

INTERESTS IN OTHER ENTITIES (AMENDMENTS TO PBE SFR-A (PS))

This Standard was issued on 4 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 2 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date set out in Part C.

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 Standard has been issued to amend PBE SFR-A (PS) *Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)* issued in November 2013, to clarify how Tier 3 public sector entities should account for controlled entities, associates and joint ventures.

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ISBN 978-1-927292-67-9

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Part A: Introduction

Overview

- IN1. This Standard amends PBE SFR-A (PS) *Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)* issued in November 2013.
- IN2. The objective of PBE SFR-A (PS) is to facilitate financial reporting by public sector public benefit entities (PBEs) that are eligible for and elect to apply the Tier 3 PBE Accounting Standard for public sector entities, by improving the quality and consistency of the information disclosed in Tier 3 financial reports, and to facilitate comparability between entities, and between years for the reporting entity.
- IN3. *Interests in Other Entities* (Amendments to PBE SFR-A (PS)) establishes requirements for the reporting of interests in other entities by Tier 3 public sector public benefit entities.

Reasons for Issuing *Interests in Other Entities* (Amendments to PBE SFR-A (PS))

- IN4. When PBE SFR-A (PS) was issued in November 2013 the NZASB did not provide guidance for Tier 3 entities on how to account for interests in other entities. Although PBE SFR-A (PS), as issued in November 2013, states that it applies to single entities and entities that are preparing a performance report for a group, it is not clear about how an entity applying the Standard should account for significant interests in other entities, such as interests in controlled entities, associates and joint ventures.
- IN5. *Interests in Other Entities* (Amendments to PBE SFR-A (PS)) was issued to clarify how Tier 3 public sector entities should account for controlled entities, associates and joint ventures.

Main features of *Interests in Other Entities* (Amendments to PBE SFR-A (PS))

- IN6. The core principle of the Standard is that a Tier 3 public sector entity is required to account for controlled entities, associates and joint ventures in accordance with the Tier 2 PBE Standards. The Tier 3 public sector entity is required to identify its interest in other entities and assess whether, for the purposes of financial reporting, any of those interests meet the definition of a controlled entity, an associate or a joint venture. If a Tier 3 entity has such interests in other entities, it is then referred to the appropriate Tier 2 PBE Standard for the accounting requirements to be followed in its performance report.

Part B:

Scope

This Standard applies to Tier 3 public sector public benefit entities.

Amendments to PBE SFR-A (PS) *Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)*

Standard...

Amend paragraph 4. New text is underlined and deleted text is struck through.

- 4 This Standard applies to an entity that is required to prepare a performance report. The Standard applies to the performance report of single entities and entities that have certain interests in other entities~~are preparing a performance report for a group (the entity together with any entities that it controls).~~

Insert paragraphs 4.1 to 4.6.

- 4.1 When preparing a performance report, an entity is required to identify its interests in other entities and assess whether, for the purposes of financial reporting, any of those interests result in the other entity meeting the definition of a controlled entity, an associate or a joint venture.
- 4.2 If an entity controls another entity it shall prepare a consolidated performance report which combines the assets, liabilities, net assets/equity, revenue and expenses of the controlling entity with those of the controlled entity in accordance with the requirements in PBE IPSAS 6¹ *Consolidated and Separate Financial Statements*.
- 4.3 If an entity has an interest in an associate it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 7 *Investments in Associates*.
- 4.4 If an entity has an interest in a joint venture it shall prepare a performance report in which it accounts for that interest in accordance with the requirements in PBE IPSAS 8 *Interests in Joint Ventures*.
- 4.5 When applying the requirements in PBE IPSAS 6, PBE IPSAS 7 or PBE IPSAS 8 an entity may use any Reduced Disclosure Regime (RDR) concessions available to Tier 2 entities in those standards. RDR concessions are denoted with an asterisk (*) or an RDR reference in front of a paragraph.
- 4.6 If an entity has an interest in another entity that is not a controlled entity, an associate or joint venture, it accounts for that interest in accordance with the requirements on investments in Section 6 of this Standard.

