

# **EXPOSURE DRAFT**

## **Accounting Standard for Local Bodies (ASLB) 38**

### **Disclosure of Interests in Other Entities**

**(Based on corresponding IPSAS 38)**

*(Last date of comments: August 11, 2021 )*



*Issued by*  
**The Committee on Public and Government Financial  
Management**

**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*

**New Delhi**

# Exposure Draft ASLB 38--Disclosure of Interests in Other Entities

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## Exposure Draft

### Accounting Standard for Local Bodies (ASLB) 38

#### Disclosure of Interests in Other Entities

##### INVITATION TO COMMENT

*The Committee on Public and Government Financial Management of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of the Accounting Standard for Local Bodies (ASLB) 38, 'Disclosure of Interests in Other Entities'. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.*

*Comments should be submitted in writing to the Secretary, Committee on Public and Government Financial Management, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than **August 11, 2021**. Comments can also be sent by e-mail at [caslb@icai.in](mailto:caslb@icai.in) and [cpf.aslb@icai.in](mailto:cpf.aslb@icai.in)*

## Exposure Draft

### Accounting Standard for Local Bodies (ASLB) 38

#### Disclosure of Interests in Other Entities

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies<sup>1</sup>).*

*The Accounting Standard for Local Bodies (ASLB) 38, 'Disclosure of Interests in Other Entities', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned<sup>2</sup>.*

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<sup>1</sup> Attention is specifically drawn to paragraph 4.2 of the 'Preface to the Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

<sup>2</sup> In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the 'Preface to the Accounting Standards for Local Bodies'.

The following is the text of the Accounting Standard for Local Bodies:

## **Objective**

1. The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:
  - (a) The nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
  - (b) The effects of those interests on its financial position, financial performance and cash flows.

## **Scope**

2. *An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in disclosing information about its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated.*
3. *This Standard should be applied by an entity that has an interest in any of the following:*
  - (a) *Controlled entities;*
  - (b) *Joint arrangements (i.e., joint operations or joint ventures);*
  - (c) *Associates; or*
  - (d) *Structured entities that are not consolidated.*
4. *This Standard does not apply to:*
  - (a) *Post-employment benefit plans or other long-term employee benefit plans to which ASLB 39, 'Employee Benefits' applies.*
  - (b) *An entity's separate financial statements to which ASLB 34, 'Separate Financial Statements', applies. However:*
    - (i) *If an entity has interests in structured entities that are not consolidated and prepares separate financial*

*statements as its only financial statements, it should apply the requirements in paragraphs 40-48 when preparing those separate financial statements.*

(ii) *[Refer to Appendix C]*

(c) *An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.*

(d) *An interest in another entity that is accounted for in accordance with Guidance on ‘Financial Instruments’<sup>3</sup>. However, an entity should apply this Standard:*

(i) *When that interest is an interest in an associate or a joint venture that, measured in accordance with ASLB 36, ‘Investments in Associates and Joint Ventures’; or*

(ii) *When that interest is an interest in a structured entity that is not consolidated.*

5. *[Deleted]*

5A. *This Standard applies to all entities described as Local Bodies in the ‘Preface to the Accounting Standards for Local Bodies’<sup>4</sup>.*

6. *[Deleted]*

## **Definitions**

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

***Binding arrangement:*** *For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.*

***An interest in another entity,*** *for the purpose of this Standard, refers to involvement by way of binding arrangements or otherwise that exposes*

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<sup>3</sup> The guidance with regard to financial instruments may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, ‘Accounting Policies, Changes in Accounting Estimates and Errors’.

<sup>4</sup> Refer paragraph 1.3 of the ‘Preface to the Accounting Standards for Local Bodies’.

*an entity to variability of benefits from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical funder/recipient or customer/supplier relationship.*

*Paragraphs AG7-AG9 provide further information about interests in other entities.*

*Paragraphs AG57-AG59 of ASLB 35, ‘Consolidated Financial Statements’ explain variability of benefits.*

*Revenue from a structured entity, for the purpose of this Standard, includes, but is not limited to, recurring and non-recurring fees, interest, dividends or similar distributions, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.*

*A structured entity is:*

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

Paragraphs AG20-AG23 provide further information about structured entities.

*Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards. The following terms are defined in either ASLB 34, 'Separate Financial Statements', ASLB 35, 'Consolidated Financial Statements', ASLB 36, 'Investments in Associates & Joint Ventures' or ASLB 37, 'Joint Arrangements'<sup>5</sup>: associate, consolidated financial statements, controlled entity, controlling entity, economic entity, equity method, investment entity, joint arrangement, joint control, joint operation, joint venture, non-controlling interest, relevant activities, separate financial statements, separate vehicle and significant influence.*

## **Binding Arrangement**

8. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own or in conjunction with contracts between the parties.

