EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Exposure Draft

PBE Interests in Other Entities

(ED NZASB 2016-1)
(ED NZASB 2016-2)
(ED NZASB 2016-3)
(ED NZASB 2016-4)
(ED NZASB 2016-5)

Invitation to Comment

February 2016

PO Box 11250
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New Zealand
http://www.xrb.govt.nz

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Information for Respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)[1] is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the five PBE Standards dealing with interests in other entities.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz
(please refer to *PBE Interests in Other Entities* in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is 30 June 2016.

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

[1] The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IPSASB	International Public Sector Accounting Standards Board
IPSAS	International Public Sector Accounting Standard
NFP	Not-for-Profit
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public Benefit Entity
PBE IPSAS	Public Benefit Entity International Public Sector Accounting Standard

Questions for Respondents

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1. Introduction

1.1 Background

1. The NZASB is proposing that the five Exposure Drafts (EDs) comprising *Interests in Other Entities* supersede the requirements that are currently set out in:

   - PBE IPSAS 6 *Consolidated and Separate Financial Statements* (both NFP and public sector versions);
   - PBE IPSAS 7 *Investments in Associates*; and
   - PBE IPSAS 8 *Interests in Joint Ventures*.

2. The current PBE Standards were based on IPSASs 6-8. In January 2015 the IPSASB completed its project on interests in other entities and issued five new IPSASs which supersede IPSASs 6-8. The IPSASB's project was motivated by the IASB issuing new and amended standards in 2011. The titles of the new IPSASs, and the IFRSs on which they are based, are as follows:

   - IPSAS 34 *Separate Financial Statements* is based on IAS 27 *Separate Financial Statements* (2011);
   - IPSAS 35 *Consolidated Financial Statements* is based on IFRS 10 *Consolidated Financial Statements*;
   - IPSAS 36 *Investments in Associates and Joint Ventures* is based on IAS 28 *Investments in Associates and Joint Ventures* (2011);
   - IPSAS 37 *Joint Arrangements* is based on IFRS 11 *Joint Arrangements*; and
   - IPSAS 38 *Disclosure of Interests in Other Entities* is based on IFRS 12 *Disclosure of Interests in Other Entities.*

3. The NZASB is now seeking feedback on the adoption of the requirements in IPSASs 34 to 38, with some modifications, as PBE Standards.

1.2 Purpose of this Invitation to Comment

4. The purpose of this Invitation to Comment and the five EDs is to seek comments on the proposed PBE Standards (based on IPSASs 34 to 38) which would be applicable to Tier 1 and Tier 2 PBEs. To the extent that Tier 3 PBEs have interests in other entities, the Invitation to Comment is also relevant to those entities.

1.3 Timeline and Next Steps

5. Submissions on the EDs are due by 30 June 2016. Information on how to make submissions is provided on page 4 of this Invitation to Comment.

6. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the new PBE Standards.

2. Overview of EDs

2.1 Summary of the Content

7. This Invitation to Comment (referred to as *PBE Interests in Other Entities*) seeks feedback on five EDs:

   (a) ED NZASB 2016-1 PBE IPSAS 34 *Separate Financial Statements*;

   (b) ED NZASB 2016-2 PBE IPSAS 35 *Consolidated Financial Statements*;

   (c) ED NZASB 2016-3 PBE IPSAS 36 *Investments in Associates and Joint Ventures*;

   (d) ED NZASB 2016-4 PBE IPSAS 37 *Joint Arrangements*; and

   (e) ED NZASB 2016-5 PBE IPSAS 38 *Disclosure of Interests in Other Entities*.

8. For ease of reference this Invitation to Comment sometimes refers to the individual EDs using shorter titles (for example, PBE IPSAS 34 is used instead of ED NZASB 2016-1 PBE IPSAS 34).

9. The proposed PBE Standards also contain amendments to other PBE Standards to update references and requirements in those PBE Standards.

