

**PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD 6 (PS) CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
(PUBLIC SECTOR) (PBE IPSAS 6 (PS))**

Issued September 2014 and incorporates amendments to 31 January 2017 other than consequential amendments resulting from early adoption of PBE IFRS 9 *Financial Instruments*

This Standard was issued on 11 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This 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 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in paragraphs 70.1 to 70.3.

In finalising this 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 Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 6 *Consolidated and Separate Financial Statements* issued in May 2013.

This Standard is superseded by PBE IPSAS 34 *Separate Financial Statements* and PBE IPSAS 35 *Consolidated Financial Statements*. PBE IPSAS 34 and PBE IPSAS 35 shall be applied for annual financial statements covering periods beginning on or after 1 January 2019. Earlier application is permitted, in which case this Standard is superseded from the earlier date of application.

PBE IPSAS 6 (PS) CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (PUBLIC SECTOR)

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(PUBLIC SECTOR)**

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The following is available on the XRB website as additional material:

IPSASB Basis for Conclusions

Public Benefit Entity International Public Sector Accounting Standard 6 (PS) *Consolidated and Separate Financial Statements (Public Sector)* is set out in paragraphs 1–71 and Appendices A and B. All the paragraphs have equal authority. PBE IPSAS 6 (PS) should be read in the context of the NZASB’s Basis for Conclusions on PBE IPSAS 6 (PS), the IPSASB’s Basis for Conclusions on IPSAS 6, the *Public Benefit Entities’ Conceptual Framework* 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.

Scope

1. **An entity that prepares and presents financial statements shall apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity.**
2. This Standard does not deal with methods of accounting for entity combinations and their effects on consolidation, including goodwill arising on an entity combination (guidance on accounting for entity combinations can be found in PBE IFRS 3 *Business Combinations*).
3. **This Standard shall also be applied in accounting for controlled entities, jointly controlled entities, and associates when an entity elects, or is required by local regulations, to present separate financial statements.**
4. [Not used]
- 4.1 **This Standard applies to Tier 1 and Tier 2 public sector public benefit entities.**
- 4.2 **A Tier 2 entity is not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*). Where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**
5. [Not used]
6. This Standard establishes requirements for the preparation and presentation of consolidated financial statements, and for accounting for controlled entities, jointly controlled entities, and associates in the separate financial statements of the controlling entity, the venturer, and the investor.

Definitions

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

Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Controlled entity is an entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).

Controlling entity is an entity that has one or more controlled entities.

The **cost method** is a method of accounting for an investment, whereby the investment is recognised at cost. The investor recognises revenue from the investment only to the extent that the investor is entitled to receive distributions from accumulated comprehensive revenue and expense of the investee arising after the date of acquisition. Entitlements due or received in excess of such comprehensive revenue and expense are regarded as a recovery of investment, and are recognised as a reduction of the cost of the investment.

Minority interest is that portion of the comprehensive revenue and expense and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity.

Separate financial statements are those presented by a controlling entity, an investor in an associate, or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

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.

Consolidated Financial Statements and Separate Financial Statements

8. A controlling entity or its controlled entity may be an investor in an associate, or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with PBE IPSAS 7 *Investments in Associates* and PBE IPSAS 8 *Interests in Joint Ventures*.

9. For an entity described in paragraph 8, separate financial statements are those prepared and presented in addition to the financial statements referred to in paragraph 8. Separate financial statements need not be appended to, or accompany, those statements.
10. The financial statements of an entity that does not have a controlled entity, associate, or venturer's interest in a jointly controlled entity are not separate financial statements.
11. A controlling entity that is exempted in accordance with paragraph 16 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

Economic Entity

12. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.
13. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.
14. An economic entity may include entities with both social and commercial objectives. Further, a controlling entity may establish a separate entity under its control such as a trust or a trading company, to carry out specific functions. For example, an economic entity may include entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Presentation of Consolidated Financial Statements

15. **A controlling entity, other than a controlling entity described in paragraph 16, shall present consolidated financial statements in which it consolidates its controlled entities in accordance with this Standard.**
16. **A controlling entity need not present consolidated financial statements if and only if:**
 - (a) **The controlling entity is:**
 - (i) **Itself a wholly-owned controlled entity, and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements; or**
 - (ii) **A partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements;**
 - (b) **The controlling entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**
 - (c) **The controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and**
 - *(d) **The ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with PBE Standards.**

RDR 16.1 A Tier 2 entity is not required to comply with paragraph 16(d). In order to qualify for the exemption not to present consolidated financial statements, an entity must still comply with all the other conditions in paragraph 16.

17. In the public sector, many controlling entities that are either wholly-owned or partially-owned, represent key sectors or activities of a government, and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements. In this situation, the information needs of certain users may not be served by the consolidated financial statements at a whole-of-government level alone. In many jurisdictions, governments have recognised this and have legislated the financial reporting requirements of such entities.
18. In some instances, an economic entity will include a number of intermediate controlling entities. For example, while a department of health may be the ultimate controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements

may specify which entities are required to (or exempted from the requirement to) prepare consolidated financial statements. Where there is no specific reporting requirement for an intermediate controlling entity to prepare consolidated financial statements for which users are likely to exist, intermediate controlling entities are to prepare and publish consolidated financial statements.

19. A controlling entity that elects in accordance with paragraph 16 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 58–64.

Scope of Consolidated Financial Statements

20. **Consolidated financial statements shall include all controlled entities of the controlling entity.**¹
- 21–25. [Not used]
26. A controlled entity is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund, unit trust, or similar entity.
27. A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of for-profit entities with entities in the public or not-for-profit sectors. Relevant information is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities.

Establishing Control of Another Entity for Financial Reporting Purposes

28. Whether an entity controls another entity for financial reporting purposes is a matter of judgement, based on the definition of control in this Standard and the particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).
29. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity (a) may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend), and (b) is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a for-profit entity may provide a controlling entity with a dividend, and also enable it to achieve some of its social objectives.

Control for Financial Reporting Purposes

30. For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity, and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.
31. Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between the controlled entity and its controlling entity.
32. For example, a government department may have an ownership interest in a rail authority, which operates as a for-profit entity. The rail authority is allowed to operate autonomously and does not rely on the government for funding, but has raised capital through significant borrowings that are guaranteed by the

¹ If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it shall be accounted for in accordance with that Standard.

government. The rail authority has not returned a dividend to government for several years. The government has the power to appoint and remove a majority of the members of the governing body of the rail authority. The government has never exercised the power to remove members of the governing body, and would be reluctant to do so because of sensitivity in the electorate regarding the previous government's involvement in the operation of the rail network. In this case, the power to control is presently exercisable but under the existing relationship between the controlled entity and controlling entity, an event has not occurred to warrant the controlling entity exercising its powers over the controlled entity. Accordingly, control exists because the power to control is sufficient, even though the controlling entity may choose not to exercise that power.

33. An entity may own (a) share warrants, (b) share call options, (c) debt or equity instruments that are convertible into ordinary shares, or (d) other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
34. In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements, whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert.
35. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. For example, an independent Crown Entity may have statutory powers to operate independently of the government. That is, the independent Crown Entity may have the power to obtain information and report on its findings without recourse to government or any other body. The existence of control does not require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity.
36. The power of one entity to govern decision making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a "controlling entity" and "controlled entity" relationships that do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

Regulatory and Purchase Power

37. Governments and their agencies have the power to regulate the behaviour of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of public sector entities include only those resources that they control and can benefit from, the meaning of control for the purposes of this Standard does not extend to:
 - (a) The power of the legislature to establish the regulatory framework within which entities operate, and to impose conditions or sanctions on their operations. Such power does not constitute control by a public sector entity of the assets deployed by these entities. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or
 - (b) Entities that are economically dependent on a public sector entity. That is, where an entity retains discretion as to whether it will take funding from, or do business with, a public sector entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by the public sector entity. For example, a government department may be able to influence the financial and operating policies of an entity that is dependent on it for funding (such as a charity), or a for-profit entity that is economically dependent on business from it. Accordingly,

the government department has some power as a purchaser but not to govern the entity’s financial and operating policies.

