EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

EXPOSURE DRAFT NZASB 2016-1

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 34 SEPARATE FINANCIAL STATEMENTS (PBE IPSAS 34)

This [draft][1] Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply the [draft] Standard in accordance with the effective date set out in paragraph 32.1.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] New Zealand Tier 1 and Tier 2 Public Benefit Entity Accounting Standard has been issued as a result of a new International Public Sector Accounting Standard.

This [draft] Standard is issued concurrently with [draft] PBE IPSAS 35 *Consolidated Financial Statements*. When applied, the two [draft] Standards supersede PBE IPSAS 6 (PS) *Consolidated and Separate Financial Statements* and PBE IPSAS 6 (NFP) *Consolidated and Separate Financial Statements*.

1 References to "this Standard" throughout this Exposure Draft should be read as referring to "this draft Standard". Similarly references to other proposed PBE Standards issued in conjunction with this Exposure Draft should be read as references to "draft PBE Standards".

PBE IPSAS 34 SEPARATE FINANCIAL STATEMENTS

ISBN

PBE IPSAS 34—SEPARATE FINANCIAL STATEMENTS

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Public Benefit Entity International Public Sector Accounting Standard 34 *Separate Financial Statements* is set out in paragraphs 1–34.1 and Appendix A. All the paragraphs have equal authority. PBE IPSAS 34 should be read in the context of its objective, the Basis for Conclusions, and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Scope

1.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

1.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession**.

2. **An entity that prepares and presents financial statements shall apply this Standard in accounting for investments in controlled entities, joint ventures and associates when it elects, or is required by regulations, to present separate financial statements.**

3. This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with PBE Standards.

4. [Not used.]

5. [Not used.]

Definitions

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

<u>**Consolidated financial statements**</u> **are the financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.**

<u>**Separate financial statements**</u> **are those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* or using the equity method as described in PBE IPSAS 36 *Investments in Associates and Joint Ventures*.**

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures* or PBE IPSAS 37 *Joint Arrangements*: associate, control, controlled entity, controlling entity, economic entity, equity method, investment entity, joint control, joint operation, joint venture, joint venturer and significant influence.

7. Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have controlled entities but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by PBE IPSAS 36 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 9–10.

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

9. An entity that is exempted in accordance with paragraph 5 of PBE IPSAS 35, from consolidation or paragraph 23 of PBE IPSAS 36, from applying the equity method may present separate financial statements as its only financial statements.

10. An investment entity that is required, throughout the current period and all comparative periods presented, to measure its investment in all its controlled entities at fair value through surplus or deficit in accordance with paragraph 56 of PBE IPSAS 35, presents separate financial statements as its only financial statements.

Preparation of Separate Financial Statements

11. **Separate financial statements shall be prepared in accordance with all applicable PBE Standards, except as provided in paragraph 12.**

12. **When an entity prepares separate financial statements, it shall account for similar investments in controlled entities, joint ventures and associates either:**

    (a) **At cost;**

    (b) **In accordance with PBE IPSAS 29; or**

    (c) **Using the equity method as described in PBE IPSAS 36.**

    The entity shall apply the same accounting for each category of investments. Investments accounted for at cost or using the equity method shall be accounted for in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale or for distribution (or included in a disposal group that is classified as held for sale or for distribution). The measurement of investments accounted for in accordance with PBE IPSAS 29 is not changed in such circumstances.

13. **If an entity elects, in accordance with paragraph 24 of PBE IPSAS 36, to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with PBE IPSAS 29, it shall also account for those investments in the same way in its separate financial statements.**

14. **If a controlling entity is required, in accordance with paragraph 56 of PBE IPSAS 35, to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with PBE IPSAS 29, it shall also account for that investment in the same way in its separate financial statements. If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 58 of PBE IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with PBE IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall also account for that investment in the controlled investment entity in the same way in its separate financial statements.**

15. **When a controlling entity ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:**

    (a) **When an entity ceases to be an investment entity, the entity shall account for an investment in a controlled entity in accordance with paragraph 12. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 12.**

    (b) **When an entity becomes an investment entity, it shall account for an investment in a controlled entity at fair value through surplus or deficit in accordance with PBE IPSAS 29. The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in surplus or deficit. The cumulative amount of any gain or loss previously recognised in other comprehensive revenue and expense in respect of those controlled entities shall be treated as if the investment entity had disposed of those controlled entities at the date of change in status.**

