

# **EXPOSURE DRAFT**

**Accounting Standard for Local Bodies (ASLB) 35**

## **Consolidated Financial Statements**

**(Based on corresponding IPSAS 35)**

***(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 35-- Consolidated Financial Statements

## Contents

---

	Paragraphs
Objective.....	1-2
Scope .....	3-13
Entity Combinations.....	4
Presentation of Consolidated Financial Statements .....	5-10
Definitions.....	14-17
Binding Arrangement.....	15
Economic Entity.....	16-17
Control.....	18-37
Power.....	23-29
Benefits.....	30-34
Link between Power and Benefits.....	35-37
Accounting Requirements.....	38-55
Consolidation Procedures.....	40
Uniform Accounting Policies.....	41
Measurement.....	42
Reporting Dates.....	46
Non-Controlling Interests.....	47-51
Loss of Control.....	52-55

Transitional Provisions..... 65-78

Appendix A: Application Guidance

Appendix B: [Refer to Appendix 1]

Appendix C: Guidance for Investment Entities

Implementation Guidance

Illustrative Examples

Appendix 1: Comparison with IPSAS 35, '*Consolidated Financial Statements*'

Appendix 2: Comparison with Existing AS 21, '*Consolidated Financial Statements*'

---

**Exposure Draft**  
**Accounting Standard for Local Bodies (ASLB) 35**  
**Consolidated Financial Statements**

**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) 35, 'Consolidated Financial Statements'. 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) 35**  
**Consolidated Financial Statements**

*(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) 35, 'Consolidated Financial Statements', 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

---

<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.

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>.

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

## Objective

1. The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
2. To meet the objective in paragraph 1, this Standard:
  - (a) Requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
  - (b) Defines the principle of control, and establishes control as the basis for consolidation;
  - (c) Sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity; and
  - (d) Sets out the accounting requirements for the preparation of consolidated financial statements.
  - (e) [Refer to Appendix C]

## Scope

3. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the preparation and presentation of consolidated financial statements for the economic entity.***
- 3A. ***This Standard applies to all entities described as Local Bodies in the ‘Preface to the Accounting Standards for Local Bodies’<sup>3</sup>.***

---

<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’.

<sup>3</sup> Refer paragraph 1.3 of the ‘Preface to the Accounting Standards for Local Bodies’.

## Entity Combinations<sup>4</sup>

4. This Standard does not deal with the accounting requirements for entity combinations and their effect on consolidation, including goodwill arising on an entity combination (see ASLB 40, ‘*Entity Combinations*’).

## Presentation of Consolidated Financial Statements

5. *An entity that is a controlling entity should present consolidated financial statements. This Standard applies to all entities, except that a controlling entity need not present consolidated financial statements if it meets the following conditions<sup>5</sup>:*
- (a) *It is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements; or*
  - (b) *Its 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)<sup>6</sup>; or*
  - (c) *It did not file, nor is it in the process of filing, its financial statements with a securities commission such as Securities Exchange Board of India (SEBI) or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or*
  - (d) *Its ultimate or any intermediate controlling entity produces consolidated financial statements that are available for public use and comply with Accounting Standards for Local Bodies (ASLBs), in which controlled entities are consolidated in accordance with this Standard.*

---

<sup>4</sup> An entity combination is the bringing together of separate operations into one entity. The entity combination may occur in form of amalgamation or acquisition. [Refer ASLB 40 (which is under formulation) for more details]

<sup>5</sup> Some of the concepts/terms used under exemptions such as equity instruments, trading in public market, etc., may not be relevant in context of local bodies but may be applicable to the entities controlled by a local body, hence retained.

<sup>6</sup> Domestic stock exchange mentioned here implies the stock exchange declared as such by Securities Exchange Board of India (SEBI).