## **Disclosing Information about Interests in Other Entities**

9. *To meet the objective in paragraph 1, an entity should disclose:*
- (a) The significant judgments and assumptions it has made in determining:*
    - (i) The nature of its interest in another entity or arrangement;*
    - (ii) The type of joint arrangement in which it has an interest (paragraphs 12-14); (iii) [Refer to Appendix C]; and*
  - (b) Information about its interests in:*
    - (i) Controlled entities (paragraphs 17-26);*
    - (ii) Joint arrangements and associates (paragraphs 35-39);*
    - (iii) Structured entities that are not consolidated (paragraphs 40-48); and*
    - (iv) Non-quantifiable ownership interests (paragraphs 49-50).*

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<sup>5</sup> ASLBs 35 and 37 are under formulation.



(v) *[Refer to Appendix D]*

10. *If the disclosures required by this Standard, together with disclosures required by other ASLBs, do not meet the objective in paragraph 1, an entity should disclose whatever additional information is necessary to meet that objective.*
11. *An entity should consider the level of detail necessary to satisfy the disclosure objective in paragraph 1 and how much emphasis to place on each of the requirements in this Standard. It should aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics (see paragraphs AG2-AG6).*

### **Significant Judgments and Assumptions**

12. *An entity should disclose the methodology used to determine:*
  - (a) *That it has control of another entity as described in paragraphs 18 and 20 of ASLB 35;*
  - (b) *That it has joint control of an arrangement or significant influence over another entity; and*
  - (c) *The type of joint arrangement (i.e., joint operation or joint venture) when the arrangement has been structured through a separate vehicle.*
13. *The disclosures required by paragraph 12 should be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.*
14. *To comply with paragraph 12, an entity should disclose, for example, the factors considered in determining that:*
  - (a) *It controls a specific entity (or similar category of entities) where the interest in the other entity is not evidenced by the holding of equity or debt instruments;*

- (b) *It does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities);*
- (c) *It controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities);*
- (d) *It is an agent or a principal (see paragraphs AG60-AG74 of ASLB 35);*
- (e) *It does not have significant influence even though it holds 20 percent or more of the voting rights of another entity; and*
- (f) *It has significant influence even though it holds less than 20 per cent of the voting rights of another entity.*

#### 15-16. [Refer to Appendix C]

#### Interests in Controlled Entities

17. *An entity should disclose information that enables users of its consolidated financial statements:*
- (a) *To understand:*
    - (i) *The composition of the economic entity; and*
    - (ii) *The interest that non-controlling interests have in the economic entity's activities and cash flows (paragraph 19); and*
  - (b) *To evaluate:*
    - (i) *The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the economic entity (paragraph 20);*
    - (ii) *The nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 21-24);*
    - (iii) *The consequences of changes in its ownership interest in a controlled entity that do not result in a loss of control (paragraph 25); and*

- (iv) *The consequences of losing control of a controlled entity during the reporting period (paragraph 26).*

**18.** *When the financial statements of a controlled entity used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (see paragraph 46 of ASLB 35) an entity should disclose:*

- (a) *The date of the end of the reporting period of the financial statements of that controlled entity; and*
- (b) *The reason for using a different date or period.*

### **The Interest that Non-controlling Interests have in the Economic Entity's Activities and Cash Flows**

**19.** *An entity should disclose for each of its controlled entities that have non-controlling interests that are material to the reporting entity:*

- (a) *The name of the controlled entity;*
- (b) *The domicile and legal form of the controlled entity and the jurisdiction in which it operates;*
- (c) *The proportion of ownership interests held by non-controlling interests;*
- (d) *The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held;*
- (e) *The surplus or deficit allocated to non-controlling interests of the controlled entity during the reporting period;*
- (f) *Accumulated non-controlling interests of the controlled entity at the end of the reporting period; and*
- (g) *Summarised financial information about the controlled entity (see paragraph AG10).*

### **The Nature and Extent of Significant Restrictions**

**20.** *An entity should disclose:*

- (a) *Significant restrictions in binding arrangements (e.g., statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the economic entity, such as:*
- (i) *Those that restrict the ability of a controlling entity or its controlled entities to transfer cash or other assets to (or from) other entities within the economic entity.*
  - (ii) *Guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the economic entity.*
- (b) *The nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the economic entity (such as when a controlling entity is obliged to settle liabilities of a controlled entity before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a controlled entity).*
- (c) *The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.*

## **Nature of the Risks Associated with an Entity's Interests in Consolidated Structured Entities**

21. *An entity should disclose the terms of any binding arrangements that could require the controlling entity or its controlled entities to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., bank guarantee provided by a local body to its controlled entity under a binding agreement to provide financial support).*
22. *If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement to do so, provided financial or other support to a consolidated structured entity (e.g., purchasing assets of, or instruments issued by, the structured entity), the entity should disclose:*
- (a) *The type and amount of support provided, including situations in which the controlling entity or its controlled entities assisted the structured entity in obtaining financial support; and*