16. **Dividends or similar distributions from a controlled entity, a joint venture or an associate are recognised in the separate financial statements of an entity when the entity's right to receive the dividend or similar distribution is established. The dividend or similar distribution is recognised in surplus or deficit unless the entity elects to use the equity method, in which case the dividend or similar distribution is recognised as a reduction from the carrying amount of the investment.**

17. **When a controlling entity reorganises the structure of its economic entity by establishing a new entity as its controlling entity in a manner that satisfies the following criteria:**

    (a) **The new controlling entity obtains control of the original controlling entity either (i) by issuing equity instruments in exchange for existing equity instruments of the original controlling entity**

or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;

(b) **The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the reorganisation; and**

(c) **The owners of the original controlling entity before the reorganisation have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the reorganisation;**

and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph 12(a) in its separate financial statements, the new controlling entity shall measure cost at the carrying amount of its share of the net assets/equity items shown in the separate financial statements of the original controlling entity at the date of the reorganisation.

18. Similarly, an entity that is not a controlling entity might establish a new entity as its controlling entity in a manner that satisfies the criteria in paragraph 17. The requirements in paragraph 17 apply equally to such reorganisations. In such cases, references to "original controlling entity" and "original economic entity" are to the "original entity".

Disclosure

19. **An entity shall apply all applicable PBE Standards when providing disclosures in its separate financial statements, including the requirements in paragraphs 20–23.**

20. **When a controlling entity, in accordance with paragraph 5 of PBE IPSAS 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:**

(a) **The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with PBE Standards have been produced for public use; and the address where those consolidated financial statements are obtainable.**

*(b) **A list of significant investments in controlled entities, joint ventures and associates, including:**

(i) **The name of those controlled entities, joint ventures and associates.**

(ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).**

(iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**

*(c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**

RDR 20.1 **A Tier 2 controlling entity that elects not to prepare consolidated financial statements and instead prepares separate financial statements shall disclose the methods used to account for its investments in controlled entities, joint ventures and associates when the investment is significant.**

21. **When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph 20) prepares, in accordance with paragraph 10, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by PBE IPSAS 38 *Disclosure of Interests in Other Entities*.**

22. **If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 56 of PBE IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with PBE IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it shall disclose that fact. The entity shall also present the disclosures relating to investment entities required by PBE IPSAS 38.**

23. **When a controlling entity (other than a controlling entity covered by paragraphs 20–21), or an investor with joint control of or significant influence over an investee, prepares separate financial**

statements, the controlling entity or investor shall identify the financial statements prepared in accordance with PBE IPSAS 35, PBE IPSAS 36 or PBE IPSAS 37, to which they relate. The controlling entity or investor shall also disclose in its separate financial statements:

(a) **The fact that the statements are separate financial statements and the reasons why those statements are prepared, if not required by legislation or other authority.**

*(b) **A list of significant controlled entities, joint ventures and associates, including:**

(i) **The name of those controlled entities, joint ventures and associates.**

(ii) **The jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity).**

(iii) **Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.**

*(c) **A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).**

RDR 23.1 **A Tier 2 controlling entity or a Tier 2 investor with joint control of, or significant influence over, an investee, that prepares separate financial statements shall disclose the methods used to account for the investment when the investment is significant.**

RDR 23.2 **A Tier 2 entity is not required to disclose, in accordance with paragraph 23(a), the reasons why separate financial statements are prepared if those statements are not required by legislation or other authority.**

Transitional Provisions

24. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at cost shall instead measure that investment at fair value through surplus or deficit as if the requirements of this Standard had always been effective. The investment entity shall adjust retrospectively the annual period immediately preceding the date of initial application and shall adjust accumulated comprehensive revenue and expense at the beginning of the immediately preceding period for any difference between:**

(a) **The previous carrying amount of the investment; and**

(b) **The fair value of the investor's investment in the controlled entity.**

25. **At the date of initial application, an investment entity that previously measured its investment in a controlled entity at fair value through other comprehensive revenue and expense shall continue to measure that investment at fair value. The cumulative amount of any fair value adjustment previously recognised in other comprehensive revenue and expense shall be transferred to accumulated comprehensive revenue and expense at the beginning of the annual period immediately preceding the date of initial application.**