6. This Standard does not apply to post-employment benefit plans or other long-term employee benefit plans to which ASLB 39, *'Employee Benefits'* applies.
7. [Refer to Appendix C]
8. 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 transport entity controlled by a Local Body. 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. For example, the disclosures required by ASLB 18, *'Segment Reporting'*, help to explain the significance of different activities within the economic entity.
9. The exemption from preparing consolidated financial statements in paragraph 5 does not apply where the information needs of a controlled entity's users would not be met by the consolidated financial statements of its controlling entity. For example, consolidated financial statements of the controlling entity may not meet the information needs of users in respect of key sectors or activities of the controlled entity. In many cases, there are legislated financial reporting requirements intended to address the information needs of such users. For example, an entity (Local Body A) controls "A" Smart City Corporation Ltd. (incorporated under Companies Act, 2013). The consolidated financial statements prepared by the Local Body A would not meet the requirement of financial statements set in Companies Act, 2013 for "A" Smart City Corporation Ltd., therefore, the said exemption won't apply.
10. An entity may be required (for example, by legislation, or by external users) to prepare combined financial statements<sup>7</sup> which are for a different economic entity than that required by this Standard. Although such financial statements fall outside the scope of this Standard and would not comply with the requirements in this Standard, an entity could use the guidance in this Standard in the preparation of such combined financial statements.
11. [Deleted]
12. [Deleted]

---

<sup>7</sup> Combined Financial Statements are financial statements of a reporting entity that comprises two or more entities that are not all linked by a controlling entity-controlled entity relationship.

13. [Deleted]

## Definitions

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

***Benefits*** are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.

***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.

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

***Control***: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

***A controlled entity*** is an entity that is controlled by another entity.

***A controlling entity*** is an entity that controls one or more entities.

***A decision-maker*** is an entity with decision-making rights that is either a principal or an agent for other parties.

***An economic entity*** is a controlling entity and its controlled entities.

***A non-controlling interest*** is the net assets/equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.

***Power*** consists of existing rights that give the current ability to direct the relevant activities of another entity.



***Protective rights are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.***

***Relevant activities: For the purpose of this Standard, relevant activities are activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.***

***Removal rights are rights to deprive the decision maker of its decision-making authority.***

***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 36, 'Investments in Associates and Joint Ventures', ASLB 37, 'Joint Arrangements', or ASLB 38, 'Disclosure of Interests in Other Entities'<sup>8</sup>: associate, interest in another entity, joint venture and significant influence.***

## **Binding Arrangement**

15. 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.

## **Economic Entity**

16. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising of the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity and group. An economic entity may include entities with both social policy and commercial objectives. For example, a Local Body XYZ (controlling entity) controls an entity ABC (controlled entity) that provides healthcare services for a nominal charge (social policy), as well as another entity PQR (controlled entity) that provides transport services on a commercial basis (commercial objective). The group of entities comprising

---

<sup>8</sup> ASLBs 37 & 38 are under formulation.

Local Body XYZ and the controlled entities, viz., ABC and PQR, is an economic entity.

17. The determination of the economic entity will need to be made having regard to the constitutional arrangements in particular the ways in which local government power is limited and allocated and how the local government system is set up and operates.

### **Control (see paragraphs AG2-AG87)**

18. *An entity, regardless of the nature of its involvement with another entity, should determine whether it is a controlling entity by assessing whether it controls the other entity.*
19. *An entity controls another entity when it is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.*
20. *Thus, an entity controls another entity if and only if the entity has all the following:*
  - (a) *Power over the other entity (see paragraphs 23-29);*
  - (b) *Exposure, or rights, to variable benefits from its involvement with the other entity (see paragraphs 30-34); and*
  - (c) *The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs 35-37).*
21. *An entity should consider all facts and circumstances when assessing whether it controls another entity. The entity should reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 20 (see paragraphs AG82- AG87).*
22. Two or more entities collectively control another entity when they must act together to direct the relevant activities. In such cases, because no single entity can direct the activities without the co-operation of the others, no single entity controls the other entity. Each entity should account for its interest in the other entity (that does not come under the purview of consolidation) in accordance with the relevant ASLBs, such as ASLB 36

(Investment in Associates and Joint Ventures), ASLB 37 (Joint Arrangements), ASLB 38 (Disclosure of Interests in Other Entities), Guidance Note on Accounting for Investments or Guidance on *Financial Instruments*<sup>9</sup>.