*(b) The reasons for providing the support.*

- 23.** *If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity should disclose an explanation of the relevant factors in reaching that decision.*
- 24.** *An entity should disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.*

#### **Consequences of Changes in a Controlling Entity's Ownership Interest in a Controlled Entity that do not Result in a Loss of Control**

- 25.** *An entity should present a schedule that shows the effects on the net assets/equity attributable to owners of the controlling entity of any changes in its ownership interest in a controlled entity that do not result in a loss of control.*

#### **Consequences of Losing Control of a Controlled Entity During the Reporting Period**

- 26.** *An entity should disclose the gain or loss, if any, calculated in accordance with paragraph 52 of ASLB 35 and:*
- (a) The portion of that gain or loss attributable to measuring any investment retained in the former controlled entity at its fair value at the date when control is lost; and*
- (b) The line item(s) in surplus or deficit in which the gain or loss is recognised (if not presented separately).*

27 – 34. [Refer to Appendix C]

#### **Interests in Joint Arrangements and Associates**

- 35.** *An entity should disclose information that enables users of its financial statements to evaluate:*

- (a) *The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 36 and 38); and*
- (b) *The nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 39).*

## **Nature, Extent and Financial Effects of an Entity's Interests in Joint Arrangements and Associates**

### **36. An entity should disclose:**

- (a) *For each joint arrangement and associate that is material to the reporting entity:*
  - (i) *The name of the joint arrangement or associate;*
  - (ii) *The nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities);*
  - (iii) *The domicile and legal form of the joint arrangement or associate and the jurisdiction in which it operates; and*
  - (iv) *The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).*
- (b) *For each joint venture and associate that is material to the reporting entity:*
  - (i) *Whether the investment in the joint venture or associate is measured in accordance with ASLB 36;*
  - (ii) *Summarised financial information about the joint venture or associate as specified in paragraphs AG12 and AG13; and*
  - (iii) *[Refer to Appendix 1]*

- (c) *Financial information as specified in paragraph AG16 about the entity's investments in joint ventures and associates that are not individually material:*
  - (i) *In aggregate for all individually immaterial joint ventures; and*
  - (ii) *In aggregate for all individually immaterial associates. This aggregated information is to be disclosed separately from the aggregated information on joint ventures.*

37. [Refer to Appendix C]

**38.** *An entity should also disclose:*

- (a) *The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements or binding arrangements between investors with joint control of, or significant influence over, a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends or similar distributions, or to repay loans or advances made by the entity.*
- (b) *When the financial statements of a joint venture or associate are as of a date or for a period that is different from that of the entity:*
  - (i) *The date of the end of the reporting period of the financial statements of that joint venture or associate; and*
  - (ii) *The reason for using a different date or period.*
- (c) *The unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate.*

## **Risks Associated with an Entity's Interests in Joint Ventures and Associates**

**39.** *An entity should disclose:*

- (a) *Commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs AG17-AG19; and*
- (b) *In accordance with ASLB 19, 'Provisions, Contingent Liabilities and Contingent Assets', unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.*

### **Interests in Structured Entities that are not Consolidated**

- 40. *An entity should disclose information that enables users of its financial statements:*
  - (a) *To understand the nature and extent of its interests in structured entities that are not consolidated (paragraphs 43-45); and*
  - (b) *To evaluate the nature of and changes in, the risks associated with its interests in structured entities that are not consolidated (paragraphs 46-48).*
- 41. The information required by paragraph 40(b) includes information about an entity's exposure to risk from involvement that it had with structured entities that are not consolidated in previous periods (e.g., sponsoring the structured entity), even if the entity no longer has any involvement by way of binding arrangement with the structured entity at the reporting date.
- 42. [Refer to Appendix C]

### **Nature of Interests**

- 43. *An entity should disclose qualitative and quantitative information about its interests in structured entities that are not consolidated, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.*
- 44. *If an entity has sponsored a structured entity that is not consolidated for which it does not provide information required by paragraph 46*



*(e.g., because it does not have an interest in the entity at the reporting date), the entity should disclose:*

- (a) How it has determined which structured entities it has sponsored;*
- (b) Revenue from those structured entities during the reporting period, including a description of the types of revenue presented; and*
- (c) The carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.*

45. An entity should present the information in paragraph 44(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs AG2-AG6).