26. **At the date of initial application, an investment entity shall not make adjustments to the previous accounting for an interest in a controlled entity that it had previously elected to measure at fair value through surplus or deficit in accordance with PBE IPSAS 29, as permitted in paragraph 12.**

27. **An investment entity shall use the fair value amounts previously reported to investors or to management.**

28. **If measuring the investment in the controlled entity in accordance with paragraphs 24–27 is impracticable (as defined in PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this Standard at the beginning of the earliest period for which application of paragraphs 24–27 is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the controlled entity is earlier than the beginning of the immediately preceding period, the investor shall adjust net assets/equity at the beginning of the immediately preceding period for any difference between:**

(a) **The previous carrying amount of the investment; and**

(b) **The fair value of the investor's investment in the controlled entity.**

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to net assets/equity shall be recognised at the beginning of the current period.

29. If an investment entity has disposed of, or lost control of, an investment in a controlled entity before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that investment.

30. **At the date of initial application, a controlling entity that is not itself an investment entity but which is required, in accordance with paragraph 56 of PBE IPSAS 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with PBE IPSAS 29 and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, shall use the transitional provisions in paragraphs 24–29 in accounting for its investment in the controlled investment entity in its separate financial statements.**

31. The transitional provisions for changes in the accounting, in an entity's separate financial statements, for its interest in a joint operation are set out in PBE IPSAS 37 *Joint Arrangements.*

Effective Date

32. [Not used.]

32.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after [proposed 1 January 2019]. Earlier application is permitted. If a public benefit entity applies this Standard for a period beginning before [proposed 1 January 2019], it shall disclose that fact and apply PBE IPSAS 35, PBE IPSAS 36, PBE IPSAS 37 and PBE IPSAS 38 at the same time.**

33. [Not used.]

Withdrawal and Replacement of PBE IPSAS 6 (PS) (September 2014) and PBE IPSAS 6 (NFP) (September 2014)

34. [Not used.]

34.1 This Standard is issued concurrently with PBE IPSAS 35. Together, the two Standards supersede PBE IPSAS 6 (PS) *Consolidated and Separate Financial Statements* (September 2014) and PBE IPSAS 6 (NFP) *Consolidated and Separate Financial Statements* (September 2014). PBE IPSAS 6 (PS) and PBE IPSAS 6 (NFP) remain applicable until PBE IPSAS 34 and PBE IPSAS 35 are applied or become effective, whichever is earlier.

Appendix A

Amendments to Other Standards

PBE IFRS 4 *Insurance Contracts*

This table shows how the following references have been amended in PBE IFRS 4.

Existing reference to	paragraph	is amended to refer to
PBE IPSAS 7 *Investments in Associates*	paragraph C10.5(a)	PBE IPSAS 36 *Investments in Associates and Joint Ventures*
PBE IPSAS 7	Paragraph C10.5.1 (twice) and C10.5.1A	PBE IPSAS 36

Paragraphs C10.6, C10.6.1, C10.7, C10.7.1, C10.7.2, D15.5, D15.5.1 and D15.5.2 are amended. Paragraphs C1.1.1, C4.1–C4.1.1, C4.2–C4.2.2 are deleted. Paragraph 45.2 is added. New text is underlined and deleted text is struck through.

45.2 PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures* and PBE IPSAS 37 *Joint Arrangements*, issued in [date], deleted paragraphs C1.1.1, C4.1–C4.1.1, C4.2–C4.2.2, amended paragraphs C10.5, C10.5.1, C10.5.1A, C10.6, C10.6.1, C10.7, C10.7.1, C10.7.2, D15.5, D15.5.1 and D15.5.2. An entity shall apply those amendments when it applies PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 and PBE IPSAS 37.

C1.1.1 [Deleted.] ~~**This Appendix applies to the consolidated financial statements of an economic entity in relation to a life insurer controlled entity. Paragraph C4.2 is of particular relevance in these cases. This Appendix does not apply to reporting by an economic entity for its activities other than its life insurance business. In measuring and reporting business other than life insurance business as well as aspects of life insurance business where this Appendix contains no requirements, an economic entity that includes a life insurer should follow appropriate financial reporting standards.**~~

~~Entity and Consolidation Issues~~ Equity in a Shareholder-Owned Life Insurer

~~**The Life Insurer Entity**~~

C4.1–C4.1.1 [Deleted.] ~~**A life insurer shall recognise in its financial statement the assets, liabilities, revenue, expenses and net assets/equity of the entity, whether they are designated as relating to policyholders or to shareholders.**~~