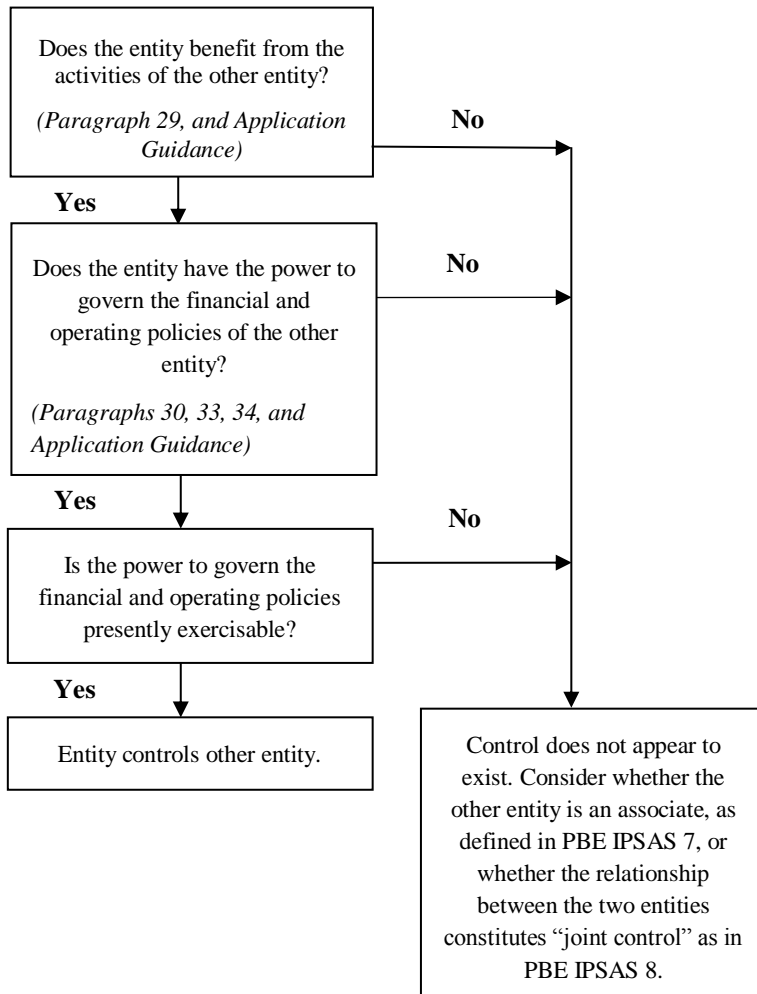
Determining Whether Control Exists for Financial Reporting Purposes

38. Public benefit entities may create other entities to achieve some of their objectives. In some cases, it may be clear that an entity is controlled, and hence should be consolidated. In other cases, it may not be clear. Paragraphs AG27–AG29 of the Application Guidance provide guidance to help determine whether or not control exists for financial reporting purposes.

39–40. [Not used]

41. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 28 to 40.

Establishing Control of Another Entity for Financial Reporting Purposes



42. A controlling entity loses control when it loses the power to govern the financial and operating policies of a controlled entity so as to benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when a controlled entity becomes subject to the control of another government, a court, administrator, or regulator. It could also occur as a result of a contractual agreement or, for example, a foreign government may sequester the operating assets of a foreign controlled entity so that the controlling entity loses the power to govern the operating policies of the controlled entity. In this case, control is unlikely to exist.

Consolidation Procedures

43. In preparing consolidated financial statements, an entity combines the financial statements of the controlling entity and its controlled entities line by line, by adding together like items of assets, liabilities, net assets/equity, revenue, and expenses. In order that the consolidated financial statements present financial information about the economic entity as that of a single entity, the following steps are then taken:
- (a) The carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity are eliminated (PBE IFRS 3 provides guidance on the treatment of any resultant goodwill);
 - (b) Minority interests in the surplus or deficit and comprehensive revenue and expense of consolidated controlled entities for the reporting period are identified; and
 - (c) Minority interests in the net assets/equity of consolidated controlled entities are identified separately from the controlling entity's net assets/equity in them. Minority interests in the net assets/equity consist of:
 - (i) The amount of those minority interests at the date of the original combination (PBE IFRS 3 provides guidance on calculating this amount); and
 - (ii) The minority's share of changes in net assets/equity since the date of combination.
44. When potential voting rights exist, the proportions of surplus or deficit, comprehensive revenue and expense and changes in net assets/equity allocated to the controlling entity and minority interests are determined on the basis of present ownership interests, and do not reflect the possible exercise or conversion of potential voting rights.
45. **Balances, transactions, revenues, and expenses between entities within the economic entity shall be eliminated in full.**
46. Balances and transactions between entities within the economic entity, including (a) revenues from sales and transfers, (b) revenues recognised consequent to an appropriation or other budgetary authority, (c) expenses, and (d) dividends or similar distributions, are eliminated in full. Surpluses and deficits resulting from transactions within the economic entity that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Deficits within the economic entity may indicate an impairment that requires recognition in the consolidated financial statements. Guidance on accounting for temporary differences that arise from the elimination of surpluses and deficits resulting from transactions within the economic entity can be found in PBE IAS 12 *Income Taxes*.
47. **The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date. When the reporting dates of the controlling entity and a controlled entity are different, the controlled entity prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the controlling entity, unless it is impracticable to do so.**
48. **When, in accordance with paragraph 47, the financial statements of a controlled entity used in the preparation of consolidated financial statements are prepared as of a reporting date different from that of the controlling entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the controlling entity's financial statements. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.**
- 48.1 **The difference between the reporting dates of the controlled entity and that of the controlling entity shall be no more than three months except in the rare circumstances where:**
- (a) **Statute fixes the reporting date of a controlled entity greater than three months from the reporting date of the controlling entity's own financial statements included in the consolidated financial statements; and**
 - (b) **No faithfully representative interim financial information for the controlled entity covering a period not more than three months different to that of the controlling entity is able to be obtained.**

49. **Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.**
50. If a member of the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.
51. The revenue and expenses of a controlled entity are included in the consolidated financial statements from the acquisition date (PBE IFRS 3 provides guidance on the meaning of the acquisition date). The revenue and expenses of a controlled entity are included in the consolidated financial statements until the date on which the controlling entity ceases to control the controlled entity. The difference between the proceeds from the disposal of the controlled entity and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognised in other comprehensive revenue and expense in accordance with PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* is recognised in the consolidated statement of comprehensive revenue and expense as the gain or loss on the disposal of the controlled entity.
52. From the date an entity ceases to be a controlled entity, provided that it does not become (a) an associate as defined in PBE IPSAS 7, or (b) a jointly controlled entity as defined in PBE IPSAS 8, it shall be accounted for as a financial instrument. PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* provides guidance on the recognition and measurement of financial instruments.
- 52.1 The remaining investment at the date that an entity ceases to be a controlled entity shall be measured at fair value. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with PBE IPSAS 29 or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.**
53. [Not used]
54. **Minority interests shall be presented in the consolidated statement of financial position within net assets/equity, separately from the controlling entity's net assets/equity. Minority interests in the surplus or deficit of the economic entity shall also be separately disclosed.**
55. The surplus or deficit and other comprehensive revenue and expense are attributed to the controlling entity and minority interests. Because both are net assets/equity, the amount attributed to minority interests is not revenue or expense.
56. Losses applicable to the minority in a consolidated controlled entity may exceed the minority interest in the controlled entity's net assets/equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the controlled entity subsequently reports surpluses, such surpluses are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.
57. If a controlled entity has outstanding cumulative preference shares that are held by minority interests and classified as net assets/equity, the controlling entity computes its share of surpluses or deficits after adjusting for the dividends on such shares, whether or not dividends have been declared.

Accounting for Controlled Entities, Jointly Controlled Entities and Associates in Separate Financial Statements

58. **When separate financial statements are prepared, investments in controlled entities, jointly controlled entities, and associates shall be accounted for:**
- (a) **Using the equity method as described in PBE IPSAS 7;**
 - (b) **At cost; or**
 - (c) **As a financial instrument in accordance with PBE IPSAS 29.**
- The same accounting shall be applied for each category of investments.**
- 58.1 **Investments accounted for at cost 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 included in a disposal group that is classified as held for sale). The measurement of investments in accordance with PBE IPSAS 29 is not changed in such circumstances.**

59. This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs 58 and 60–RDR 64.1 apply when an entity prepares separate financial statements that comply with PBE Standards. The entity also produces consolidated financial statements available for public use as required by paragraph 15, unless the exemption provided in paragraph 16 is applicable.
60. **Controlled entities, jointly controlled entities, and associates that are accounted for as financial instruments in the consolidated financial statements shall be accounted for in the same way in the investor’s separate financial statements.**
61. Guidance on the recognition and measurement of financial instruments can be found in PBE IPSAS 29.

Disclosure

62. **The following disclosures shall be made in consolidated financial statements:**
- (a) **A list of significant controlled entities;**
 - (b)–(c) [Not used]
 - (d) **The name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists;**
 - * (e) **The reasons why the ownership interest of more than 50% of the voting or potential voting power of an investee does not constitute control;**
 - (f) **The reporting date of the financial statements of a controlled entity when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the controlling entity, and the reason for using a different reporting date or period; and**
 - (g) **The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of controlled entities to transfer funds to the controlling entity in the form of cash dividends, or similar distributions, or to repay loans or advances.**
- *63. **When separate financial statements are prepared for a controlling entity that, in accordance with paragraph 16, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:**
- (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 jurisdiction in which the entity operates (when it is different from that of the controlling entity); and the address where those consolidated financial statements are obtainable;**
 - (b) **A list of significant controlled entities, jointly controlled entities, and associates, including the name; the jurisdiction in which the entity operates (when it is different from that of the controlling entity); proportion of ownership interest; and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest); and**
 - (c) **A description of the method used to account for the entities listed under (b).**
64. **When a controlling entity (other than a controlling entity covered by paragraph 63), venturer with an interest in a jointly controlled entity, or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:**
- (a) **The fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law, legislation, or other authority;**
 - * (b) **A list of significant controlled entities, jointly controlled entities, and associates, including the name; the jurisdiction in which the entity operates (when it is different from that of the controlling entity); proportion of ownership interest; and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest); and**
 - * (c) **A description of the method used to account for the entities listed under (b);**

and shall identify the financial statements prepared in accordance with paragraph 15 of this Standard, PBE IPSAS 7, and PBE IPSAS 8 to which they relate.

RDR 64.1 A controlling entity, venturer with an interest in a jointly controlled entity or an investor in an associate, that prepares financial statements applying Tier 2 PBE Standards shall disclose a description of the methods used to account for the investments in controlled entities, jointly controlled entities and associates.

Transitional Provisions

65–68. [Not used]

Effective Date

69–70. [Not used]

70.1 A public sector public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is not permitted.

70.2 *Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments*, issued in December 2015, amended paragraphs B1 and B3. It made no changes to the requirements contained in this Standard. Public sector entities shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2016. Earlier application is permitted.