#### **Nature of Risks**

46. *An entity should disclose in tabular format, unless another format is more appropriate, a summary of:*

- (a) The carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in structured entities that are not consolidated;*
- (b) The line items in the balance sheet in which those assets and liabilities are recognised;*
- (c) The amount that best represents the entity's maximum exposure to loss from its interests in structured entities that are not consolidated, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in structured entities that are not consolidated it should disclose that fact and the reasons; and*
- (d) A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in structured entities that are not consolidated and the entity's maximum exposure to loss from those entities.*

47. *If during the reporting period an entity has, without having an obligation under a binding arrangement to do so, provided financial or other support to a structured entity that is not consolidated in which it previously had or currently has an interest (for example, purchasing assets of, or instruments issued by, the structured entity), the entity should disclose:*
- (a) *The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and*
  - (b) *The reasons for providing the support.*
48. *An entity should disclose any current intentions to provide financial or other support to a structured entity that is not consolidated, including intentions to assist the structured entity in obtaining financial support. Such current intentions include intentions to provide support as a result of obligations under binding arrangements and intentions to provide support where the entity has no obligation under a binding arrangement.*

#### **Non-quantifiable Ownership Interests**

49. *An entity should disclose information that enables users of its financial statements to understand the nature and extent of any non-quantifiable ownership interests in other entities.*
50. *To the extent that this information has not already been provided in accordance with this Standard, an entity should disclose, in respect of each non-quantifiable ownership interest that is material to the reporting entity:*
- (a) *The name of the entity in which it has an ownership interest; and*
  - (b) *The nature of its ownership interest in the entity.*

51 – 57. [Refer to Appendix D]

58-62. [Refer to Appendix 1]

## Application Guidance

*This Appendix is an integral part of ASLB 38.*

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying this Standard.

### Aggregation (paragraph 11)

AG2. An entity should decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

AG3. An entity may aggregate the disclosures required by this Standard for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in paragraph AG4, and does not obscure the information provided. An entity should disclose how it has aggregated its interests in similar entities.

AG4. An entity should present information separately for interests in:

- (a) Controlled entities;
- (b) Joint ventures;
- (c) Joint operations;
- (d) Associates; and
- (e) Structured entities that are not consolidated.

AG5. In determining whether to aggregate information, an entity should consider quantitative and qualitative information about the different risk and benefit characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity should present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.

AG6. Examples of aggregation levels within the classes of entities set out in paragraph AG4 that might be appropriate are:

- (a) Nature of activities (e.g., a research and development entity, a gas distribution entity, a public transport entity, a river front development entity, a smart city development company).
- (b) Service classification.
- (c) Geography (e.g., city or region)

## **Interests in Other Entities (paragraph 7)**

AG7. An interest in another entity refers to involvement by way of binding arrangements or otherwise that exposes the reporting entity to variability of benefits from the performance of the other entity. Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in this Standard. That assessment should include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entity and other parties.

AG8. A reporting entity is typically exposed to variability of benefits from the performance of another entity by holding instruments (such as equity or debt instruments issued by the other entity) or having another involvement that absorbs variability.

AG9. Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of benefits for the other entity but do not typically expose the reporting entity to variability of benefits from the performance of the other entity.

## **Summarised Financial Information for Controlled Entities, Joint Ventures and Associates (paragraphs 19 and 36)**

AG10. For each controlled entity that has non-controlling interests that are material to the reporting entity, an entity should disclose:

- (a) Dividends or similar distributions paid to non-controlling interests; and
- (b) Summarised financial information about the assets, liabilities, surplus or deficit and cash flows of the controlled entity that enables users to understand the interest that non-controlling interests have in the economic entity's activities and cash flows. That information might include but is not limited to, for

example, current assets, non-current assets, current liabilities, non-current liabilities, revenue and surplus or deficit.

AG11. The summarised financial information required by paragraph AG10 (b) should be the amounts before inter-entity eliminations.

AG12. For each joint venture and associate that is material to the reporting entity, an entity should disclose:

- (a) Dividends or similar distributions received from the joint venture or associate; and
- (b) Summarised financial information for the joint venture or associate (see paragraphs AG14 and AG15) including, but not necessarily limited to:
  - (i) Current assets;
  - (ii) Non-current assets;
  - (iii) Current liabilities;
  - (iv) Non-current liabilities;
  - (v) Revenue;
  - (vi) Expenses;
  - (vii) Pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and
  - (viii) Surplus or deficit

AG13. In addition to the summarised financial information required by paragraph AG12, an entity should disclose for each joint venture that is material to the reporting entity the amount of:

- (a) Cash and cash equivalents included in paragraph AG12(b)(i);
- (b) Current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iii);
- (c) Non-current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iv);
- (d) Depreciation and amortisation;
- (e) Interest revenue;
- (f) Interest expense; and

- (g) Income tax expense.

AG14. The summarised financial information presented in accordance with paragraphs AG12 and AG13 should be the amounts included in the ASLB financial statements of the joint venture or associate (and not the entity's share of those amounts).

AG15. An entity may present the summarised financial information required by paragraphs AG12 and AG13 on the basis of the joint venture's or associate's financial statements if:

- (a) The entity measures its interest in the joint venture or associate in accordance with ASLB 36; and
- (b) The joint venture or associate does not prepare ASLB financial statements and preparation on that basis would be impracticable or cause undue cost.