~~C4.1.1 Life insurers may have both policyholders and shareholders with a financial interest in the entity. It is sometimes argued that the interests of policyholders and the interests of shareholders form the bases of separate entities that should prepare separate primary financial statements. However, the view adopted in this Appendix is that the interests of policyholders and shareholders are intertwined and form the basis of a single entity. The boundaries of this entity are defined by control. The directors of the life insurer, in pursuing its objectives, govern the decision-making in relation to the financial and operating policies of the life insurer, which includes the assets of the entity, whether they are designated as relating to policyholders or to shareholders.~~

~~**Financial Statements of Economic Entities that Include a Life Insurer Controlled Entity**~~

C4.2–C4.2.2 [Deleted] ~~**The consolidated financial statement of an economic entity that includes a life insurer controlled entity shall recognise all of the assets, liabilities, revenue and expenses of that controlled entity, whether they are designated as relating to the policyholders or to the shareholders**~~

~~of that life insurer. The insurance contracts, investment contracts, assets and other financial liabilities of a life insurer controlled entity and its economic entity recognised in the consolidated financial statement of an economic entity shall be measured in accordance with this Appendix.~~

~~C4.2.1 For the same reasons that a life insurer entity is considered to comprise both policyholder and shareholder interests, the view adopted in this Appendix is that the controlling entity controls the interests of both policyholders and shareholders and, accordingly, the consolidated financial statements of the economic entity include all of those interests. The controlling entity of a life insurer effectively uses all of the resources of shareholders and policyholders in achieving its objectives and effectively controls policyholder interests for the benefit of both policyholders and shareholders.~~

~~C4.2.2 Some life insurers are controlled by entities other than life insurers, such as banks, and some are controlled by other life insurers. The character of the controlling entity of a life insurer has no bearing on whether consolidated financial statements, prepared in accordance with paragraph C4.2, are required.~~

C10.6 **Venturers' interests in joint ventures ~~jointly controlled entities~~ that:**

(a) **Are defined by PBE IPSAS 37~~8~~ *Joint Arrangements* ~~*Interests in Joint Ventures*~~;**

(b) **Back either life insurance liabilities or life investment contract liabilities;**

(c) **Are held by mutual funds, unit trusts and similar entities including investment-linked insurance funds; and**

(d) **Are permitted to be designated as at "fair value through surplus or deficit" under PBE IPSAS 29;**

shall be designated as "at fair value through surplus or deficit" under PBE IPSAS 29 on initial recognition.

C10.6.1 Entities apply PBE IPSAS 36~~8~~ to interests in joint ventures. PBE IPSAS 36~~8~~ requires investments in joint ventures to be ~~proportionately consolidated or to be~~ accounted for using the equity method. However, PBE IPSAS 36~~8~~ does not apply to venturers' interests in joint ventures ~~jointly controlled entities~~ held by mutual funds, unit trusts and similar entities including investment-linked insurance funds that are treated under PBE IPSAS 29 and designated as "at fair value through surplus or deficit".

C10.7 When preparing separate financial statements, those investments in controlled entities, joint~~ly~~ ventures ~~controlled entities~~ and associates that:

(a) ~~[Not used]~~ Are within the scope of PBE IPSAS 34 *Separate Financial Statements*;

(b) …

C10.7.1 An insurer applies PBE IPSAS 34~~6~~ to its investments in controlled entities, joint~~ly controlled entities~~ ventures and associates when preparing separate financial statements. Under PBE IPSAS 34~~6~~, in the controlling entity's separate financial statements, the investments in controlled entities, joint~~ly controlled entities~~ ventures and associates can either be accounted for using the equity method, at cost or as a financial instrument in accordance with PBE IPSAS 29.

C10.7.2 In the controlling entity's separate financial statements, investments in controlled entities, joint~~ly controlled entities~~ ventures and associates that are within the scope of PBE IPSAS 34~~6~~ that the insurer considers back life insurance liabilities or life investment contract liabilities, and that are permitted to be designated "at fair value through surplus or deficit" under PBE IPSAS 29, are designated as "at fair value through surplus or deficit" under PBE IPSAS 29 on initial recognition.