70.3 *2016 Omnibus Amendments to PBE Standards*, issued in January 2017, amended paragraphs 48.1, B5, B6, B8 and B10 and deleted paragraph B7. An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2017.

Withdrawal and Replacement of PBE IPSAS 6 (May 2013)

71. This Standard, when applied, supersedes PBE IPSAS 6 *Consolidated and Separate Financial Statements* issued in May 2013.

Appendix A

Application Guidance

This application guidance forms an integral part of PBE IPSAS 6 (PS).

Control

- AG1. Control is defined in PBE Standards as the power to govern the financial and operating policies of another entity so as to benefit from its activities.
- AG2. “Control” by one entity over another entity exists in circumstances where the following parts (a) and (b) are both satisfied:
- (a) The first entity has the power to govern the financial and operating policies that guide the activities of the second entity, except in the following circumstances where such power is not required:
 - (i) Where the policies have been irreversibly predetermined by the first entity or its agent; or
 - (ii) Where the determination of the policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the second entity.
 - (b) The first entity has an entitlement to a significant level of current or future ownership benefits, including the reduction of ownership losses, which arise from the activities of the second entity.

Control Requiring Two Elements

- AG3. For control to exist for the purposes of this Standard, both parts (a) and (b) of paragraph AG2 must be satisfied. Part (a) will be satisfied where either the capacity to determine the financing and operating policies as stated in part (a) exists, or one of the exceptions provided in items (i) and (ii) of part (a) exists. Subject to those exceptions, the definition of control requires both a power element (i.e. part (a)) and a benefit element (i.e. part (b)). It is implicit that both the power element and the benefit element are linked because ownership benefits are, by nature, benefits that arise from the determination of the relevant entity’s financing and operating policies.

Ownership Form of Control

Limitation to an Ownership Form of Control

- AG4. The definition of control represents control of an ownership form. An ownership form of control has been adopted as the criterion for the preparation of consolidated financial statements. Other forms of control exist, but are outside this definition.
- Control of a regulatory form exists when there is a specific authority under regulation to impose a specified form of compliance on the regulated entity’s operation.
 - Control of a purchase form exists when there is a power, held as a consequence of a relationship involving the purchase of goods or services, to compel a provider entity into a certain course of action.

In-substance vs Legal Ownership

- AG5. Control of an ownership form represents in-substance ownership. It includes in-substance ownership created under any scheme, arrangement, or device and is therefore not restricted to relationships that arise through the legal ownership of equity instruments. It includes all control relationships arising from any mechanism that establishes an ownership relationship between two entities including such a relationship established directly under legislation.

Regulatory vs Ownership Form of Control

- AG6. Both ownership and regulatory forms of control can arise under legislation. As with ownership control, regulatory control arising under legislation establishes entitlements to benefits. However, legislation will lead to an ownership form of control only where it establishes, in favour of one entity over another, both the power to determine financing and operating policies and an entitlement to ownership benefits. The critical distinction between ownership and regulatory forms of control established under legislation is that, under the ownership form of control the entitlement to benefit arises from the power to determine

financing and operating policies; whereas under the regulatory form of control, the entitlement to benefit instead arises directly from the legislation.

- AG7. Regulatory forms of control are not limited to requirements currently in place. They also include the ability to enact regulation to impose future requirements. For the purposes of this Standard, the Crown's sovereign power to enact legislation is to be regarded as a regulatory form of control even though, through this power, the Crown has the capacity to establish ownership relationships as well as regulatory relationships.

Ownership vs Fiduciary Relationships

- AG8. Fiduciary relationships, such as those involving trustees and beneficiaries of trusts, might appear to be ownership relationships that satisfy the definition of control in this Standard. However, they can be distinguished in two ways:
- The decision-making power of a trustee does not meet the power element of the definition of control. While a trustee may have the ability to make decisions concerning the financing and operating activities of the trust, this ability is governed by the trustee's fiduciary responsibility at law to act in the best interests of the beneficiaries of the trust.
 - A trustee's entitlement to benefits does not meet the benefit element of the definition of control. Any link between the decision-making powers of a trustee and the trustee's entitlement to benefits is different in nature to the link between the power and ownership benefit elements that exist in an ownership relationship giving rise to control. In a fiduciary relationship, the trust deed will specifically preclude a trustee from using its decision-making powers to direct the trust to engage in activities designed to increase its own fees or other benefits. Furthermore, the fee that a trustee receives will be in the nature of recompense for the services it provides as trustee, and is not a benefit attributable to the holding of an ownership interest.

Power Element

Capacity to Exercise Power through Governance

- AG9. The power element refers to the capacity to determine the financing and operating policies of another entity. In most cases, with regard to entities in both the private and public sectors, such capacity exists through an ability of one entity to select and terminate those parties responsible for determining the financing and operating policies of the other entity. In the public sector, this ability is often specified by legislative authority. In the private sector, this ability mostly arises from holding a majority interest in the voting rights of the investee. The critical factor is capacity. As a consequence, where the holding of a majority interest in the voting rights of the investee determines the power element and there are favourable unexercised instruments exclusively held by the investor that will give the investor a majority interest when exercised, such interest may need to be determined on the basis that the unexercised instruments have been exercised. In the particular circumstances where such instruments exist and they are currently exercisable, such interest will need to be determined on the basis that the instruments have been exercised.

Unilateral Power

- AG10. The decision-making capacity that satisfies the power element of control must be unilateral. The capacity cannot be shared or divided such that it enables power to be exercised jointly by two or more partners or co-owners. The ability to participate with others in making decisions that guide the activities of another entity usually characterises joint venture relationships, which are addressed in PBE IPSAS 8 *Interests in Joint Ventures*. Thus, Entity A will not have a unilateral decision-making capacity with regard to Entity B if Entity A requires the ongoing consent of other parties to set or change the policies or management that guide the activities of Entity B. On the other hand, a unilateral decision-making capacity may still exist despite there being a requirement to consult before a corresponding power can be exercised.

Restrictions on Activities

- AG11. Although the power element of control cannot be shared, usually it is limited to some degree by law, regulations, fiduciary responsibilities, and contractual rights of other parties. For example, contractual agreements with lenders may impose limits on an entity's ability to pay dividends or make distributions. However, these forms of restrictions usually establish protective limits on, rather than participatory rights in, the decision-making capacity of the controlling entity. Such protective limits do not usually give a minority shareholder, regulatory agency or contracting party the ability to make or participate in a

controlling entity's decisions that guide the controlled entity's activities. It is only where participatory rights are affected in addition to protective limits being placed on the entity that the power element of control may cease to be satisfied. Rights are participatory if they enable investors (majority and minority owners) to participate in decisions that involve setting and modifying the financing and operating policies that guide the activities of the entity.

Power of Veto

AG12. In some circumstances, the power element of control may appear to be satisfied where there is an ability to restrict others from directing significant policies. However, a power of veto will not of itself satisfy the power element of control unless its effect is that significant policy decisions are taken in accordance with the wishes of the entity holding that power. One entity will not have decision-making capacity with regard to another where there is a third party that has the ability to determine all significant financing and operating policies.

Delegated Power

AG13. The power element rests with the party having the ultimate decision-making capacity, regardless of whether or not the party actively exercises that capacity. The fact that decision-making ability may be delegated by one party to another party such that the second party determines the day-to-day operations of the entity does not undermine the ultimate decision-making capacity of the first party. Delegation of decision-making ability while retaining the ultimate decision-making capacity may occur in several ways, including delegation of such ability within the governance structure of the entity and delegation of such ability to an external party under a contractual arrangement.

AG14. Delegation within the governance structure of the entity includes the appointment or retention by shareholders of directors to exercise decision-making ability on the shareholders' behalf. In such case, the ultimate decision-making capacity of the shareholders continues to exist regardless of whether that capacity is exercised. For example, when a controlling entity obtains control of a controlled entity it may choose to retain the controlled entity's existing policies, directors, officers and other personnel without affecting its ability to change any of that controlled entity's policies or personnel responsible for carrying out those policies. In the public sector, the Crown may exercise power over an entity through legislation which establishes the entity and requires the operation of that entity to have regard to the Government's policies, even though the Crown may not have day-to-day responsibility for the activities of that entity.

AG15. Delegation under a contractual arrangement includes relationships established under management agreements and franchise agreements. Under a typical management agreement, an external party is contracted to manage an entity in return for a management fee. This involves a transfer by the owner of the entity to the external party of a decision-making ability in respect of the entity. However, the ultimate decision-making capacity is retained by the owner of the entity through the ability to terminate the contract and reacquire the decision-making ability previously transferred. In a franchise agreement, the owner of a franchisee might or might not have transferred to the franchisor its decision-making ability over the franchisee. This position depends on whether, by virtue of the terms of the agreement, the franchisor is able to determine all significant financing and operating decisions affecting the franchisee. However, in all cases the ultimate decision-making capacity is retained by the owner of the franchisee through its ability to withdraw from the franchise agreement, reacquire any decision-making ability previously held by the franchisor, and continue operating in business.

Exceptions to Need for Power Element

AG16. Part (a) of paragraph AG2 identifies two circumstances where the existence of a power element is not necessary to satisfy the definition of control. The first circumstance is where all significant policies concerning an entity have been predetermined and are unable to be modified. In such cases, even although a power element does not exist, a power element is not necessary because the party that stands to gain the ownership benefits will have been irreversibly specified in advance as part of the significant predetermined policies. Control will therefore arise in favour of any party that has established such an entity in circumstances where that party is entitled to a significant or greater level of the entity's ownership benefits. These arrangements are sometimes described as "autopilots".