In that case, the entity should disclose the basis on which the summarised financial information has been prepared.

AG16. An entity should disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates. An entity should also disclose separately the aggregate amount of its share of those joint ventures' or associates':

- (a) Revenue
- (b) Expenses
- (c) Pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations.
- (d) Surplus or deficit
- (e) An entity provides the disclosures separately for joint ventures and associates.

### **Commitments for Joint Ventures (paragraph 39(a))**

AG17. An entity should disclose total commitments it has made but not recognised at the reporting date (including its share of commitments made jointly with other investors with joint control of a joint venture)

relating to its interests in joint ventures. Commitments are those that may give rise to a future outflow of cash or other resources.

AG18. Unrecognised commitments that may give rise to a future outflow of cash or other resources include:

- (a) Unrecognised commitments to contribute funding or resources as a result of, for example:
  - (i) The constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period).
  - (ii) Capital-intensive projects undertaken by a joint venture.
  - (iii) Unconditional purchase obligations, comprising procurement of equipment inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture.
  - (iv) Unrecognised commitments to provide loans or other financial support to a joint venture.
  - (v) Unrecognised commitments to contribute resources to a joint venture, such as assets or services.
  - (vi) Other non-cancellable unrecognised commitments relating to a joint venture.
- (b) Unrecognised commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future.

AG 19. The requirements and examples in paragraphs AG17 and AG18 illustrate some of the types of disclosure required by paragraph 27 of ASLB 20, 'Related *Party Disclosures*'.

## **Interests in Structured Entities that are not Consolidated (paragraphs 40-48)**

### **Structured Entities**

AG20. A structured entity is an entity that has been designed so that the conventional ways in which an entity is controlled are not the dominant

factors in deciding who controls the entity. In the case of entities such as departments or ministries where administrative arrangements or legislation are often the dominant factors in deciding who has control of an entity, a structured entity is an entity that has been designed so that administrative arrangements or legislation are not the dominant factor in deciding who controls the entity. In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity (which may be the case for some entities with profit objectives), a structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Although binding arrangements frequently occur between entities, binding arrangements are not normally the dominant factor in determining who controls an entity. Therefore, the use of binding arrangements to determine the relevant activities of an entity may indicate the existence of a structured entity. Depending on the context, a structured entity could be (i) an entity for which most of the activities are predetermined, with the relevant activities limited in scope but directed through binding arrangements or (ii) an entity for which any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.

AG21. A structured entity often has some or all of the following features or attributes:

- (a) Restricted activities.
- (b) A narrow and well-defined objective, such as to carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.
- (c) Insufficient net assets/equity to permit the structured entity to finance its activities without subordinated financial support.
- (d) Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

AG22. Examples of entities that are regarded as structured entities include, but are not limited to:



- (a) A partnership between a local body and a private sector entity that is not a joint venture, being a partnership established and directed by binding arrangements.
- (aA) A joint venture between a local body and their controlled entities.
- (b)-(d) [Refer to Appendix C].

AG23. The mere fact that a local body provides funding to another entity does not make that entity a structured entity. Nor is an entity that is controlled by voting rights a structured entity simply because, for example, it receives funding from third parties following a restructuring.

### **Nature of Risks from Interests in Structured Entities that are not Consolidated (paragraphs 46-48)**

AG24. In addition to the information required by paragraphs 46-48, an entity should disclose additional information that is necessary to meet the disclosure objective in paragraph 40 (b).

AG25. Examples of additional information that, depending on the circumstances, might be relevant to an assessment of the risks to which an entity is exposed when it has an interest in a structured entity that is not consolidated are:

- (a) The terms of an arrangement that could require the entity to provide financial support to a structured entity that is not consolidated (e.g., credit rating triggers associated with obligations to provide financial support), including:
  - (i) A description of events or circumstances that could expose the reporting entity to a loss.
  - (ii) Whether there are any terms that would limit the obligation.
  - (iii) Whether there are any other parties that provide financial support and, if so, how the reporting entity's obligation ranks with those of other parties.
- (b) Losses incurred by the entity during the reporting period relating to its interests in structured entities that are not consolidated.

- (c) The types of revenue the entity received during the reporting period from its interests in structured entities that are not consolidated.
- (d) Whether the entity is required to absorb losses of a structured entity that is not consolidated before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity's interest in the structured entity that is not consolidated.
- (e) Information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in structured entities that are not consolidated.
- (f) Any difficulties a structured entity that is not consolidated has experienced in financing its activities during the reporting period.
- (g) In relation to the funding of a structured entity that is not consolidated, the forms of funding (e.g., commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analysis of the assets and funding of a structured entity if the structured entity has longer-term assets funded by shorter-term funding.