10. The NZASB applied the *Policy Approach to Developing the Suite of PBE Standards* (the PBE Policy Approach) to IPSASs 34 to 38. The NZASB considers that it is desirable to issue PBE Standards based on these IPSASs for the following reasons:

    (a) the guidance on assessing whether an entity has control over another entity is more comprehensive than that in PBE IPSAS 6;

    (b) it would substantially align the requirements in PBE Standards with the most recent IPSASs; and

    (c) it would substantially align the requirements in PBE Standards with the requirements for for-profit entities.

11. Any significant changes proposed to the requirements of the IPSASs are discussed in this Invitation to Comment. Most of the proposed changes relate to:

    (a) NFP enhancements to ensure that the PBE Standards are appropriate for application by NFP PBEs as well as public sector PBEs. The majority of the proposed NFP enhancements occur in PBE IPSAS 35; and

    (b) amendments to ensure coherence within the PBE Standards by acknowledging the existence of certain PBE Standards for which there is no corresponding IPSAS. For example, the existence of PBE IFRS 3 *Business Combinations* means that some additional guidance has been included in the proposed PBE Standards.

12. Although the EDs have been issued in clean form, marked up copies of the EDs showing the changes proposed to the underlying IPSASs are also available on the XRB website.[2]

2.2 ED NZASB 2016-1 PBE IPSAS 34 *Separate Financial Statements*

Introduction

13. PBE IPSAS 34 specifies the methods of accounting that may be used in separate financial statements. The requirements in PBE IPSAS 34 are very similar to the current requirements for separate financial statements in PBE IPSAS 6.

14. PBE IPSAS 34 permits entities preparing separate financial statements to account for their investments in controlled entities, joint ventures and associates:

    (a) using the equity method;

    (b) at cost; or

    (c) in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*.

15. Although PBE IPSAS 34 permits a choice of methods, an entity is required to apply the same method of accounting to each category of investments.

Changes proposed to IPSAS 34

16. The NZASB is not proposing any substantive changes to IPSAS 34 to make it suitable for application by PBEs in New Zealand.

Comparison with PBE IPSAS 6

17. There are no substantive differences between the requirements relating to separate financial statements in PBE IPSAS 6 and the proposed requirements in PBE IPSAS 34.

Question for Respondents

1. Do you agree that no substantive changes to IPSAS 34 are required to make it suitable for application by PBEs in New Zealand? If you disagree, please describe the additional changes that you consider to be appropriate.

[2] The marked-up copies of the EDs show most of the New Zealand specific changes to the IPSASs. They do not show the New Zealand specific changes to the consequential amendments.

2.3 ED NZASB 2016-2 PBE IPSAS 35 *Consolidated Financial Statements*

Introduction

18. PBE IPSAS 35 establishes principles for the preparation of consolidated financial statements when an entity controls one or more other entities. PBE IPSAS 35:

    (a) defines control of another entity;

    (b) establishes control as the basis for determining which entities are consolidated in the consolidated financial statements; and

    (c) sets out the requirements for the preparation of consolidated financial statements.

19. In order to have control over another entity, an entity must have the following three elements:

    (a) power over the other entity;

    (b) exposure, or rights, to variable benefits from its involvement with the other entity; and

    (c) the ability to use its power over the other entity to affect the nature or amount of benefits from its involvement with the other entity. For the purpose of assessing power, PBE IPSAS 35 distinguishes between substantive rights and protective rights. For a right to be substantive, the holder must have the practical ability to exercise that right. Protective rights are not considered when assessing power.

20. Key definitions from PBE IPSAS 35 are set out below.

    Benefits are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.

    Control: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

    Power consists of existing rights that give the current ability to direct the relevant activities of another entity.

    Protective rights are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

    Relevant activities: For the purpose of this Standard, relevant activities are activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.

21. PBE IPSAS 35 contains detailed guidance on assessing control. An entity reassesses whether it controls another entity if facts and circumstances indicate that there have been changes to one or more of the three elements of control. The proposed PBE Standard contains a number of illustrative examples. In addition to the

examples developed by the IASB in IFRS 10, the proposed PBE Standard includes examples developed by the IPSASB specifically to address circumstances encountered by public sector entities. Some of the examples added by the IPSASB were, in turn, based on examples developed by the Australian Accounting Standards Board for not-for-profit entities entities in Australia. The NZASB considers that the examples in IPSAS 35 are appropriate for PBEs in New Zealand.