AG17. The second circumstance covered by part (a) of paragraph AG2 is where the determination of significant policies is unable to materially impact the level of potential benefits to be realised. In such cases, a power element is not necessary because, although the policies may not be irreversibly predetermined, the nature

of the activities of the entity is such that any exercise of decision-making power will have no material influence on the level of ownership benefits to be realised from those activities. For example, consider the case of a special purpose entity (SPE) established to securitise a mortgage portfolio in circumstances where the activities of the SPE are effectively limited to collecting interest income from mortgagors, paying interest income to the SPE debt holders, and paying insurance premiums to cover the risk of mortgagor default. Any party having decision-making ability concerning the SPE's activities will be unable to materially influence the net surplus or deficit of the SPE. This will instead depend substantially on factors outside the control of the manager, such as prevailing market interest rates and the cost of insurance cover. Control will therefore arise in favour of a party that is entitled to a significant or greater level of the SPE's ownership benefits, irrespective of whether that party has the ultimate decision-making capacity regarding the SPE. Entities having financial assets securitised through an SPE vehicle in this manner will commonly have control over the SPE in terms of this Standard.

Benefit Element

Entitlement to Significant Ownership Benefits

- AG18. The benefit element refers to an entitlement to a significant or greater level of ownership benefits. Ownership benefits are benefits equivalent to returns to an investor on or of an investment. Where a capacity to determine the financing and operating policies of another entity exists and is relevant, ownership benefits will be directly attributable to the exercise of decisions concerning the financing and operating policies of that other entity. Types of ownership benefits are discussed in paragraphs AG21 to AG24 below.
- AG19. A key component of the benefit element is that there be an entitlement to ownership benefits. To hold such an entitlement does not require it to be probable that ownership benefits will arise. The critical factor is that, in the event such benefits do arise, the entitled party has the ability to realise those benefits. However, a substance approach needs to be taken in assessing this factor and such an entitlement will exist only where the entitled party has a realistic ability to obtain those benefits. Entitlements to ownership benefits that are established nominally but that are never able to be obtained do not enable the benefit element to be met.
- AG20. Another key component of the benefit element is that the entitlement to ownership benefits must relate to at least a significant level of such benefits. Whether a level of ownership benefits is significant often depends on the type of ownership benefits and the ability of other parties to participate in such benefits. It is not necessarily a question of meeting a predetermined percentage threshold. In cases where percentages are an important determinant, the spread of entitlement percentages is relevant. For example, an entitlement to a level of 20% may be significant where no other parties are each entitled to more than 5%; whereas an entitlement to a level of 40% may be necessary to be significant where one or more other parties are each entitled to 20%.

Benefits from Distributions of Earnings or Net Assets

- AG21. An entitlement to ownership benefits will usually arise through a residual interest in an entity that establishes an ability to participate in current or future distributions of earnings or net assets. In identifying residual interests, access to the whole of the benefit inflows arising from gross assets is not a key consideration. A controlling entity will not have access to benefit inflows of an amount equal to those gross assets, as the creditors have a prior claim. For this reason, it is necessary to focus on the benefit flows associated with the net assets of the entity. Often evidence as to who is entitled to these benefits is given by who stands to suffer or gain from the financial performance of the entity.

Receipt of Benefits by Controlling Entity Not Required

- AG22. A controlling entity's entitlement to distributions of earnings or distributions of net assets is not dependent on whether the controlling entity is the actual recipient of a distribution that has been made. The entitlement depends on a controlling entity's ability to obtain the proceeds of a distribution and apply those proceeds as it determines. Therefore an entitlement to ownership benefits will continue to be held by a controlling entity where distributions are made by a controlled entity to third parties in circumstances where the controlling entity has the ability to claim those resources for its own purposes. Usually such circumstances will arise where the controlling entity has expressly directed, through its capacity to determine the financing and operating policies of the controlled entity, that the transfer be made to third parties.

Other Benefits from Control over Net Assets

AG23. Ownership benefits may also comprise benefits from net assets other than residual distributions. A controlling entity's entitlement to other ownership benefits depends on whether the power element held by the controlling entity has been exercised to ensure that, should such other ownership benefits emerge, the benefits will flow to the controlling entity. For example, a controlling entity will be entitled to any synergistic benefits arising as a result of the controlling entity using its decision-making power to combine certain functions of the controlling entity and the controlled entity to create economies of scale.

Benefits from Complementary Activities

AG24. A controlling entity's entitlement to other ownership benefits may also arise in circumstances where there is a supply of goods or services to a third party by the possible controlled entity, which meets an operating objective of the controlling entity. For example, it is common for special entities such as trusts to be established to provide certain services to support the operating objectives of another entity. In such circumstances, a controlling entity may benefit from complementary activities. Because it can be difficult to identify clearly whether a given circumstance establishes an entitlement to receive the benefits resulting from complementary activities, this Standard takes the position that such entitlement arises when all three of the following conditions apply:

- (a) The supply of goods or services by the possible controlled entity is directly consistent with, and is likely to enhance, the operating objectives of the controlling entity; and
- (b) Determination of the nature of the goods or services to be supplied is a direct consequence of the exercise of the controlling entity's decision-making ability over the activities of the possible controlled entity; and
- (c) The controlling entity is relieved, as a result of the activity of the possible controlled entity, of an actual or constructive obligation to provide such supply; or the controlling entity has a right to receive a future service delivery from the possible controlled entity which is not subject to additional funding to be provided by the controlling entity.

Responsibility for Loss with or without Entitlement to Benefit

AG25. The term "ownership benefits" requires that a favourable result can be obtained by a controlling entity from its ability to exercise power over the activities of another entity in order to satisfy the benefit element of control. A favourable result will include reduced deficits, in addition to increased surpluses. An entitlement to ownership benefits may exist where there is both an ability to share in any surplus and a requirement to bear any loss, but such entitlement will not exist where there is only a requirement to bear any loss. A requirement to bear any loss does not in itself diminish its entitlement to benefits from that other entity at some future point. It will only be where the requirement to bear any loss exists on its own, without a corresponding entitlement to share in any gain, that the benefit element of control will not be satisfied. The effect of entitlement to ownership benefits and a requirement to bear any loss on the benefit element of control can be summarised as follows:

- (a) Entitlement to significant benefits with no exposure to loss = benefit element satisfied
- (b) Entitlement to significant benefits with exposure to loss = benefit element satisfied
- (c) Exposure to loss but no entitlement to significant benefits = benefit element not satisfied

AG26. The guarantee of liabilities or other obligations of an entity without any other interest or involvement in the entity is an example of a requirement to bear any loss without any entitlement to share in any surplus. While control, and therefore consolidation, will not be applicable in such cases, the obligation to meet any such loss will need to be recognised as a provision or, unless the possibility of such loss is remote, disclosed as a contingent liability, in accordance with PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

Assessing the Existence of Control

Application of Judgement

AG27 The existence of control as defined by PBE Standards is a question of fact. The determination of the fact that control exists will, however, often require the application of judgement. This is because control of an

entity can be attained in a variety of ways, and the underlying circumstances will vary between differing situations. Paragraph AG28 sets out a number of rebuttable presumptions, which, in the absence of any evidence to the contrary, will indicate the existence of control. Where a given situation does not apparently match one or more of the rebuttable presumptions, the lists of indicators of both ownership powers and ownership benefits in paragraph AG29 may still be sufficient to establish the existence of control.

Rebuttable Presumptions

AG28. The definition of control under this Standard requires, subject to two limited exceptions, that there be both a power element and a benefit element. The circumstances listed in this paragraph establish a rebuttable presumption that control exists. A rebuttable presumption is only rebutted when there is clear evidence of control not being held by the entity in question. This evidence is likely to arise through the existence of other rebuttable presumptions, or indicators listed in paragraph AG29, being applicable to another entity. All the circumstances listed in this paragraph should be assessed with regard to each situation.

- (1) A beneficial ownership of a majority voting interest in an entity.
- (2) A unilateral power to obtain a majority voting interest through ownership of securities or other rights that are currently convertible into a majority voting interest at the option of the holder where conversion is favourable to the holder.
- (3) A unilateral power to appoint or remove a majority of the members of the governing body of an entity.
- (4) A unilateral power, through any form of mechanism, to set or modify the financing and operating policies that guide the activities of an entity.
- (5) A unilateral power to extract distributions of economic benefits from an entity.
- (6) A right that is directly attributable to the ownership interest in another entity, to a majority of the economic benefits arising from that entity, irrespective of the timing or the mode of distribution of the benefits.
- (7) A unilateral power to dissolve an entity and obtain a significant level of the residual economic benefits.

The use of the word “unilateral” in describing the power elements in presumptions (2), (3), (4), (5) and (7), is to be read as a discretion to exercise the particular power in the ordinary operating circumstances of the entity. As explained in paragraph AG10, a unilateral power arises from a decision-making capacity that cannot be shared or divided. Essentially it refers to a power of a participatory nature rather than a power of a protective nature in the context of the discussion on “restrictions on activities” in paragraph AG11.