[Refer to Appendix 1]

### Guidance for Investment Entities<sup>6</sup>

*This appendix is not an integral part of the draft ASLB 38.*

- C1. To meet the objective in paragraph 1, an entity should disclose the significant judgements and assumptions it has made in determining that it meets the definition of an investment entity, if applicable. (paragraph C3 of this Appendix)
- C2. *This Standard does not apply to an entity's separate financial statements to which ASLB 34, 'Separate Financial Statements', applies. However, an investment entity that prepares financial statements in which all of its controlled entities are measured at fair value through surplus or deficit in accordance with paragraph C3 of Appendix C of ASLB 35, 'Consolidated Financial Statements' should present the disclosures relating to investment entities required by this Standard.*

#### Investment Entity Status

- C3. *When a controlling entity determines that it is an investment entity in accordance with ASLB 35, the investment entity should disclose information about significant judgments and assumptions it has made in determining that it is an investment entity. An investment entity is not required to disclose this information if it has all of the characteristics in paragraph C8 of Appendix C of ASLB 35.*
- C4. *When an entity becomes, or ceases to be, an investment entity, it should disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity should disclose the effect of the change of status on the financial statements for the period presented including:*
- (a) *The total fair value, as of the date of change of status, of the controlled entities that cease to be consolidated;*

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<sup>6</sup> The concept of Investment entity may not be relevant for local bodies in India in current scenario. Therefore, all the provisions pertaining to Investment entity have been moved to this Appendix.

- (b) *The total gain or loss, if any, calculated in accordance with relevant paragraph C11 of Appendix C of ASLB 35; and*
- (c) *The line item (s) in surplus or deficit in which the gain or loss is recognised (if not presented separately).*

#### **Interests in Investment Entities (i.e., Unconsolidated Controlled Entities)**

- C5.** *An investment entity that, in accordance with ASLB 35 is required to apply the exception to consolidation and instead account for its investment in a controlled entity at fair value through surplus or deficit should disclose that fact.*
- C6.** *For each unconsolidated controlled entity, an investment entity should disclose:*
  - (a) *The controlled entity's name;*
  - (b) *The domicile and legal form of the controlled entity and the jurisdiction in which it operates; and*
  - (c) *The proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.*
- C7.** *If an investment entity is the controlling entity of another investment entity, the controlling entity should also provide the disclosures in paragraph C5(a)-(c) for investments that are controlled by its controlled investment entity. The disclosure may be provided by including, in the financial statements of the controlling entity, the financial statements of the controlled entity (or controlled entities) that contain the above information.*
- C8.** *An investment entity should disclose:*
  - (a) *The nature and extent of any significant restrictions arising from binding arrangements (e.g., resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated controlled entity to transfer funds to the investment entity in the form of cash dividends, or similar distributions, or to repay loans or advances made to the unconsolidated controlled entity by the investment entity; and*
  - (b) *Any current commitments or intentions to provide financial or other support to an unconsolidated controlled entity, including*

*commitments or intentions to assist the controlled entity in obtaining financial support.*

- C9.** *If, during the reporting period, an investment entity or any of its controlled entities has, without having an obligation arising from a binding arrangement to do so, provided financial or other support to an unconsolidated controlled entity (e.g., purchasing assets of, or instruments issued by, the controlled entity or assisting the controlled entity in obtaining financial support), the entity should disclose:*
- (a) The type and amount of support provided to each unconsolidated controlled entity; and*
  - (b) The reasons for providing the support.*
- C10.** *An investment entity should disclose the terms of any binding arrangements that could require the entity or its unconsolidated controlled entities to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).*
- C11.** *If during the reporting period an investment entity or any of its unconsolidated controlled entities has, without having an obligation arising from a binding arrangement to do so, provided financial or other support to an unconsolidated, structured entity (e.g., securitisation vehicles, asset backed financings and some investment funds) that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity should disclose an explanation of the relevant factors in reaching the decision to provide that support.*
- C12.** *A controlling entity that controls an investment entity and is not itself an investment entity, should disclose in its consolidated financial statements, the information required by paragraphs C5-C11 of this Appendix in respect of such unconsolidated controlled entities.*
- C13.** *An investment entity need not provide the disclosures required by paragraphs 36(b)-36(c).*
- C14.** *An investment entity need not provide the disclosures required by paragraph 40 for a structured entity that it controls but which is not consolidated, and for which it presents the disclosures required by paragraphs C5-C11 of this Appendix.*