22. The requirements in PBE IPSAS 35 regarding consolidation procedures and the accounting requirements for the loss of control over an entity are based on those in PBE IPSAS 6.

23. PBE IPSAS 35 does not specify disclosure requirements. The disclosure requirements are located in proposed PBE IPSAS 38.

Investment Entities

24. Although most controlled entities are consolidated, there are different requirements if the controlling entity is an investment entity or controls an investment entity. The definition of an investment entity is set out below.

    An investment entity is an entity that:

    (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

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

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

25. Generally an investment entity measures its investments in controlled entities at fair value through surplus or deficit in accordance with IPSAS 29. An entity that controls an investment entity also accounts for the investment entity's investments using fair value in its consolidated financial statements. This differs from the requirements of IFRS 10.

26. The exception to consolidation in IFRS 10 is available only to investment entities – it is not available to the parent of an investment entity unless that parent is itself an investment entity.[3] The reasons for this difference between IFRS 10 and IPSAS 35 are explained briefly below.

27. The IASB's reasons for limiting the exception to consolidation to an investment entity are set out in the Basis for Conclusions to IFRS 10, paragraphs BC275 to BC283. The IASB's investment entity proposals were subject to considerable debate and the majority of respondents to the IASB's exposure draft opposed the proposal to make the exception to consolidation available only to investment entities. One of the IASB's reasons for limiting the exception was that investment entities have a unique business model, but non-investment entities do not. Non-investment entities have other substantial activities besides investing, or do not manage substantially all of their assets on a fair value basis. Consequently, the IASB considered that the argument for a fair value measurement requirement is weakened at a non-investment entity level. The IASB was also concerned about the possibility of a non-investment entity parent achieving different accounting outcomes by holding subsidiaries directly or indirectly through an investment

[3] This Invitation to Comment uses the terms from IFRS 10 (for example, parent and subsidiary) when referring to the requirements of IFRS 10.

entity. The IASB noted that, for example, a non-investment entity parent may elect to hold subsidiaries through an investment entity subsidiary in order to hide leverage or loss-making activities.

28. The IPSASB's reasons for retaining investment entity accounting in the financial statements of a non-investment controlling entity are set out in the Basis for Conclusions to IPSAS 35, paragraphs BC27 to BC29. The IPSASB considered whether the public sector context would lead it to place more or less weight on arguments considered by the IASB in relation to this matter, and whether there were any public sector characteristics that would support a differing accounting treatment by the controlling entity of an investment entity. The IPSASB considered that the potential for different accounting outcomes, depending upon whether an investment was held directly or indirectly through a controlled investment entity, was of less concern in the public sector. The IPSASB noted that ownership interests obtained through holding shares or other equity instruments are less common in the public sector and, as a consequence, the IPSASB considered that it is less likely that entities within an economic entity in the public sector would hold an ownership investment in the ultimate controlling entity and less likely that they would have ownership investments in other entities within the economic entity. The IPSASB also considered that users would find it most useful if the accounting for investments applied in a controlled investment entity's financial statements were extended to its controlling entity's financial statements.

29. The NZASB is proposing to retain the IPSAS 35 requirements in relation to investment entities in PBE IPSAS 35 and is interested in whether the IPSASB's reasons for adopting a different approach to the IASB in IFRS 10 are relevant for both public sector and not-for-profit public benefit entities in New Zealand.

Changes proposed to IPSAS 35

30. The NZASB is proposing a number of changes to IPSAS 35 to make it suitable for application by PBEs in New Zealand.

31. Some changes are prompted by the need to ensure the coherence of PBE Standards as a whole. For example:

    (a) PBE Standards require that certain items be presented as other comprehensive revenue and expense. IPSASs do not use the concept of other comprehensive revenue and expense; and

    (b) some changes are required to align the requirements in PBE IPSAS 35 with other PBE Standards, such as PBE IFRS 3 *Business Combinations*.

32. The other main changes are:

    (a) additional guidance on assessing control when there has been predetermination of activities;

    (b) additional guidance on network and partner agreements; and

    (c) additional guidance on mixed groups.