Indicators

AG29. Where a rebuttable presumption is not apparent, the following indicators may still be sufficient to establish the existence of control. In some circumstances any one or more of these may confirm the existence of one of the rebuttable presumptions listed in paragraph AG28, and control will then be presumed to exist. When this is not the case, an identification of control will require the existence of both a power element indicator from the first group (A) and a benefit element indicator from the second group (B). Ordinarily, for control to be evidenced in such manner, such indicators will be linked. In other words, the benefit element indicator will ordinarily either be established by a power mechanism or result from the exercise of a decision-making power attributable to the substance of a particular power element indicator. In circumstances when both power element and benefit element indicators exist in favour of more than one entity, judgement will be needed, based on all the relevant indicators and other circumstances, as to which entity is the most likely controlling entity or whether control does not exist.

(A) Indicators of Power Element

- (1) Ownership of a large minority voting interest and no other entity or organised group of entities has a significant interest.
- (2) Retention of a significant minority voting interest after previously holding a majority voting

interest.

- (3) The holding of direct or indirect title to instruments entitling appointment of a majority of the members of the governing body of an entity.
- (4) An ability demonstrated by a recent election to dominate the process of nominating candidates for the governing body of an entity and to cast a majority of the votes cast in an election of members of that governing body.
- (5) An ability to cast a majority of the votes usually cast in an election of members of the governing body of an entity.
- (6) An ability to use the resources of an entity to dominate the process of nominating members of the governing body of the entity and to solicit proxies from other holders of voting power.
- (7) A right to appoint members of the governing body of an entity to fill vacancies until the next election.
- (8) A continuing ability to appoint a significant number of the members of the governing body of an entity for which majority appointment or election powers were previously held.
- (9) An ability to determine the casting of a majority of the votes cast at a meeting of the governing body.
- (10) A direct or indirect ability to determine the revenue-raising, expenditure and resource-allocation policies of another entity, including an ability to modify or approve the entity's budget or an ability to modify or approve rate or fee changes affecting revenues of the entity.
- (11) A direct or indirect ability to veto, overrule or modify decisions of the governing body other than for the purpose of protecting existing legal or contractual rights or restrictions.
- (12) A direct or indirect ability to appoint, hire, reassign or dismiss key management personnel of the entity.
- (13) A unilateral ability to dissolve an entity and redirect the use of its individual assets, subject to claims against those assets, without assuming economic costs in excess of the expected benefits from redirection of the assets.

(B) Indicators of Benefit Element

- (1) The holding of direct or indirect title to the net assets of an entity with an ongoing right to access those assets.
- (2) Ability under existing regulation or other instrument to access resources of an entity for purposes determined by the entity holding such ability.
- (3) A right to a significant level of the net assets of an entity in liquidation or in a distribution other than liquidation.
- (4) A right to a significant level of the distributed or undistributed surpluses attributable to holders of an ownership interest.
- (5) A right to a significant level of the distributed or undistributed surpluses attributable to holders of an ownership interest that would arise through the exercise of securities or other rights held that may be converted at the option of the holder without assuming risks or obligations in excess of the expected benefits from the conversion.
- (6) A right to a significant level of the change in the value of net assets or the rights thereto, excluding contributions and withdrawals of members of that entity, either periodically or cumulatively, and whether received in the form of management fees or distributions.
- (7) A right to derive net cash inflows or other economic benefits from an entity under an arrangement which limits that entity to activities consistent with the activities of the entity able to derive the economic benefits.
- (8) An ability to derive significant cash inflows, or other economic benefits, through an ability to use the assets of another entity.

- (9) An ability to reduce the risk of incurring losses or to limit other risks associated with ownership.
- (10) An ability to access cash flow synergies arising from a restructuring of the operations of either entity which occurs as a direct result of the acquisition of an ownership interest in one entity by another entity.
- (11) The undertaking, by an entity, of an activity involving the supply of goods or services that is directly consistent with, and is likely to enhance, the investor's operating objectives in circumstances where:
 - (a) Determination of the nature of the goods or services to be supplied is a direct consequence of the exercise by the investor of a decision-making ability over the activities of the entity; and
 - (b) The investor is relieved, as a result of the activity of the entity, of an actual or constructive obligation to provide such supply; or the investor has a right to receive a future service delivery from the entity which is not subject to additional funding to be provided by the investor.

Appendix B**Mixed Groups**

This Appendix is an integral part of PBE IPSAS 6 (PS)

Introduction

- B1. XRB A1 *Application of the Accounting Standards Framework* (XRB A1) requires a reporting entity, including a group reporting entity, to determine whether it is a for-profit entity or a public benefit entity (PBE). This needs to be determined in order that the reporting entity applies the relevant accounting standards, that is, NZ IFRS for for-profit entities and PBE Standards for public benefit entities.
- B2. It is a requirement of both PBE Standards and NZ IFRS that a reporting entity applies its accounting policies on a consistent basis. Paragraph 49 of this Standard requires consolidated financial statements to be prepared “using uniform accounting policies for like transactions and other events in similar circumstances”. This requirement means that, during the consolidation process, the amounts reported in the financial statements of a member of a group might need to be adjusted where that member uses accounting policies that differ from the accounting policies applied in the consolidated financial statements for like transactions and other events in similar circumstances.
- B3. This Appendix addresses the specific case where a for-profit entity that has applied NZ IFRS in preparing its financial statements is part of a group that applies PBE Standards in preparing its financial statements. In preparing the consolidated financial statements, consideration needs to be given to the extent to which the amounts reported in the financial statements of the for-profit entity need to be adjusted on consolidation. Similar considerations would also need to be given to other situations in which a PBE group includes an entity that has prepared its financial statements on a basis that differs from PBE Standards, such as where a PBE within a PBE group has applied Tier 3 PBE Accounting Requirements or Tier 4 PBE Accounting Requirements.
- B4. The potential need for consolidation adjustments results from entities within a group using recognition and measurement accounting policies that differ from the group’s recognition and measurement accounting policies. Differences in presentation and disclosure between PBE Standards and NZ IFRS will not lead to consolidation adjustments.

Reporting Entity

- B5. The *Public Benefit Entities’ Conceptual Framework* (PBE Conceptual Framework) identifies the objective of financial reporting as being to “provide information about the entity that is useful to users of general purpose financial reports (GPFs) for accountability purposes and for decision-making purposes (paragraph 2.1).
- B6. The PBE Conceptual Framework describes the key characteristics of a reporting entity as (i) an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and (ii) there are service recipients or resource providers dependent on GPFs of the entity for information for accountability or decision-making purposes.
- B7. [Deleted]
- B8. A reporting entity is not necessarily a separate legal entity: for example, it could be a group of legal entities, a partnership or an unincorporated trust. When the reporting entity prepares general purpose financial statements, it considers transactions and balances from the perspective of that specific reporting entity. This means that (i) the reporting entity determines whether it is a PBE or a for-profit entity and (ii) transactions, events and balances are reported from the perspective of the reporting entity. For example, the assets included in the statement of financial position are the assets controlled by that reporting entity, measured in accordance with the accounting policies of that entity.
- B9. Consolidated financial statements present the transactions, events and balances of all the entities that are part of the group as a single entity. The term “economic entity” is frequently used to describe the group reporting entity (e.g., paragraph 12 of this Standard). That is, the consolidated financial statements present the financial performance, financial position and cash flows of all the entities in the group from the perspective of a single economic entity. The boundaries of the separate legal entities within the group are disregarded to enable the group to be presented as a single entity.

B10. In preparing consolidated financial statements, adjustments are made to the financial statements of the individual entities within the group so that the consolidated financial statements are prepared from the perspective of the group reporting entity using uniform accounting policies for like transactions and other events in similar circumstances. These adjustments are necessary to ensure that the resulting financial statements provide relevant and faithfully representative information for the group entity that is reporting. Adjustments are necessary to:

- (a) Eliminate inter-entity transactions and balances. This leaves only transactions and balances with parties external to the group reporting entity in the consolidated financial statements;
- (b) Apply uniform accounting policies for like transactions and events in similar circumstances. This is to ensure that the information is consistently and coherently presented; and
- (c) Reflect the perspective of the entity reporting.

When are Consolidation Adjustments Not Required?

B11. It is not necessary to adjust on consolidation the amounts reported in the financial statements of for-profit entities when preparing a PBE group's financial statements in the following situations:

- (a) For-profit entities within a PBE group are immaterial both individually and in aggregate; or
- (b) The transactions or other events of for-profit entities within a PBE group are recognised using accounting policies that are sufficiently similar to those applied by the PBE group that any differences in the application of these accounting policies would have no material impact on the consolidated financial statements; or
- (c) The transactions or other events of for-profit entities within a PBE group are recognised using accounting policies that differ from those of the PBE group but the impact of the differences in the two accounting policies is immaterial both individually and in aggregate in the context of the group; or
- (d) The transactions and other events recognised by PBEs and for-profit entities within a PBE group relate to different circumstances i.e., situations in which the different accounting policies of members of the PBE group stem from different circumstances rather than from different requirements in PBE Standards compared with NZ IFRS, as illustrated in the following example.

Example – different circumstances

A City Council controls Entity A (a PBE) and Port B (a for-profit entity).

Entity A owns and operates a tram service within the central business district (CBD). Although the primary purpose of this transport system is to reduce the number of privately-owned vehicles within the CBD, patrons pay a nominal charge for trips on the trams. The plant and equipment used in providing the tram service are primarily non-cash-generating and Entity A applies the fair value model in PBE IPSAS 17 *Property, Plant and Equipment*.

Port B owns and operates a railway system as part of the infrastructure of the port. The railway system is part of a cash-generating unit and Part B applies the cost model in NZ IAS 16 *Property, Plant and Equipment*.