D15.5 When preparing separate financial statements, those investments in subsidiaries, joint~~ly~~ ventures ~~controlled entities~~ and associates that:

(a) ~~[Not used]~~ Are defined by PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures* and PBE IPSAS 37 *Joint Arrangements*;

(b) …

D15.5.1 An insurer applies PBE IPSAS 34~~6~~ to its investments in controlled entities, joint~~ly controlled entities~~ ventures and associates when preparing separate financial statements. Under PBE IPSAS 34~~6~~, in the controlling entity's separate financial statements, the investments in controlled entities, joint~~ly controlled~~

~~entities~~ ventures and associates can either be accounted for using the equity method, at cost or as a financial instrument in accordance with PBE IPSAS 29.

D15.5.2 In the controlling entity's separate financial statements, investments in controlled entities, joint~~ly controlled entities~~ ventures and associates, that are within the scope of PBE IPSAS 34~~6~~ that the insurer considers back general insurance liabilities, and that are permitted to be designated as "at fair value through surplus or deficit" under PBE IPSAS 29 are designated as "at fair value through surplus or deficit" under PBE IPSAS 29 on initial recognition.

PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*

This table shows how the following references have been amended in PBE FRS 47.

Existing reference to	**paragraph**	**is amended to refer to**
jointly controlled entity(ies)	paragraph 38	joint venture(s)
minority interests	paragraphs B4(c)(i) and B4(g)(i)	non-controlling interests

The rubric, paragraphs B1, C1, C11, C12 and C13 and the heading before paragraph C11 are amended and paragraphs 42.3, C31 and Appendix D are added. New text is underlined and deleted text is struck through. Paragraph 42 is included for context.

Public Benefit Entity Financial Reporting Standard 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* is set out in paragraphs 1–43 and Appendices A–D~~C~~. All the paragraphs have equal authority. PBE FRS 47 should be read in the context of its objective, the Basis for Conclusions, and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

42. **A public benefit entity shall apply this Standard for annual financial statements, and any interim financial statements within that annual period, covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**

42.3 PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures* and PBE IPSAS 37 *Joint Arrangements*, issued in [date], amended paragraphs 38, B1, B4, C1, C11, C12, the heading before paragraph C11 and added paragraphs C31, D1 and D2. An entity shall apply those amendments when it applies PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 and PBE IPSAS 37.

B1. A first-time adopter may elect not to apply PBE IFRS 3 *Business Combinations* retrospectively to past business combinations (business combinations that occurred before the date of transition to PBE Standards). However, if a first-time adopter restates any business combination to comply with PBE IFRS 3, it shall restate all later business combinations and shall also apply PBE IPSAS 35~~6~~ *Consolidated ~~and Separate~~ Financial Statements* from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to PBE Standards, and it shall also apply PBE IPSAS 35~~6~~ from 30 June 20X6.

C1. An entity may elect to use one or more of the following exemptions:

(a) …

(e) Investments in controlled entities, joint ventures ~~jointly controlled entities~~ and associates (paragraphs C11 and C12);

…

(o) The effects of changes in foreign exchange rates (paragraph C29); ~~and~~

(p) Intangible assets (paragraph C30); and

(q) Joint arrangements (paragraph C31).

…

Investments in Controlled Entities, Joint Ventures ~~Jointly Controlled Entities~~ and Associates

C11. When an entity prepares separate financial statements, PBE IPSAS ~~6~~34 *Separate Financial Statements* requires it to account for its investments in controlled entities, joint ventures ~~jointly controlled entities~~ and associates either:

(a) Using the equity method as described in PBE IPSAS ~~7~~36;

(b) At cost; or

(c) As a financial instrument in accordance with PBE IPSAS 29.

C12. If a first-time adopter measures such an investment at cost in accordance with PBE IPSAS 35~~6~~, it shall measure that investment at one of the following amounts in its separate opening statement of financial position under PBE Standards:

(a) Cost determined in accordance with PBE IPSAS 35~~6~~; or

(b) Deemed cost. The deemed cost of such an investment shall be its:

(i) Fair value (determined in accordance with PBE IPSAS 29) at the entity's date of transition to PBE Standards in its separate financial statements; or

(ii) Previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each controlled entity, joint venture ~~jointly controlled entity~~ or associate that it elects to measure using a deemed cost.