33. A number of other more minor changes are also proposed to make IPSAS 35 more suitable for application by NFP PBEs.

Predetermined activities

34. The NZASB is proposing to expand the discussion of predetermined activities in IPSAS 35. This is due to concerns that the language used in the definition of power, could, in the absence of further guidance, be read as excluding control obtained through predetermination of activities. IPSAS 35 states that power consists of existing rights that give the current ability to direct the relevant activities of another entity. The NZASB wants to make it clear that, although the definition of power uses the terms "existing rights" and "current ability", this does not preclude the possibility that an entity could control another entity in situations where power has already been exercised through predetermination of activities.

35. The changes that the NZASB is proposing, and the explanation for those changes are set out in:

    (a) paragraphs 21, 29.1, 35.1, AG8.1 and AG53;

    (b) example 29A; and

    (c) the Basis for Conclusions, paragraphs BC5 to BC9.

36. In IPSAS 35 the IPSASB modified the IFRS 10 guidance about assessing power to highlight that, in the case of an entity established with predetermined activities, the right to direct the relevant activities may have been exercised at the time that the entity was established. The NZASB considers that the IPSASB's additional guidance about predetermination is helpful, but is of the view that the guidance in IPSAS 35 is not sufficient to lead to consistent and appropriate assessments of control by PBEs in New Zealand. The NZASB is aware that PBEs often have to make assessments about the existence of control when there has been predetermination of activities and that these assessments can be difficult. The NZASB's intention in proposing changes to IPSAS 35 is to clarify as much as possible the circumstances in which predetermination is likely to result in control.

37. Based on its experience with assessments of control in New Zealand, the NZASB considers that the proposed Standard should acknowledge that a broad range of scenarios are possible and indicate the circumstances in which predetermination generally leads to control. On one hand there can be situations where, despite an element of predetermination of relevant activities being present, the entity being assessed for control still has substantive decision making powers over some of the relevant activities and would not be controlled. At the other extreme there could be situations where the right to direct all the relevant activities has been exercised at the time that the entity was established and, by virtue of that predetermination, all the benefits go to the entity that established the entity being assessed for control. This latter case is similar to that referred to by the IPSASB in IPSAS 35. The NZASB considers that control is likely to exist when the entity determined the purpose and design of the other entity being assessed for control and, in so doing, established significant restrictions on the relevant activities of that entity, which limit the ability of others to make decisions about those relevant activities and ensure that the establishing entity receives the significant benefits from those activities.

38. The NZASB decided to modify the discussion of power to highlight the importance of considering the purpose and design of an entity when assessing control, and to explain that such considerations of purpose and design should include consideration of the relevant activities, who has the power to make decisions about the relevant activities, over the life of the entity and who receives the benefits from those activities (see paragraphs 21, 29.1, 35.1, AG8.1 and AG53). That is,

assessments of control should include the impact of predetermination, not just the remaining decisions that are left following predetermination. The NZASB also included an additional illustrative example of an entity with predetermined activities (refer Example 29A).

39. The NZASB acknowledges that both the IPSASB's guidance on predetermination in IPSAS 35, together with the NZASB's proposed further guidance, could result in different assessments of control compared to IFRS 10. This could have implications for mixed groups. For example, a PBE applying PBE IPSAS 35 in assessing whether it controls a for-profit entity with predetermined activities could come to a different conclusion than a for-profit entity making the same assessment using IFRS 10.

Network and partner agreements

40. The NZASB is proposing to add integral application guidance in paragraphs AG31.1 to AG31.7 on network and partner agreements. This guidance is based on the guidance on franchises in IFRS 10 paragraphs B29 to B33. The IPSASB omitted the IFRS 10 guidance on franchises from IPSAS 35 because it considered that there were likely to be few franchises in the public sector. The NZASB considers that PBEs, particularly not-for-profit PBEs, might enter into arrangements similar to franchises and has proposed to refer to such arrangements as network and partner agreements.