### Guidance for Controlling Interests Acquired with the Intention of Disposal<sup>7</sup>

*This appendix is not an integral part of the draft ASLB 38.*

- D1. To meet the objective in paragraph 1, an entity should disclose the information about its interests in controlling interests acquired with the intention of disposal. (paragraphs D2–D8 of this Appendix)
- D2. ***An entity, other than an investment entity, should disclose information regarding its interest in a controlled entity when, at the point at which control arose, the entity had the intention of disposing of that interest and, at the reporting date, it has an active intention to dispose of that interest.***
- D3. There are a number of situations in which an entity may obtain control of another entity, but where the entity has an active intention to dispose of all or part of its controlling interest in the near future.
- D4. Because of a local body's broad responsibility for the economic well-being of a jurisdiction it may intervene to prevent the consequences of failure of an entity. Such interventions may lead to a local body obtaining control of another entity, although it has no intention of maintaining control over that entity. Rather, its intention may be to sell, or otherwise dispose of, its interest in the controlled entity. If the other entity needs to be restructured to facilitate disposal the restructuring can occur over a period of one or more years and the local body may retain some residual assets or liabilities at the end of the process. The consolidation of such controlled entities for the reporting periods in which control is present, can have a significant impact on the consolidated financial statements. The obtaining of control as a result of interventions to prevent failure is most likely to occur in the context of local bodies, but could also occur in the case of entities.
- D5. An entity may also acquire a controlling interest in another entity, with the intention of disposing of all or part of that interest, in implementing a local body's policy objectives. For example, a local body may direct an entity to acquire certain interests in other entities for the purpose of redistribution.

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<sup>7</sup> The concept of Controlling Interests acquired with the Intention of Disposal may not be relevant for local bodies in India in current scenario. Therefore, all the provisions pertaining to Controlling Interests acquired with the Intention of Disposal have been moved to this Appendix.

- D6. An entity should disclose the following information in the notes in respect of each controlled entity referred to in paragraph D2 of this Appendix:***
- (a) The name of the controlled entity and a description of its key activities;***
  - (b) The rationale for the acquisition of the controlling interest and the factors considered in determining that control exists;***
  - (c) The impact on the consolidated financial statements of consolidating the controlled entity including the effect on assets, liabilities, revenue, expenses and net assets/equity; and***
  - (d) The current status of the approach to disposal, including the expected method and timing of disposal.***
- D7. The disclosures required by paragraph D6 of this Appendix should be provided at each reporting date until the entity disposes of the controlling interest or ceases to have the intention to dispose of that interest. In the period in which the entity disposes of the controlling interest or ceases to have the intention to dispose of the controlling interest it should disclose:***
- (a) The fact that there has been a disposal or change of intention and***
  - (b) The effect of the disposal or change of intention on the consolidated financial statements.***
- D8. Where other disclosures required by this Standard or other ASLBs would provide information relevant to paragraphs D6 or D7 a cross-reference to those other disclosures should be provided.***