C13. If a controlled entity becomes a first-time adopter later than its controlling entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:

(a) The carrying amounts that would be included in the controlling entity's consolidated financial statements, based on the controlling entity's date of transition to PBE Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the controlling entity acquired the controlled entity (this election is not available to a controlled entity of an investment entity, as defined in PBE IPSAS 35, that is required to be measured at fair value through surplus or deficit); or

(b) …

C31. A first-time adopter may apply the transition provisions in PBE IPSAS 37 with the following exceptions:

(a) When applying the transition provisions in PBE IPSAS 37, a first-time adopter shall apply these provisions at the date of transition to PBE Standards.

(b) When changing from proportionate consolidation to the equity method, a first-time adopter shall test for impairment the investment in accordance with PBE IPSAS 26 as at the date of transition to PBE Standards, regardless of whether there is any indication that the investment may be impaired. Any resulting impairment shall be recognised as an adjustment to accumulated comprehensive revenue and expense at the date of transition to PBE Standards.

Appendix D

Short-Term Exemptions from PBE Standards

This appendix is an integral part of PBE FRS 47.

Investment Entities

D1. A first-time adopter that is a controlling entity shall assess whether it is an investment entity, as defined in PBE IPSAS 35, on the basis of the facts and circumstances that exist at the date of transition to PBE Standards.

D2. A first-time adopter that is an investment entity, as defined in PBE IPSAS 35, may apply the transition provisions in paragraphs 71–72 of PBE IPSAS 35 and paragraphs 24–28 of PBE IPSAS 34 if its first PBE Standards financial statements are for an annual period ending on or before [date – end of year following effective date]. The references in those paragraphs to the annual period that immediately precedes the date of initial application shall be read as the earliest annual period presented. Consequently, the references in those paragraphs shall be read as the date of transition to PBE Standards.

Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)

The rubric, paragraphs 4.1–4.6 and the glossary are amended and paragraph 13 is added. New text is underlined and deleted text is struck through. Paragraphs 3 and 4 are provided for context.

Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) (PBE SFR-A (NFP)) is set out in paragraphs 1–12~~1~~ and Appendices A and B. All the paragraphs in the Standard and Appendices have equal authority. PBE SFR-A (NFP) should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 *Application of the Accounting Standards Framework*.

3. Not-for-profit public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements shall prepare a performance report in accordance with the requirements set out in Appendix A and the transitional provisions in Appendix B.

4. This Standard applies to an entity that is required to prepare a performance report. The Standard applies to the performance report of single entities and entities that have certain interests in other entities.

4.1 When preparing a performance report, an entity is required to identify its interests in other entities and assess whether, for the purposes of financial reporting, any of those interests result in the other entity meeting the definition of a controlled entity, an associate or a joint arrangement ~~venture~~.

4.2 If an entity controls another entity it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35~~6 (NFP)~~ *Consolidated* ~~*and Separate*~~ *Financial Statements* ~~*(Not-for-profit)*~~ and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.

4.3 If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36~~7~~ *Investments in Associates and Joint Ventures* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements.*

4.4 If an entity has an interest in a joint arrangement ~~venture~~ it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37~~8~~ *Joint Arrangements* ~~*Interests in Joint Ventures*~~ and PBE IPSAS 38 *Disclosure of Interests in Other Entities*.

4.5 When applying the requirements in PBE IPSAS 34, PBE IPSAS 35~~6 (NFP)~~, PBE IPSAS 36~~7~~ or PBE IPSAS 38~~8~~ an entity is not required to comply with the disclosure requirements in those standards denoted with an asterisk (*). Where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.

4.6 If an entity has an interest in another entity that is not a controlled entity, an associate or a joint arrangement ~~venture~~ it accounts for that interest in accordance with the requirements on investments in Section 6 of this Standard.

5. …

13. PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures*, PBE IPSAS 37 *Joint Arrangements* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*, issued in [date], amended paragraphs 4.1–4.6 and the glossary. A not-for-profit public benefit entity shall apply those amendments for periods beginning on or after [date]. Earlier application is permitted.

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

…

Joint arrangement An arrangement of which two or more parties have joint control.

Joint control The agreed sharing of control ~~over an activity by a binding arrangement.~~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.

Joint venture A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. ~~A binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.~~

Significant influence The power to participate in the financial and operating policy decisions of another entity ~~the investee~~ but is not control or joint control of ~~over~~ those policies.

Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)

The rubric, paragraphs 4.1–4.6 and the glossary are amended and paragraph 13 is added. New text is underlined and deleted text is struck through. Paragraphs 3 and 4 are provided for context.

Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) (PBE SFR-A (PS)) is set out in paragraphs 1–12~~1~~ and Appendices A and B. All the paragraphs in the Standard and Appendices have equal authority. PBE SFR-A (PS) should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 *Application of the Accounting Standards Framework*.

3. Public sector public benefit entities that are eligible for, and elect to apply, the Tier 3 PBE Accounting Requirements shall prepare a performance report in accordance with the requirements set out in Appendix A and the transitional provisions in Appendix B. The requirement to prepare a performance report exists regardless of the term used in any legislation that defines the reporting obligations of the entity, for example annual financial statements.

4. This Standard applies to an entity that is required to prepare a performance report. The Standard applies to the performance report of single entities and entities that have certain interests in other entities.

4.1 When preparing a performance report, an entity is required to identify its interests in other entities and assess whether, for the purposes of financial reporting, any of those interests result in the other entity meeting the definition of a controlled entity, an associate or a joint arrangement ~~venture~~.

4.2 If an entity controls another entity it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 35~~6 (NFP)~~ *Consolidated ~~and Separate~~ Financial Statements ~~(Not-for-profit)~~* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that controls another entity but which is not required to prepare a consolidated performance report because it qualifies for the exemption in paragraph 5 of PBE IPSAS 35 not to present consolidated financial statements shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements*.

4.3 If an entity has an interest in an associate or a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 36~~7~~ *Investments in Associates and Joint Ventures* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*. An entity that qualifies for the exemption in paragraph 23 of PBE IPSAS 36 not to apply the equity method to its investment in an associate or a joint venture shall prepare a performance report in accordance with PBE IPSAS 34 *Separate Financial Statements.*

4.4 If an entity has an interest in a joint arrangement ~~venture~~ it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 37~~8~~ *Joint Arrangements ~~Interests in Joint Ventures~~* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*.

4.5 When applying the requirements in PBE IPSAS 34, PBE IPSAS 35~~6 (NFP)~~, PBE IPSAS 36~~7~~ or PBE IPSAS 38~~8~~ an entity is not required to comply with the disclosure requirements in those standards denoted with an asterisk (*). Where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.

4.6 If an entity has an interest in another entity that is not a controlled entity, an associate or a joint arrangement ~~venture~~ it accounts for that interest in accordance with the requirements on investments in Section 6 of this Standard.

13. PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Investments in Associates and Joint Ventures*, PBE IPSAS 37 *Joint Arrangements* and PBE IPSAS 38 *Disclosure of Interests in Other Entities*, issued in [date] amended paragraphs 4.1–4.6 and the glossary. A public sector public benefit entity shall apply those amendments for periods beginning on or after [date]. Earlier application is permitted.

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

…

Joint arrangement An arrangement of which two or more parties have joint control.

Joint control 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. ~~over an activity by a binding arrangement.~~

Joint venture A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. ~~A binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.~~

Significant influence The power to participate in the financial and operating policy decisions of another entity ~~the investee~~ but is not control or joint control of ~~over~~ those policies.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 34 Separate Financial Statements.

Introduction

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 34 *Separate Financial Statements* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considers that the requirements of IPSAS 34 are generally appropriate for application by public benefit entities. The NZASB noted that the requirements of IPSAS 34 are substantially the same as the previous requirements for separate financial statements in IPSAS 6, PBE IPSAS 6 (PS) and PBE IPSAS 6 (NFP).

BC2. The NZASB decided that the IPSASB's Basis for Conclusions on IPSAS 34 includes information that would be useful for entities applying PBE IPSAS 34 and agreed to reproduce that Basis for Conclusions together with PBE IPSAS 34.

Other PBE Standards

BC3. The NZASB has modified IPSAS 34 to incorporate guidance that relates to other PBE Standards for which there is no IPSAS equivalent, such as PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (for example, paragraph 12).

IPSASB Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 34, Separate Financial Statements*.*

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 34. As this Standard is based on IAS 27, *Separate Financial Statements* (Amended in 2011, including amendments up to December 31, 2014), issued by the International Accounting Standards Board (IASB), the Basis for Conclusions outlines only those areas where IPSAS 34 departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.