Accounting policies and mixed groups

41. The NZASB is proposing to include guidance on the application of consistent accounting policies in the preparation of consolidated financial statements in PBE IPSAS 35. This guidance is based on that in PBE IPSAS 6. It provides examples to help determine when the financial statements of a for-profit entity in a PBE group need to be restated in the preparation of consolidated financial statements.

42. Entities that have previously applied PBE IPSAS 6 (both public sector and not-for-profit versions) will notice the following differences between PBE IPSAS 6 and the proposed requirements:

    (a) The definition of control is different. However, the definition of control still requires that there be power and benefits and a link between the two.

    (b) There is considerably more guidance on assessing control in a range of circumstances.

    (c) Investment entities have been identified as a separate type of entity and are subject to different requirements than other controlled entities.

Questions for Respondents

2. Do you consider that the IPSASB's reasons for retaining investment entity accounting in the financial statements of a non-investment controlling entity are relevant for both public sector and not-for-profit public benefit entities in New Zealand? If you do not agree, please explain why.

3. Do you agree with how we have proposed to modify IPSAS 35 by including more guidance on predetermination (see paragraphs 21, 29.1, 35.1, AG8.1, AG53 and Example 29A)? If you do not agree, please explain why.

4. Do you agree with the proposal to include integral application guidance on network and partner agreements in PBE IPSAS 35 (paragraphs AG31.1 to AG31.7)? If you do not agree, please explain why.

5.	Do you agree with the other proposed modifications to IPSAS 35 in PBE IPSAS 35? If you disagree, please provide reasons and indicate the nature of any additional modifications that you consider to be appropriate.

2.4 ED NZASB 2016-3 PBE IPSAS 36 *Investments in Associates and Joint Ventures*

Introduction

43. PBE IPSAS 36 requires that an entity account for its interests in associates and joint ventures using the equity method of accounting.

44. Key definitions from PBE IPSAS 36 are set out below.

An <u>associate</u> is an entity over which the investor has significant influence.

A <u>joint venture</u> is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

45. The equity method is a method of accounting whereby the investment is initially recognised at cost and is adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture.

Changes proposed to IPSAS 36

46. The NZASB is not proposing any substantive changes to IPSAS 36 to make it suitable for application by PBEs in New Zealand.

Comparison with PBE IPSAS 7

47. Entities that have previously applied PBE IPSAS 7 will notice the following differences between PBE IPSAS 7 and the proposed requirements:

    (a) The title of PBE IPSAS 36 refers to both associates and joint ventures. This is because an entity is now required to account for all joint ventures, as defined, using the equity method.

    (b) The scope of PBE IPSAS 36 is limited to quantifiable ownership interests. This is slightly different to the previous scope limitation in PBE IPSAS 7 which referred to "ownership interests in the form of a shareholding or other formal equity structure". The change acknowledges that the equity method can be applied when it is possible to quantify an ownership interest, regardless of how that interest has been established. This is particularly relevant to joint ventures where the ownership interest may be determined by reference to the agreement between the parties.

Question for Respondents	
6.	Do you agree that no substantive changes to IPSAS 36 are required to make it suitable for application by PBEs in New Zealand? If you disagree, please describe the additional changes that you consider to be appropriate.

2.5 ED NZASB 2016-4 PBE IPSAS 37 *Joint Arrangements*

48. PBE IPSAS 37 identifies two types of joint arrangements: joint operations and joint ventures. A party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. Relevant definitions from PBE IPSAS 37 are set out below.

> A joint arrangement is an arrangement of which two or more parties have joint control.
>
> Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
>
> A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.
>
> A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

49. PBE IPSAS 37 specifies the accounting requirements for each type of joint arrangement. These requirements are:

    (a) In a joint operation, the joint operator recognises the assets, liabilities, revenue, and expenses arising from its interest in the joint operation.

    (b) In a joint venture, the joint venturer recognises its interest in a joint venture as an investment, using the equity method of accounting.

Changes proposed to IPSAS 37

50. The NZASB is proposing to incorporate into PBE IPSAS 37 relevant narrow scope amendments from the IASB's *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11) issued in May 2014. These narrow scope amendments added guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, as defined in IFRS 3.