Although the physical nature of the assets is similar, restatement is not required because of the different uses of the services embodied in the asset. The assets used in providing the tram service are non-cash-generating and provide social benefits – in terms of moving people, and reducing the impact on the environment – whereas the railway system is part of the Port's cash-generating operating infrastructure.

When are Consolidation Adjustments Required?

B12. The NZASB takes the view that the mere fact that an entity within a PBE group is a for-profit entity is not sufficient in itself to justify that the circumstances are not similar when considering the requirement to apply uniform accounting policies to "like transactions and other events in similar circumstances". In presenting its individual financial statements, the for-profit entity will reflect its for-profit perspective, and will apply accounting policies that are appropriate to its circumstances. When a for-profit entity is included within a PBE group, its separate nature as a for-profit entity is disregarded and, other than in the circumstances identified in paragraph B11 above, the PBE group presents all transactions and events by

applying PBE Standards. As a result, in preparing consolidated financial statements, the transactions and events recognised in the for-profit entity are adjusted, where necessary, to conform to the accounting policies applied by the PBE group to ensure that the consolidated financial statements of the PBE group reflect its PBE nature.

- B13. Assuming that the impact of applying different accounting policies is material, consolidation adjustments are required in the following circumstances:
- (a) PBE Standards and NZ IFRS include the same set of options and some entities within the group use one option while the alternative option is used by the group in the consolidated financial statements. Adjustments are required to the amounts reported by those entities that do not apply the group accounting policy;
 - (b) PBE Standards and NZ IFRS differ. Differences in the application of accounting policies can arise in the following circumstances:
 - (i) PBE Standards and NZ IFRS contain different requirements, such as the differences between PBE IPSAS 17 *Property, Plant and Equipment* and NZ IAS 16 *Property, Plant and Equipment* relating to the treatment of increases/decreases for revalued property, plant and equipment. PBE IPSAS 17 requires these increases/decreases to be accounted for on a class of asset basis;
 - (ii) Either PBE Standards or NZ IFRS are silent or contain less guidance on a particular topic, for example, there is less guidance in NZ IFRS regarding concessionary loans. Therefore, a for-profit entity within the PBE group may have applied an accounting policy that differs from the requirements in PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*; or
 - (iii) A transaction occurs only within a for-profit entity within a PBE group, where the for-profit entity will have applied the relevant NZ IFRS and no PBE within the group undertakes the same transaction. If the NZ IFRS accounting policy is retained at the PBE group level and that policy is inconsistent with the requirements of PBE Standards, the PBE group would be applying accounting policies derived from both NZ IFRS and PBE Standards. As a result, the PBE group would not comply (or be able to claim compliance) with PBE Standards; and
 - (c) The perspective of the for-profit entity differs from the perspective of the group. For example, the PBE group intends to sell the for-profit entity and has classified its assets and liabilities as a disposal group held for sale under PBE IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*. As a consequence, the PBE group writes down some of the assets in the disposal group to their fair value less costs to sell (where lower than their carrying amount) in the consolidated financial statements, whereas the for-profit entity, in its financial statements, would continue to measure those assets in accordance with other applicable NZ IFRSs.

Example – different requirements in PBE Standards and NZ IFRS

Entity FP (a for-profit entity) has received a government grant relating to assets and recognises the grant in accordance with NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* by deducting the grant in arriving at the carrying amount of the associated asset.

The PBE group to which entity FP belongs applies PBE IPSAS 23 *Revenue from Non-Exchange Transactions*.

The recognition of the government grants received by Entity FP would need to be adjusted on consolidation in accordance with the requirements of PBE IPSAS 23.

Example – a for-profit entity applies NZ IFRS to a transaction where no PBE entity encounters the same transaction

Entity FP undertakes a partial disposal of a foreign operation and recognises the transaction in accordance with NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

No other entity within the PBE group has a foreign operation.

The partial disposal would need to be adjusted on consolidation to align with the requirements of PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* to enable the PBE group to comply with PBE IPSAS 4 and claim compliance with PBE Standards.

- B14. Some standards clarify when adjustments are required in the consolidated financial statements. For example, PBE IPSAS 16 *Investment Property* (paragraph 19) states that where an entity owns property that is leased to, and occupied by, other entities within the group, this property does not qualify as investment property in the consolidated financial statements because the property is owner-occupied from the perspective of the group.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 6 (PS).

Background

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 6 *Consolidated and Separate Financial Statements* for application in New Zealand by Tier 1 and Tier 2 public sector entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities.

Reporting Period

BC2. The NZASB agreed that, in the context of the New Zealand environment where some entities have statutory reporting dates, it was appropriate to provide a limited exemption from the IPSAS 6 requirement that the difference in reporting dates be no more than three months (paragraph 48). The NZASB noted that there was a similar exemption in NZ IAS 27.

Assessing Control

BC3. In considering whether to include guidance on determining whether a public benefit entity controls another entity the NZASB noted the concerns previously expressed by New Zealand constituents regarding the lack of guidance for public benefit entities in determining whether a public benefit entity controls another entity.

BC4. In developing PBE IPSAS 6 (PS) the NZASB had regard to the proposals in the XRB's Consultation Papers, and the fact that it was developing standards solely for application by public benefit entities. The NZASB noted that the International Public Sector Accounting Standards Board (IPSASB) has an active project to consider control in the public sector and considered that it was appropriate to retain the guidance in NZ IFRS for New Zealand PBEs until the completion of the IPSASB's project.

BC5. For the purpose of developing a transitional suite of PBE Standards, the NZASB therefore included integral Application Guidance in PBE IPSAS 6 (PS) on assessing control. This guidance is based on paragraphs 4.13–4.37 and 5.9–5.11 of FRS-37 *Consolidating Investments in Subsidiaries*. Accordingly, paragraphs 39–40 of IPSAS 6 are not used.

BC6. NZ SIC-12 *Consolidation—Special Purpose Entities* requires that a special purpose entity (SPE) be consolidated when the substance of the relationship between an entity and the SPE indicates that SPE is controlled by that entity. The NZASB considered that the discussion regarding an SPE and the indicators of control over an SPE in the Appendix to SIC-12 are consistent with the relevant sections of the integral Application Guidance in PBE IPSAS 6 (PS).

BC7. The NZASB agreed, therefore, not to incorporate NZ SIC-12 into PBE IPSAS 6 (PS).

Scope of Consolidated Financial Statements

BC8. Paragraphs 21–25 of IPSAS 6 are not included in PBE IPSAS 6 (PS).

BC9. These paragraphs provide:

- (a) An exemption from consolidation where control of a controlled entity is intended to be temporary; and
- (b) Guidance on temporary control.

BC10. The suite of PBE Standards includes PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* which specifies the accounting for non-current assets held for sale and discontinued operations. Therefore, PBE IFRS 5 would be applied where a controlled entity is available for sale.

Loss of Control

BC11. IPSAS 6 requires that, on losing control of an investment, the carrying amount of that investment should be measured at cost. In contrast, PBE IPSAS 6 (PS) requires that the investment should be measured at fair value at that date. The NZASB considered that fair value is a more relevant measure of an investment at the date at which control is lost, and better represents the initial measurement of the former controlled entity as a financial asset or an investment in an associate.

BC12. Measuring any remaining investment at fair value when control is lost also retains current practice. This ensures that an entity is not required to change the measurement basis for the remaining investment while the IPSASB finalises its project on revising IPSASs 6–8.

Separate Versions of PBE IPSAS 6 for Public Sector Entities and Not-for-Profit Entities

BC13. When ED NZASB 2013-5 *Enhancements to the PBE Standards for Not-for-Profit Entities* was issued for comment, the intention was that the proposals would not change the requirements for public sector entities.

BC14. However, some respondents to ED NZASB 2013-5 were concerned that some of the proposed amendments to PBE IPSAS 6 might inadvertently change the requirements for public sector entities. They were also concerned that public sector entities would not have considered the proposed amendments because the Invitation to Comment and the communiqué stated that these proposals were for not-for-profit entities and they would not change the requirements for public sector entities.

BC15. The NZASB accepted that the proposed amendments might inadvertently change the requirements for public sector entities, given the extent of the amendments. However, the NZASB confirmed that the proposed amendments to PBE IPSAS 6 were necessary for not-for-profit entities to be able to apply the Standard.

BC16. Therefore, to ensure that the requirements for public sector entities are not inadvertently changed, and because the IPSASB is likely to finalise its project on revising IPSASs 6-8 in the near future, the NZASB decided to issue two versions of PBE IPSAS 6: one for public sector entities and the other for not-for-profit entities. The NZASB expects that this will be the only time that public sector entities and not-for-profit entities will apply different versions of the same standard.

BC17. The requirements in PBE IPSAS 6 (PS) are almost identical to PBE IPSAS 6 issued in May 2013. The only change that has been made is to the example in paragraph B13 which illustrates a difference in accounting policies between PBE Standards and NZ IFRS.

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 6 (PS), PBE IPSAS 7, and PBE IPSAS 8.

Consideration of Potential Voting Rights

Introduction

- IG1. Most public benefit entities do not issue financial instruments with potential voting rights. However, they may be issued by for-profit entities. Therefore, a government, other public sector entity or not-for-profit entity may hold potential voting rights of for-profit entities.
- IG2. Paragraphs 33, 34, and 44 of PBE IPSAS 6 (PS) *Consolidated and Separate Financial Statements* (Public Sector) and paragraphs 14 and 15 of PBE IPSAS 7 *Investments in Associates* require an entity to consider the existence and effect of all potential voting rights that are currently exercisable or convertible. They also require all facts and circumstances that affect potential voting rights to be examined, except the intention of management and the financial ability to exercise or convert potential voting rights. Because the definition of joint control in paragraph 6 of PBE IPSAS 8 *Interests in Joint Ventures* depends upon the definition of control, and because that Standard is linked to PBE IPSAS 7 for application of the equity method, this guidance is also relevant to PBE IPSAS 8.