Effective Date...

Insert paragraph 11.

11. *Interests in Other Entities* (Amendments to PBE SFR-A (PS)), issued in September 2014 amended paragraph 4 and the Glossary, and inserted paragraphs 4.1–4.6. A public sector public benefit entity shall apply these amendments for periods beginning on or after 1 July 2014. Earlier application is not permitted.

¹ PBE IPSAS 6 issued in May 2013 is superseded by PBE IPSAS 6 (PS) for annual financial statements covering periods beginning on or after 1 April 2015.

Section 11: Glossary...

Insert defined terms.

| | |
|--|---|
| Associate | An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence, and that is neither a controlled entity nor an interest in a joint venture. |
| Consolidated performance report | The performance report of an economic entity ² presented as that of a single entity. |
| Control | The power to govern the financial and operating policies of another entity so as to benefit from its activities. |
| Controlled entity | 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 | An entity that has one or more controlled entities. |
| Economic entity | A group of entities comprising a controlling entity and one or more controlled entities. |
| Joint control | The agreed sharing of control over an activity by a binding arrangement. |
| Joint venture | A binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control. |
| Significant influence | The power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. |

Basis for Conclusions...

Amend paragraph BC17. New text is underlined and deleted text is struck through.

Group Accounting

BC17. At the stage that PBE SFR-A (PS) was issued in November 2013, the NZASB indicated its intention to issue a separate exposure draft on-is still considering what the requirements for accounting for groups (the entity together with any entities that it controls)-should be for Tier 3 entities. The NZASB intends to issue an exposure draft on the topic. This Standard will then be amended (as necessary) following consideration of submissions on that exposure draft.

Insert paragraphs BC17.1 to BC17.4.

BC17.1 The NZASB subsequently considered this issue and issued ED NZASB 2014-2 *Interests in Other Entities* (Amendments to PBE SFR-A (PS)) in April 2014 (ED NZASB 2014-2). The NZASB noted that PBE SFR-A (PS) applied both to single entities and groups and required that an entity's performance report incorporate all the activities of the entity. However, it was silent as to how an entity applying the standard should account for significant interests in other entities, such as interests in controlled entities, associates and joint ventures.

BC17.2 The NZASB considered how to clarify this issue for Tier 3 public sector entities. The NZASB considered and rejected a disclosure only approach on the grounds that this would not result in an entity reporting the reality of its structures and arrangements. The NZASB was of the view that if a Tier 3 public sector entity has interests in other entities, those interests need to be appropriately accounted for in the performance report. The NZASB considered that the Tier 2 PBE Accounting Standards contain appropriate accounting requirements for accounting for significant interests in other entities and that those requirements should also apply to any Tier 3 public sector entity with such interests in other entities.

² Note the term group is sometimes used to refer to the economic entity.

BC17.3 In considering how best to incorporate these requirements in PBE SFR-A (PS) the NZASB noted that:

- (a) Relatively few Tier 3 public sector entities would be expected to have interests in controlled entities, associates or joint ventures;
- (b) Most Tier 3 public sector entities with interests in controlled entities, associates or joint ventures would already be accounting for those interests in accordance with similar requirements to the Tier 2 PBE Accounting Standards; and
- (c) Development of simplified group accounting requirements would be difficult to draft and would significantly increase the size of the Tier 3 public sector standard, thereby detracting from the usefulness of the standard for most public sector entities.

BC17.4 The NZASB agreed to require Tier 3 public sector entities to account for significant interests in other entities in accordance with the Tier 2 PBE Accounting Standards, and to give effect to this requirement by referring to the Tier 2 PBE Accounting Standards in the Tier 3 public sector standard. When applying the requirements of the Tier 2 PBE Accounting Standards an entity may use any RDR concessions available to Tier 2 entities in those standards.

Part C: Effective Date

A public sector public benefit entity shall apply this Standard for periods beginning on or after 1 July 2014. Earlier application is not permitted.