Comparison with PBE IPSAS 8

51. Entities that have previously applied PBE IPSAS 8 will notice the following differences between PBE IPSAS 8 and the proposed requirements:

    (a) Under PBE IPSAS 8 the structure of the joint arrangement was the only determinant of the accounting requirements. By contrast, PBE IPSAS 37 focuses on rights and obligations.

    (b) There are now only two types of joint arrangements. Previously there were three types.

    (c) Under PBE IPSAS 8 an entity had a choice of accounting treatment for interests in jointly controlled entities. It could use equity accounting or proportionate consolidation. PBE IPSAS 37 requires that joint ventures be accounted for using the equity method, as outlined in PBE IPSAS 36.

Question for Respondents
7. Do you agree with the proposed modifications to IPSAS 37 in PBE IPSAS 37? If you disagree, please provide reasons and indicate the nature of any additional modifications that you consider to be appropriate.

2.6 ED NZASB 2016-5 PBE IPSAS 38 *Disclosure of Interests in Other Entities*

52. PBE IPSAS 38 is a new disclosure standard that contains disclosure requirements relating to interests in other entities. Many of these disclosure requirements are similar to those that were previously set out in PBE IPSASs 6 to 8.

53. The objective of PBE IPSAS 38 is to require an entity to disclose information that enables users of its financial statements to evaluate (a) the nature of, and risks associated with, its interest in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows. An entity is required to comply with the disclosure requirements in PBE IPSAS 38 in respect of its interests in controlled entities, associates, joint arrangements and structured entities that are not consolidated.

54. It requires disclosures about the assessments and judgements made by an entity in classifying its interests in other entities (for example, determining whether it controls certain entities or has significant influence over them).

55. Structured entities are a new concept. The definition is set out below.

> A <u>structured entity</u> is:
>
> (a) in the case of entities where administrative arrangements or legislation are normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factors in deciding who controls the entity, such as when binding arrangements are significant to determining control of the entity and relevant activities are directed by means of binding arrangements; or
>
> (b) in the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity, an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.

56. In common with all its interests in other entities, an entity has to decide the nature of its interest in the structured entity (for example, whether it controls the structured entity). Disclosures are required about both consolidated structured entities and unconsolidated structured entities. The intention of these disclosures is to assist users in forming assessments about the current and potential future impact of these entities on the financial position and performance of the economic entity. Because of the way they are structured these entities may have a greater impact (or potential impact) on an entity's financial position and financial performance than would normally be obvious from the financial statements.

Changes proposed to IPSAS 38

57. The NZASB is not proposing any substantive changes to IPSAS 38 to make it suitable for application by PBEs in New Zealand.

Comparison with PBE IPSASs 6 to 8

58. It is not possible to do a direct comparison between the disclosure requirements in PBE IPSAS 38 and PBE IPSASs 6 to 8. Some of the disclosures are very similar. However, PBE IPSAS 38 requires much broader and more comprehensive disclosures about the nature, extent and effects of a reporting entity's interests in other entities. More specifically it requires:

    (a) more information about the assessment of control;

    (b) more information about non-controlling interests; and

    (c) information about structured entities (both consolidated and unconsolidated).

Question for Respondents

8. Do you agree that no substantive changes to IPSAS 38 are required to make it suitable for application by PBEs in New Zealand? If you disagree, please describe the additional changes that you consider to be appropriate.

2.7 Proposed RDR Concessions

59. The proposed Reduced Disclosure Regime (RDR) concessions are based on those in the equivalent for-profit standards. The NZASB is intending to review the RDR concessions in for-profit standards and PBE standards, and would consult separately on any changes to these proposals as a result of that review.

Question for Respondents

9. Do you agree with the Reduced Disclosure Regime concessions proposed in the EDs? If you disagree, please provide reasons and indicate any additional concessions that you consider would be appropriate.

2.8 Effective Date and Other Comments

60. The NZASB proposes that, once approved, the final PBE Standards should be effective for annual financial statements covering periods beginning on or after 1 January 2019, with earlier application permitted.

Questions for Respondents

10. Do you agree with the proposal that the final PBE Standards should have an effective date of 1 January 2019, with earlier application permitted?

11. Do you have any other comments on the EDs?