevant facts.

First, a PBE must consider the arrangement's structure. Some arrangements are structured through a separate vehicle. That is, the activities of the arrangement are carried out by an entity that is jointly controlled by the parties of the arrangement but is separate to these parties – such as a partnership, company, registered charity, incorporated society, a public sector entity set up by legislation, etc. If the joint arrangement is not structured through a separate vehicle, then it is a JO.

However, if the arrangement is structured through a separate vehicle such as the ones described above, then the PBE will determine whether it is a JO or JV by considering the separate vehicle's legal form, the terms of the binding agreement, and other relevant facts and circumstances.

Difference and impact on reporting:

The main differences between PBE IPSAS 37 and the current requirements of PBE IPSAS 8 are:

- The use of the term joint control relies on the new control definition in PBE IPSAS 35.
- Unlike PBE IPSAS 8, PBE IPSAS 37 focuses on rights and obligations – not just the structure of the arrangement – when determining the classification of joint arrangements and how they are accounted for.
- Under PBE IPSAS 37 there will only be two types of joint arrangements: JOs and JVs. Under PBE IPSAS 8 there are currently three types of joint arrangements: jointly controlled assets, jointly controlled operations and jointly controlled entities.
- PBE IPSAS 37 requires that joint ventures be accounted for using the equity method. Under PBE IPSAS 8 an entity could account for its "jointly controlled entities" using either equity accounting or proportionate consolidation.

These differences may cause PBEs to change their classification of their joint arrangements under PBE IPSAS 37. The classification of a PBE's joint arrangements under PBE IPSAS 37 will determine how they are accounted for. Generally, arrangements that were classified under PBE IPSAS 8 as jointly controlled assets and jointly controlled operations will be classified as JOs under PBE IPSAS 37, which would, in most cases, not result in changes to accounting requirements. However, arrangements that were classified as jointly controlled entities under PBE IPSAS 8 may be classified either as JOs or JVs under PBE IPSAS 37, depending on the considerations summarised above.

The table below summarises the changes in accounting requirements for jointly controlled entities, depending on (a) whether they were accounted for using proportionate consolidation or the equity method under PBE IPSAS 8, and (b) whether they are classified as a JV or JO under PBE IPSAS 37.

Accounting under PBE IPSAS 8	Classification: PBE IPSAS 37	Change in accounting on transition to PBE IPSAS 37
Jointly controlled entity previously accounted for using proportionate consolidation	JV	You will no longer be able to use proportionate consolidation to account for this arrangement, and will need to apply the equity method instead.
	JO	You will no longer be able to use proportionate consolidation to account for this arrangement, and will instead recognise the assets, liabilities, revenue and expenses that arise from your interest in the JO. Please note that these two approaches are not the same, although they will sometimes lead to the same result. If the joint operator has rights to a specified percentage of all assets and for a specified percentage of all liabilities, there will likely be no differences between accounting for a JO and proportionate consolidation. However, if the joint operator has differing rights to particular assets, and differing obligations for particular liabilities, then accounting for a JO under PBE IPSAS 37 will be different to proportionate consolidation.
Jointly controlled entity previously accounted for using equity method	JV	No change in accounting requirements: continue to apply equity method.
	JO	You will no longer be able to use the equity method, and will instead recog-nise the assets, liabilities, revenue and expenses that arise from your inter-est in the JO.

PBE IPSAS 38 *Disclosure of Interests in Other Entities*

Key accounting disclosure requirements:

Under PBE IPSAS 38, PBEs are required to provide the following disclosures in relation to interests in other entities:

Information to be disclosed	Explanation
The nature of the PBE's interests in other entities, and the risks associated with these interests	JA where the parties have rights to the assets, and obligation for the liabilities, relating to the arrangement.
The effect of these interests on the PBE's financial performance, position and cash flows	A PBE should disclose summarised financial information for: ‣ Material associates and JVs, on an individual basis. ‣ Immaterial associates and JVs, in aggregate (if material in aggregate).
The assessments and judgements made when determining the classifications of these interests	For example, a PBE should disclose information on: ‣ How it determined that it controlled another entity. ‣ How it determined that a joint arrangement structured through a separate vehicle is a JV or JO.
Other key disclosures	‣ If applicable: the fact that the PBE is an IE, and the significant judgements used to make this determination. ‣ Information regarding any unconsolidated entities the IE controls. ‣ Information about any interests in other entities that cannot be quantified.

Structured entities:

Structured entities are a new concept that is not included in PBE IPSAS 6-8 (although there are similarities between structured entities and the types of entities previously referred to as special purpose entities). A structured entity's relevant activities are directed predominantly by means of binding arrangements, rather than by exercising voting rights or by way of legislation. Such entities normally have restricted activities and/or narrow objectives, which may or may not have been pre-determined upon inception. Because of the way they are structured, the full impact (or potential impact) on these entities on the PBE's financial statements may not be obvious. To assist users in assessing these impacts, PBE IPSAS 38 requires disclosures about consolidated and unconsolidated structured entities. Structured entities: Structured entities are a new concept that is not included in PBE IPSAS 6-8 (although there are similarities between structured entities and the types of entities previously referred to as special purpose entities). A structured entity's relevant activities are directed predominantly by means of binding arrangements, rather than by exercising voting rights or by way of legislation. Such entities normally have restricted activities and/or narrow objectives, which may or may not have been pre-determined upon inception. Because of the way they are structured, the full impact (or potential impact) on these entities on the PBE's financial statements may not be obvious. To assist users in assessing these impacts, PBE IPSAS 38 requires disclosures about consolidated and unconsolidated structured entities.

Additional considerations:

PBE IPSAS 38 contains some reduced disclosure concessions for Tier 2 PBEs. For example, a Tier 2 PBE need not disclose the abovementioned information about non-controlling interests and the summarised financial information for associates and JVs.

Difference and impact on reporting:

The main difference between PBE IPSAS 38 and the current disclosure requirements in PBE IPSAS 6-8 is that under PBE IPSAS 38, if a PBE has significant interests in other entities it will have increased disclosure requirements. Specifically, you will be required to disclose:

- More information about on the assessment of control and about non-controlling interests.
- More information about a PBE's interests in associates and joint arrangements.
- Information about interests in consolidated and unconsolidated structured entities.

Transitional provisions

When applying the above new standards for the first time, you will generally need to apply the standards retrospectively and make adjustments to previous accounting periods, unless it is not practicable to do so. However, PBE IPSAS 37 contains some simplified transitional provisions for PBEs that previously accounted for joint arrangements using proportionate consolidation.

For example, if your joint arrangement is a JV for the purpose of PBE IPSAS 37, but under PBE IPSAS 8 you accounted for this arrangement using the proportionate consolidation method, then you will need to do the following when applying PBE IPSAS 34-38 for the first time:

- Take the aggregate amount of the JV's assets and liabilities that were recognised under proportionate consolidation as at the start of the previous period.
- Test that amount for impairment and use the adjusted amount as the JV's "deemed cost" at initial recognition.
- Apply the equity method to this deemed cost starting from the first day of the previous period.

Please refer to the transitional provisions in each of the new standards for further details.

Contacts

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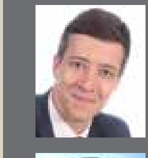

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