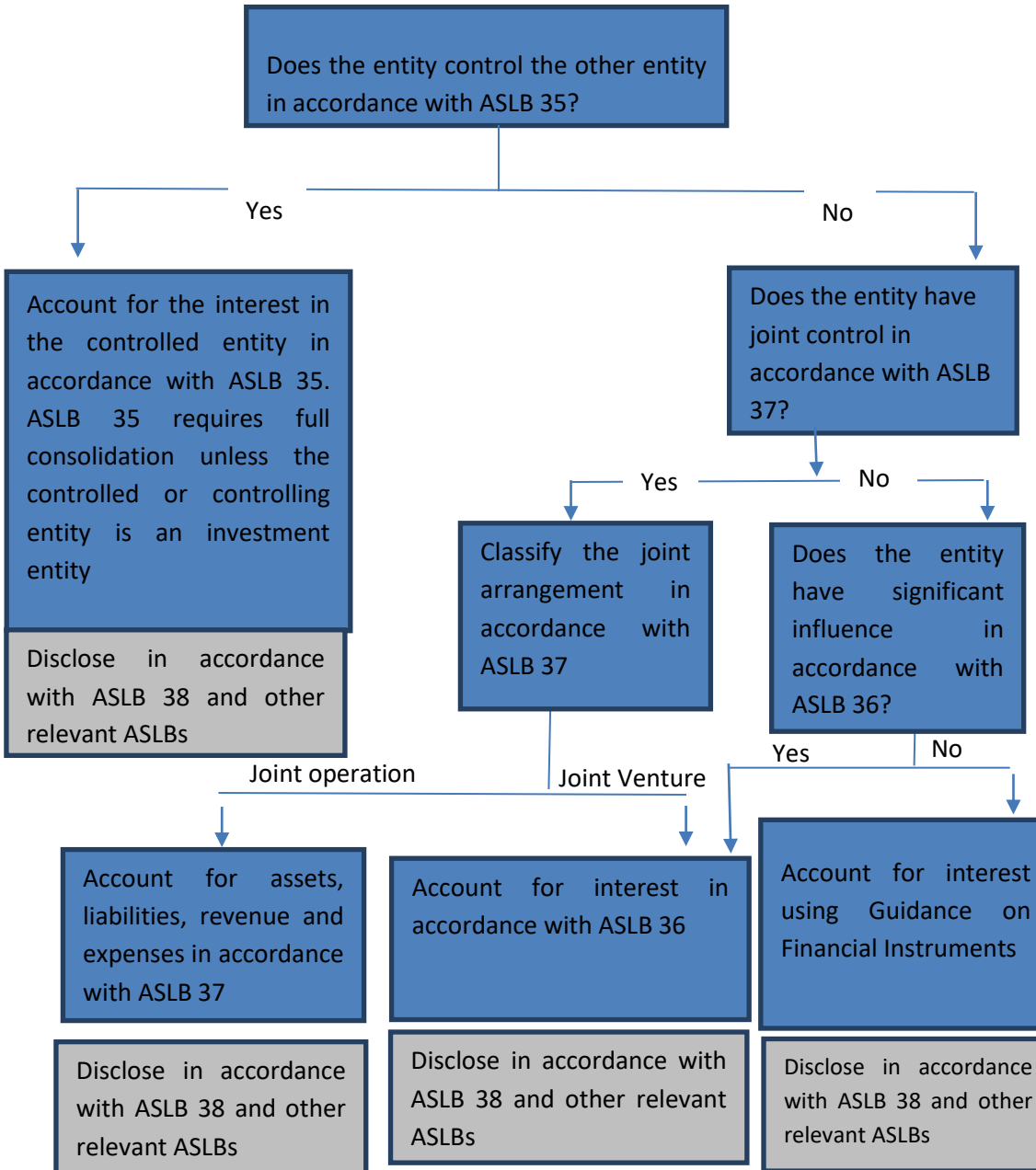
# Implementation Guidance

*This guidance accompanies, but is not part of, ASLB 38.*

## Nature of Relationship with Another Entity

IG1. The diagram below summarises the applicability of ASLB 38 in various types of involvement with another entity.

**Flowchart 1: Forms of Involvement with Other Parties**



## Appendix 1

*Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 38 and the corresponding International Public Sector Accounting Standard (IPSAS) 38, 'Disclosure of Interests in Other Entities'.*

### **Comparison with IPSAS 38, 'Disclosure of Interests in Other Entities'**

1. Different terminologies have been used in the ASLB 38 as compared to corresponding IPSAS 38, e.g., terms 'entity' and 'balance sheet' have been used in ASLB 38 in place of 'public sector entity' and 'statement of financial position'.
2. Paragraph 5A pertaining to applicability of ASLBs has been inserted in ASLB 38 in line with other issued ASLBs.
3. The following paragraphs of IPSAS 38 have been deleted. In order to maintain consistency with the corresponding IPSAS 38, the paragraph numbers have been retained:
  - (i) The following concepts that may not be relevant for Local Bodies in India in the current scenario but may be relevant in future have been shifted to appendices (which are not an integral part of ASLB 38) and a similar explanation has also been provided in the footnote appended to Appendices:
    - a) Paragraphs 4(b)(ii), 9(a)(iii), 15-16, 27-34, 37 and 42 of IPSAS 38 pertaining to the concept of 'investment entities' have been shifted from the main Standard to Appendix C namely '*Guidance for Investment Entities*'.
    - b) Paragraphs 9(b)(v) and 51-57 of IPSAS 38 pertaining to the concept of 'controlling interests acquired with the intention of disposal' have been shifted from the main Standard to Appendix D namely '*Guidance for Controlling Interest Acquired with the Intention of Disposal*'.
  - (ii) Paragraph 4(d) provided the reference to the Guidance on '*Financial Instruments*' that is yet to be formulated/ issued. The clarification on obtaining guidance with regard to the above has been incorporated in the footnote.
  - (iii) Paragraphs 58-60 pertaining to transitional provisions have been deleted as they are not relevant.
  - (iv) Paragraphs 61-62 pertaining to effective date have been deleted as ASLB 38 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.
4. Paragraphs 5-6 appear as 'Deleted' in IPSAS 38. In order to maintain consistency with paragraph numbers of IPSAS 38, the paragraph numbers have been retained in ASLB 38.
5. The following paragraphs of IPSAS 38 have been amended to make them more relevant in the context of Local Bodies in India:
  - (i) An investment in associate or joint venture should be accounted for in accordance with ASLB 36 read together with ASLB 34 at cost or in

accordance with *Guidance on Financial Instruments* (equity method not permitted in this regard). (Paragraphs 4(d)(i), 36(b), 38, AG14 and AG16)

- (ii) Some examples have been deleted/modified to make them more relevant in the context of Local Bodies in India. (Paragraphs 21, AG6-9 & AG22)
6. Consequential changes resulting from the above departures have been made in ASLB 38.
  7. Appendix B containing amendments to other IPSASs has been deleted. The consequential amendment in other already issued ASLBs will be taken up while undertaking the project of revision of ASLBs.
  8. Implementation guidance has been inserted to clarify the applicability of ASLB 38 in various types of involvement with another entity.