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 48, *Separate Financial Statements,* was based on IAS 27 *Separate Financial Statements* (Amended in 2011), having regard to the relevant public sector modifications in IPSAS 6, *Consolidated and Separate Financial Statements*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 34. These new IPSASs supersede IPSAS 6, IPSAS 7, *Investments in Associates,* and IPSAS 8, *Interests in Joint Ventures.*

Use of the Equity Method in Separate Statements

BC3. IPSAS 6 permitted an entity, in its separate financial statements, to measure investments in controlled entities, jointly controlled entities and associates:

(a) Using the equity method;

(b) At cost; or

(c) As a financial instrument in accordance with IPSAS 29.

BC4. The IPSASB noted that in 2003 the IASB limited the measurement options for investments presented in an entity's separate financial statements by removing the option to use the equity method. The IPSASB noted that the reasons given by the IASB for making this change included the following:

(a) The focus in separate financial statements is on the performance of the assets as investments. Cost and fair value can provide relevant information for this; and

(b) To the extent that the equity method provides information about the profit and loss of a subsidiary or an associate, that information would be available in the consolidated financial statements.

BC5. The IPSASB also noted that, at the time it issued ED 48, the IASB had signaled its intention to reconsider the use of the equity method in separate financial statements. In deciding to reconsider this issue the IASB acknowledged that corporate law in some countries requires that the equity method of accounting be used to measure certain investments when presenting separate financial statements.

BC6. The IPSASB decided to continue to permit the use of the equity method in separate financial statements for the following reasons:

(a) The equity method is a well-established method of accounting for certain investments in the public sector. In many circumstances where investments are held by public sector entities, the equity method can provide information that is reliable and useful, and possibly at a lower cost than either the cost method or the fair value method. In the public sector, investment entities are often used more as "instruments" to enable service provision, rather than as a holding for investment purposes, as might generally be the case in the private sector. The equity method may therefore, in some circumstances, be better suited to meeting user needs in the public sector, as it allows the financial statements to portray the fluctuations in the equity of, and performance by, an investment over time, in a cost effective and easily understood manner.

(b) Although application of the cost method is often relatively straightforward, where investments have been held for some time, using the cost method may result in outdated and less relevant information, in which case, it would not meet user needs.

(c) In the public sector there is likely to be a higher proportion of investments for which there are no active markets and in respect of which fair values are not readily observable. Although the guidance in IPSAS 29 can be used to derive a value for such investments, the IPSASB considered that this approach would generally result in information that did not faithfully represent the underlying circumstances.

BC7. A majority of the respondents to ED 48 supported the proposal to permit the use of the equity method in separate financial statements. A further group of respondents also supported this proposal, subject to the IASB reinstating the use of the equity method in separate financial statements. In August 2014 the IASB issued the *Equity Method in Separate Financial Statements* (Amendments to IAS 27), which reinstated the equity method as an option in separate financial statements. The IPSASB noted the support it had received for this proposal and the reinstatement of the equity method in IAS 27, and agreed to continue to permit the use of the equity method in separate financial statements.

Separate Financial Statements of Investment Entities

BC8. In developing IPSAS 35 the IPSASB decided to introduce the concept of investment entities and to require that a controlling entity that is an investment entity measure its investments in most controlled entities at fair value through surplus or deficit in accordance with IPSAS 29. Consequently, the IPSASB decided to require that an investment entity measure its investments in controlled entities at fair value through surplus or deficit in its separate financial statements. The IPSASB also decided that an investment entity preparing separate financial statements as its only financial statements, should also make the disclosures required in IPSAS 38 about its interests in controlled entities.

BC9. The IPSASB also decided to require a controlling entity of an investment entity that is not itself an investment entity to present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity. Consequently, the IPSASB decided to require that a non-investment controlling entity should measure its investment in a controlled investment entity in the same way in its separate financial statements.

Comparison with IPSAS 34

PBE IPSAS 34 *Separate Financial Statements* is drawn from IPSAS 34 *Separate Financial Statements.*

The significant difference between PBE IPSAS 34 and IPSAS 34 is the requirement in PBE IPSAS 34 for investments in joint ventures and associates that are classified as held for sale or distribution (or included in a disposal group that is classified as held for sale or for distribution) to be accounted for in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* where those investments are accounted for at cost or using the equity method in the separate financial statements.