Guidance

- IG3. Paragraph 7 of PBE IPSAS 6 (PS) defines control as the power to govern the financial and operating policies of an entity so as to benefit from its activities. Paragraph 7 of PBE IPSAS 7 defines significant influence as the power to participate in the financial and operating policy decisions of the investee, but not to control those policies. Paragraph 6 of PBE IPSAS 8 defines joint control as the agreed sharing of control over an activity by a binding agreement. In these contexts, power refers to the ability to do or affect something. Consequently, an entity has control, joint control, or significant influence when it currently has the ability to exercise that power, regardless of whether control, joint control, or significant influence is actively demonstrated or is passive in nature. Potential voting rights held by an entity that are currently exercisable or convertible provide this ability. The ability to exercise power does not exist when potential voting rights lack economic substance (e.g., the exercise price is set in a manner that precludes exercise or conversion in any feasible scenario). Consequently, potential voting rights are considered when, in substance, they provide the ability to exercise power.
- IG4. Control and significant influence also arise in the circumstances described in paragraphs AG28 and AG29 of PBE IPSAS 6 (PS) and paragraphs 12 and 13 of PBE IPSAS 7 respectively, which include consideration of the relative ownership of voting rights. PBE IPSAS 8 depends on PBE IPSAS 6 (PS) and PBE IPSAS 7, and references to PBE IPSAS 6 (PS) and PBE IPSAS 7 from this point onwards should be read as being relevant to PBE IPSAS 8. Nevertheless it should be borne in mind that joint control involves sharing of control by a binding agreement, and this aspect is likely to be the critical determinant. Potential voting rights such as share call options and convertible debt are capable of changing an entity's voting power over another entity – if the potential voting rights are exercised or converted, then the relative ownership of the ordinary shares carrying voting rights changes. Consequently, the existence of control (the definition of which permits only one entity to have control of another entity) and significant influence are determined only after (a) assessing all the factors described in paragraphs AG28 and AG29 of PBE IPSAS 6 (PS) and paragraphs 12 and 13 of PBE IPSAS 7 respectively, and (b) considering the existence and effect of potential voting rights. In addition, the entity examines all facts and circumstances that affect potential voting rights except the intention of management and the financial ability to exercise or convert. The intention of management does not affect the existence of power, and the financial ability of an entity to exercise or convert is difficult to assess.
- IG5. An entity may initially conclude that it controls or significantly influences another entity after considering the potential voting rights that it can currently exercise or convert. However, the entity may not control or significantly influence the other entity when potential voting rights held by other parties are also currently exercisable or convertible. Consequently, an entity considers all potential voting rights held by it and by other parties that are currently exercisable or convertible when determining whether it controls or significantly influences another entity. For example, all share call options are considered, whether held by the entity or another party. Furthermore, the definition of control in paragraph 7 of PBE IPSAS 6 (PS) permits only one entity to have control of another entity. Therefore, when two or more entities each hold

significant voting rights, both actual and potential, the factors in paragraphs AG28 and AG29 of PBE IPSAS 6 (PS) are reassessed to determine which entity has control.

- IG6. The proportion allocated to the controlling entity and minority interests in preparing consolidated financial statements in accordance with PBE IPSAS 6 (PS), and the proportion allocated to an investor that accounts for its investment using the equity method in accordance with PBE IPSAS 7, are determined solely on the basis of present ownership interests. The proportion allocated is determined taking into account the eventual exercise of potential voting rights and other derivatives that, in substance, give access at present to the economic benefits associated with an ownership interest.
- IG7. In some circumstances, an entity has, in substance, a present ownership as a result of a transaction that gives it access to the economic benefits or service potential associated with an ownership interest. In such circumstances, the proportion allocated is determined taking into account the eventual exercise of those potential voting rights and other derivatives that give the entity access to the economic benefits at present.
- IG8. PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* provides guidance on the recognition and measurement of financial instruments. However, it does not apply to interests in controlled entities, associates, and jointly controlled entities that are (a) consolidated, (b) accounted for using the equity method, (c) or proportionately consolidated in accordance with PBE IPSAS 6 (PS), PBE IPSAS 7 and PBE IPSAS 8 respectively. When instruments containing potential voting rights in substance currently give access to the economic benefits or service potential associated with an ownership interest, and the investment is accounted for in one of the above ways, the instruments are not subject to the requirements of PBE IPSAS 29. In all other cases, guidance on accounting for instruments containing potential voting rights can be found in PBE IPSAS 29.

Illustrative Examples – A Potential Voting Right

These examples accompany, but are not part of, PBE IPSAS 6 (PS), PBE IPSAS 7, and PBE IPSAS 8.

IE1. The ten examples below each illustrate one aspect of a potential voting right. In applying PBE IPSAS 6 (PS), PBE IPSAS 7, or PBE IPSAS 8, an entity considers all aspects. The existence of control, significant influence, and joint control can be determined only after assessing the other factors described in PBE IPSAS 6 (PS), PBE IPSAS 7, and PBE IPSAS 8. For the purpose of these examples, however, those other factors are presumed not to affect the determination, even though they may affect it when assessed.

Options are Out of the Money

IE2. Entities A and B own 80 percent and 20 percent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity A sells one-half of its interest to Entity D, and buys call options from Entity D that are exercisable at any time at a premium to the market price when issued, and if exercised would give Entity A its original 80 percent ownership interest and voting rights.

IE3. Although the options are out of the money, they are currently exercisable and give Entity A the power to continue to set the operating and financial policies of Entity C, because Entity A could exercise its options now. The existence of the potential voting rights, as well as the other factors described in paragraphs AG28 and AG29 of the Application Guidance of PBE IPSAS 6 (PS), are considered, and it is determined that Entity A controls Entity C.

Right to Purchase at Premium to Fair Value

IE4. The municipalities of Dunelm and Eboracum own 80 percent and 20 percent respectively of Dunelm-Eboracum General Hospital, a public sector entity established by charter. The hospital is managed by a board of ten trustees, appointed by the municipalities in proportion to their ownership interest of the hospital. The charter permits either municipality to sell part or its entire ownership interest in the hospital to another municipality within the region. Dunelm sells one-half of its interest to the municipality of Formio; however, the sale contract gives Dunelm the right to repurchase Formio's interest in the hospital at an amount equal to 115 percent of the fair value of the ownership interest determined by an independent valuer. This right is exercisable at any time and, if exercised would give Dunelm its original 80 percent ownership interest and the right to appoint trustees accordingly.

IE5. Although the right to reacquire the ownership interest sold to Formio would involve paying a premium over the fair value, the right is currently exercisable and gives Dunelm the power to continue to set the operating and financial policies of the Dunelm-Eboracum General Hospital, because Dunelm could exercise its right to reacquire Formio's interest now. The existence of the potential right to appoint trustees, as well as the other factors described in paragraphs AG28 and AG29 of PBE IPSAS 6 (PS), are considered, and it is determined that the municipality of Dunelm controls the Dunelm-Eboracum General Hospital.

Possibility of Exercise or Conversion

IE6. Entities A, B, and C own 40 percent, 30 percent, and 30 percent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entity A also owns call options that are exercisable at any time at the fair value of the underlying shares and, if exercised, would give it an additional 20 percent of the voting rights in Entity D and reduce Entity B's and Entity C's interests to 20 percent each. If the options are exercised, Entity A will have control over more than one-half of the voting power. The existence of the potential voting rights, as well as the other factors described in paragraphs AG28 and AG29 of the Application Guidance of PBE IPSAS 6 (PS) and paragraphs 12 and 13 of PBE IPSAS 7, are considered, and it is determined that Entity A controls Entity D.

Possibility of Exercise of Rights

IE7. The federal government of Arandis, in agreement with the state governments of Brixia and Mutina, establishes the University of Pola-Iluro. The University of Pola-Iluro is near the cities of Pola, Brixia and Iluro, Mutina, which are located next to each other on the border between the two states. The federal legislation that establishes the University of Pola-Iluro provides that the federal minister of education has the right to appoint four of the ten governors that manage the university. The state ministers of education of Brixia and Mutina are given the right to appoint three governors each. The legislation also provides that

the federal government has ownership of 40 percent of the university's net assets, with the state governments having 30 percent each. The federal legislation gives the federal minister of education the right to acquire an additional 20 percent of the ownership in the university's net assets, with the right to appoint an additional two governors. This right is exercisable at any time, at the discretion of the federal minister. It requires the federal government to pay each state government the fair value of the net assets of the university acquired. If the federal government exercises its right, it would own 60 percent of the net assets of the university, and have the right to appoint six of the ten governors. This would reduce the state governments' ownership to 20 percent each, with the right to appoint only two governors each.

- IE8. The existence of the potential right to appoint the majority of the university's governors, as well as the other factors described in paragraphs AG28 and AG29 of the Application Guidance of PBE IPSAS 6 (PS) and paragraphs 12 and 13 of PBE IPSAS 7, are considered, and it is determined that the federal government of Arandis controls the University of Pola-Iluro.

