



**International Public Sector Accounting Standard 38**  
*Disclosure of Interests in Other Entities*  
**IPSASB Basis for Conclusions – as per 2017 IPSASB Handbook**

International Public Sector Accounting Standards™, Exposure Drafts, Consultation Papers, Recommended Practice Guidelines, and other IPSASB® publications are published by, and copyright of, IFAC®.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, ‘International Public Sector Accounting Standards Board®’, ‘IPSASB’, ‘International Public Sector Accounting Standards’ ‘IPSAS™’, ‘Recommended Practice Guidelines,’ the IFAC logo, ‘International Federation of Accountants®’, and ‘IFAC’ are trademarks or registered trademarks and service marks of IFAC.

Copyright © January 2015 by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store, transmit, or make other similar uses of this document, except as permitted by law. Contact [permissions@ifac.org](mailto:permissions@ifac.org).

Published by:



## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 38.*

### Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 38. As this Standard is based on IFRS 12, *Disclosure of Interests in Other Entities* (issued in 2011, including amendments up to December 31, 2014), issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 38 departs from the main requirements of IFRS 12.

### Overview

- BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 52, *Disclosure of Interests in Other Entities*, was based on IFRS 12, *Disclosure of Interests in Other Entities*, having regard to the relevant public sector modifications to the disclosure requirements in IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 38. These new IPSASs supersede IPSAS 6, IPSAS 7, and IPSAS 8.

### Significant Judgments and Assumptions (paragraphs 12 to 14)

- BC3. The IPSASB noted that paragraph 7 of IFRS 12, requires that an entity disclose information about significant judgments and assumptions it has made in determining the nature of its interest in another entity (for example, control, joint control or significant influence). Although the IPSASB agreed that users need information about how an entity has made these judgments, it noted that a public sector entity could be required to make many judgments and assumptions in relation to particular entities, and that the disclosure of such judgments and assumptions and changes in such judgments from period to period could result in unnecessary detail. The IPSASB also noted that, in the public sector, decisions about the reporting entity may be made having regard to frameworks developed in conjunction with other parties such as legislative bodies or oversight committees. The assessments made in respect of the classification of certain types of entities as controlled entities, jointly controlled entities, or entities subject to significant influence may be recorded in public documents other than the financial statements. The IPSASB therefore agreed to require that an entity disclose the methodology used to decide the existence or absence of control, joint control of an arrangement or significant influence, either in the financial statements themselves or by way of reference to another publicly available document.

### Definition of Structured Entity (paragraphs 7 and AG20 to AG23)

- BC4. The IPSASB noted that the definition of "structured entity" in IFRS 12 focusses on voting or similar rights, which tend to occur less frequently or have less significance in the public sector than in the private sector. However, the IPSASB agreed that it was still appropriate to refer to voting or similar rights in the definition of a structured entity because voting or similar rights may be the predominant way in which a public sector entity establishes control over another entity. The IPSASB decided to modify the definition of a structured entity to highlight that they occur when the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity and encompass the broader range of circumstances that occur in the public sector.
- BC5. The IPSASB identified administrative arrangements and statutory provisions (legislation) as common means by which control may be determined for many public sector entities. Accordingly, the IPSASB took the view that the reference to "similar rights" in the definition of structured entity should encompass administrative arrangements and statutory provisions. Thus, the ED proposed that entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity would not be structured entities. The IPSASB considers that the disclosures required of structured entities are appropriate, but that in order to be useful they need to be focused on a limited class of entities (consistent with the intention of the IASB's requirements in relation to entities applying IFRS 12).

- BC6. Some respondents to ED 52 were concerned that the definition of a structured entity could be read as suggesting that an entity was operating in an unauthorized way or in contravention of laws. The IPSASB noted that this was not its intention and reviewed the definition of structured entities to see if any clarification was required. The IPSASB noted that the definition does not suggest that a structured entity would not be required to comply with relevant statutes or administrative arrangements. Rather the definition allows for the possibility that a small group of entities may have been established under different arrangements from the arrangements commonly used to establish similar entities.

#### **Investment Entities (paragraphs 27 to 34)**

- BC7. The IPSASB considered the investment entity disclosures required by IFRS 12 and concluded that those disclosures were particularly appropriate in the public sector context. The IPSASB noted that, as a consequence of the requirements in IPSAS 35 most public sector entities with investment entities would be required to make these disclosures.
- BC8. The IPSASB considered whether a non-investment controlling entity accounting for investment entities at fair value should be required to make any additional disclosures. The IPSASB considered that the disclosures required in relation to investment entities were appropriate and should also be provided in the consolidated financial statements of a controlling entity with investment entities.

#### **Non-quantifiable Ownership Interests (paragraphs 49 and 50)**

- BC9. The scope of IPSAS 36, *Investments in Associates and Joint Ventures*, is limited to “quantifiable ownership interests”. The IPSASB noted that respondents supported this proposal, but considered that disclosure of information about an entity’s non-quantifiable ownership interests in other entities would be appropriate. The IPSASB agreed to require, in this Standard, disclosure of information about non-quantifiable ownership interests.

#### **Controlling Interests Acquired with the Intention of Disposal (paragraphs 50 to 57)**

- BC10. Some respondents to ED 52 proposed that the IPSASB require disclosures about temporary control (either by developing a standard based on IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, or by adding disclosures to this Standard). The IPSASB considered, and rejected, the idea of requiring disclosure of all controlled investments held for sale on the grounds that it was too broad. Nevertheless, the IPSASB agreed that some disclosure about controlling interests intended to be held for a limited time could be of interest to users. For example, the IPSASB considered that users would be interested in information about interventions to prevent the consequences of the failure of an entity, or acquisitions of entities which will subsequently be redistributed to achieve policy objectives. The IPSASB agreed that its objective was to require disclosure of information about controlling interests where there was an active intention to dispose of the interest, both at the time of the acquisition and at the reporting date.
- BC11. In considering the information to be disclosed the IPSASB agreed that the requirements should be general in nature. The IPSASB acknowledged that the circumstances in which a controlling interest is acquired or disposed of could vary widely (for example, a controlling interest might be acquired by virtue of providing guarantees). In addition, entities might wish to provide information about the transactions or events giving rise to such controlling interests, and the IPSASB did not wish to be unnecessarily prescriptive about the type of information that should be provided. The IPSASB therefore agreed to require disclosures to assist users to understand the impact of consolidating such controlling interests on the consolidated financial statements by reference to the effect on the main aspects of the financial statements.
- BC12. The IPSASB acknowledged that the expected method of disposal might be under consideration at the reporting date and that plans might change from one period to another. It also acknowledged that disposal might occur in stages. The IPSASB therefore agreed to require disclosure of the “current status of the approach to disposal”.
- BC13. The IPSASB considered whether to limit the disclosures to situations where control was expected to exist for a specified time period, such as one or two years. The IPSASB decided not to specify a time period. It considered that limiting the disclosures to controlling interests and situations where there was still an active intention to dispose of the interest would lead to informative disclosures without overwhelming readers with too much detail.

**Revision of IPSAS 38 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016**

BC14. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

- (a) Removes the standard paragraphs about the applicability of IPSASs to “public sector entities other than GBEs” from the scope section of each Standard;
- (b) Replaces the term “GBE” with the term “commercial public sector entities”, where appropriate; and
- (c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.