Other Rights that have the Potential to Increase an Entity's Voting Power or Reduce Another Entity's Voting Power—Example A

- IE9. Entities A, B, and C own 25 percent, 35 percent, and 40 percent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities B and C also have share warrants that are exercisable at any time at a fixed price and provide potential voting rights. Entity A has a call option to purchase these share warrants at any time for a nominal amount. If the call option is exercised, Entity A would have the potential to increase its ownership interest, and thereby its voting rights, in Entity D to 51 percent (and dilute Entity B's interest to 23 percent and Entity C's interest to 26 percent).
- IE10. Although the share warrants are not owned by Entity A, they are considered in assessing control because they are currently exercisable by Entities B and C. Normally, if an action (e.g., purchase or exercise of another right) is required before an entity has ownership of a potential voting right, the potential voting right is not regarded as held by the entity. However, the share warrants are, in substance, held by Entity A, because the terms of the call option are designed to ensure Entity A's position. The combination of the call option and share warrants gives Entity A the power to set the operating and financial policies of Entity D, because Entity A could currently exercise the option and share warrants. The other factors described in paragraphs AG28 and AG29 of the Application Guidance of PBE IPSAS 6 (PS) and paragraphs 12 and 13 of PBE IPSAS 7 are also considered, and it is determined that Entity A, not Entity B or C, controls Entity D.

Other Rights that have the Potential to Increase an Entity's Voting Power or Reduce Another Entity's Voting Power—Example B

- IE11. The cities of Deva, Oxonia, and Isca own 25 percent, 35 percent, and 40 percent respectively of the Deva-Oxonia-Isca Electricity Generating Authority, a public sector entity established by charter. The charter gives the cities voting rights in the management of the Authority and the right to receive the electricity generated by the Authority. The voting rights and electricity access are in proportion to their ownership in the Authority. The charter gives Oxonia and Isca rights to increase their ownership (and therefore voting rights) in the Authority each by 10 percent at any time, at a commercial price agreed by the three cities. The charter also gives Deva the right to acquire 15 percent interest of the Authority from Oxonia and 20 percent from Isca at any time for a nominal consideration. If Deva exercised the right, Deva would increase its ownership interest, and thereby its voting rights, in Deva-Oxonia-Isca Electric Generating Authority to 60 percent. This would dilute Oxonia's ownership to 20 percent and Isca's to 20 percent.
- IE12. Although the charter gives Oxonia and Isca the right to increase their proportion of ownership, the overarching right of Deva to acquire a majority interest in the Authority for a nominal consideration set out in the charter is, in substance, designed to ensure Deva's position. The right held by Deva gives Deva the capacity to set the operating and financial policies of the Deva-Oxonia-Isca Electricity Generating Authority, because Deva could exercise the right to increase its ownership and therefore voting rights at any time. The other factors described in paragraphs AG28 and AG29 of the Application Guidance of PBE IPSAS 6 (PS) and paragraphs 12 and 13 of PBE IPSAS 7 are also considered, and it is determined that Deva, not Oxonia or Isca, controls the Deva-Oxonia-Isca Electricity Generating Authority.

Management Intention—Example A

- IE13. Entities A, B, and C each own 33⅓ percent of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities A, B, and C each have the right to appoint two directors to the board of Entity D. Entity A also owns call options that are exercisable at a fixed price at any time and, if

exercised, would give it all the voting rights in Entity D. The management of Entity A does not intend to exercise the call options, even if Entities B and C do not vote in the same manner as Entity A. The existence of the potential voting rights, as well as the other factors described in paragraphs AG28 and AG29 of the Application Guidance of PBE IPSAS 6 (PS) and paragraphs 12 and 13 of PBE IPSAS 7, are considered, and it is determined that Entity A controls Entity D. The intention of Entity A's management does not influence the assessment.

Management Intention—Example B

IE14. The cities of Tolosa, Lutetia, and Massilia each own 33 ⅓ percent of TLM Water Commission, a public sector entity established by charter to reticulate drinking water to the cities of Tolosa, Lutetia, and Massilia and a number of outlying towns and villages. The charter gives each city an equal vote in the governance of the Commission, and the right to appoint two Commissioners each. The Commissioners manage the Commission on behalf of the cities. The charter also gives the city of Tolosa the right to acquire the ownership rights of Lutetia and Massilia at a fixed price, exercisable at any time by the Mayor of Tolosa. If exercised Tolosa would have sole governance of the Commission with the right to appoint all the Commissioners. The Mayor of Tolosa does not intend to exercise the right to acquire full ownership of Commission, even if the Commissioners appointed by Lutetia and Massilia vote against those appointed by Tolosa. The existence of the potential voting rights, as well as the other factors described in paragraphs AG28 and AG29 of the Application Guidance of PBE IPSAS 6 (PS) and paragraphs 12 and 13 of PBE IPSAS 7, are considered, and it is determined that Tolosa controls TLM Water Commission. The intention of the Mayor of Tolosa does not influence the assessment.

Financial Ability—Example A

IE15. Entities A and B own 55 percent and 45 percent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity B also holds debt instruments that are convertible into ordinary shares of Entity C. The debt can be converted at a substantial price, in comparison with Entity B's net assets, at any time and, if converted, would require Entity B to borrow additional funds to make the payment. If the debt were to be converted, Entity B would hold 70 percent of the voting rights and Entity A's interest would reduce to 30 percent.

IE16. Although the debt instruments are convertible at a substantial price, they are currently convertible, and the conversion feature gives Entity B the power to set the operating and financial policies of Entity C. The existence of the potential voting rights, as well as the other factors described in paragraphs AG28 and AG29 of the Application Guidance of PBE IPSAS 6 (PS), are considered, and it is determined that Entity B, not Entity A, controls Entity C. The financial ability of Entity B to pay the conversion price does not influence the assessment.

Financial Ability—Example B

IE17. The cities of Melina and Newton own 55 percent and 45 percent respectively of the interests that carry voting rights of MN Broadcasting Authority, a public sector entity established by charter to provide broadcasting and television services for the regions. The charter gives the city of Newton the option to buy additional 25 percent interest of the Authority from the city of Melina at a substantial price, in comparison with the city of Newton's net assets, at any time. If exercised, it would require the city of Newton to borrow additional funding to make the payment. If the option were to be exercised, the city of Newton would hold 70 percent of the voting rights and the city of Melina's interest would reduce to 30 percent.

IE18. Although the option is exercisable at a substantial price, it is currently exercisable, and the exercise feature gives the city of Newton the power to set the operating and financial policies of MN Broadcasting Authority. The existence of potential voting rights, as well as the other factors described in paragraphs AG28 and AG29 of the Application Guidance of PBE IPSAS 6 (PS), are considered, and it is determined that the city of Newton, not the city of Melina, controls MN Broadcasting Authority. The financial ability of the city of Newton to pay the exercise price does not influence the assessment.

Comparison with IPSAS 6

PBE IPSAS 6 (PS) *Consolidated and Separate Financial Statements (Public Sector)* is drawn from IPSAS 6 *Consolidated and Separate Financial Statements*.

The significant differences between the two standards are as follows:

- (a) PBE IPSAS 6 (PS) requires that, if on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it shall be consolidated and its assets and liabilities accounted for in accordance with PBE IFRS 5. IPSAS 6 provides an exemption from consolidation when control is intended to be temporary.
- (b) The difference between the reporting dates of the controlling entity and a controlled entity may be more than three months. In the New Zealand context, statute sometimes fixes the reporting date of a controlled entity greater than three months from the reporting date of the controlling entity.
- (c) On ceasing to be a controlled entity, IPSAS 6 requires that any remaining investment be measured at carrying amount, whereas PBE IPSAS 6 (PS) requires that any remaining investment be measured at fair value.
- (d) PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance.
- (e) Integral Application Guidance on assessing control has been included in PBE IPSAS 6 (PS) to address concerns raised regarding the lack of sufficient guidance on assessing control and the impact of this lack of guidance on determining the composition of a group. As a consequence, paragraphs 39 and 40 of IPSAS 6 are not used.
- (f) Integral Guidance on the application of “consistent accounting policies for like transactions and other events in similar circumstances” in the preparation of consolidated financial statements has been included in PBE IPSAS 6 (PS). This Guidance provides examples to help determine when the financial statements of a for-profit subsidiary in a PBE group need to be restated in the preparation of consolidated financial statements.

History of Amendments

PBE IPSAS 6 (PS) *Consolidated and Separate Financial Statements* (Public Sector) was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 6 (PS). The table is based on amendments issued as at 31 January 2017 other than consequential amendments resulting from early adoption of PBE IFRS 9 *Financial Instruments*.

Pronouncements	Date issued	Early operative date	Effective date (annual financial statements ... on or after ...)
PBE IPSAS 6 (PS) <i>Consolidated and Separate Financial Statements</i> (Public Sector)	Sept 2014	Early application is not permitted	1 April 2015
<i>Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments</i>	Dec 2015	Early application is permitted	1 Jan 2016
<i>2016 Omnibus Amendments to PBE Standards</i>	Jan 2017	–	1 Jan 2017

Table of Amended Paragraphs in PBE IPSAS 6 (PS)		
Paragraph affected	How affected	By ... [date]
Paragraph 48.1	Amended	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph 70.2	Added	<i>Amendments to PBE Standards</i> [Dec 2015]
Paragraph 70.3	Added	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph B1	Amended	<i>Amendments to PBE Standards</i> [Dec 2015]
Paragraph B3	Amended	<i>Amendments to PBE Standards</i> [Dec 2015]
Paragraph B5	Amended	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph B6	Amended	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph B7	Deleted	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph B8	Amended	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph B10	Amended	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]