## Power

23. An entity has power over another entity when the entity has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the nature or amount of the benefits from its involvement with the other entity. The right to direct the financial and operating policies of another entity indicates that an entity has the ability to direct the relevant activities of another entity and is frequently the way in which power is demonstrated in the entity. If the entity can dominate the nomination process for electing members of the other entity's governing body, in that case the entity has the ability to direct the relevant activities of that entity and therefore, control that entity. For example, a Local Body has rights to appoint members on the governing board of transport undertaking 'A'. In this case, Local Body is controlling transport undertaking 'A'.
24. Power arises from rights. In some cases, assessing power is straightforward, such as when power over another entity is obtained directly and solely from the voting rights granted by equity instruments such as shares and can be assessed by considering the voting rights from those shareholdings. However, the entities often obtain power over another entity from rights other than voting rights. They may also obtain power over another entity without having an equity instrument providing evidence of a financial investment. An entity may have rights conferred by binding arrangements. These rights may give an entity power to require the other entity to deploy assets or incur liabilities in a way that affects the nature or amount of benefits received by the first-mentioned entity. The assessment of whether such rights give rise to power over another entity may be complex and require more than one factor to be considered.
25. An entity can have power over another entity even if it does not have responsibility for the day-to-day operation of the other entity or the manner in which prescribed functions are performed by that other entity. Legislation may give an entity (controlled) or its officers special powers

---

<sup>9</sup> ASLBs 37 & 38 and Guidance Note on Accounting for Investments are under formulation. 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*'.

to carry out their functions independently of the entity (controlling entity). But the existence of special powers to operate independently does not, of itself, preclude an entity having the ability to direct the operating and financial policies of another entity with special powers so as to obtain benefits.

26. The existence of rights over another entity does not necessarily give rise to power for the purposes of this Standard. An entity does not have power over another entity solely due to the existence of:
- (a) Regulatory control (see paragraph AG12); or
  - (b) Economic dependence (see paragraphs AG41-AG42).
27. An entity with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the entity has been directing the relevant activities of the entity being assessed for control can help determine whether the entity has power, but such evidence is not, in itself, conclusive in determining whether the entity has power over the entity being assessed for control. In the case of an entity established with predetermined activities, the right to direct the relevant activities may have been exercised at the time that the entity was established.
28. If two or more entities each have existing rights that give them the unilateral ability to direct different relevant activities, the entity that has the current ability to direct the activities that most significantly affect the nature or amount of benefits from that entity has power over that other entity.
29. An entity can have power over an entity being assessed for control even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities. However, an entity that holds only protective rights does not have power over another entity (see paragraphs AG29-AG31), and consequently does not control the other entity.

## **Benefits**

30. An entity is exposed, or has rights, to variable benefits from its involvement with an entity being assessed for control when the benefits that it seeks from its involvement have the potential to vary as a result of the other entity's performance. Entities become involved with other entities with the expectation of positive financial or non-financial benefits

over time. However, in a particular reporting period, the actual impact of an entity's involvement with the entity being assessed for control can be only positive, only negative or a mix of both positive and negative.

31. The entity's benefits from its involvement with the entity being assessed for control can be only financial, only non-financial or both financial and non-financial. Financial benefits include returns on investment such as dividends or similar distributions and are sometimes referred to as "returns". Non-financial benefits include advantages arising from scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the entity. Non-financial benefits can occur when the activities of another entity are congruent with, (that is, they are in agreement with), the objectives of the entity and support the entity in achieving its objectives. For example, an entity may obtain benefits when another entity with congruent activities provides services that the first entity would have otherwise been obliged to provide. Congruent activities may be undertaken voluntarily or the entity may have the power to direct the other entity to undertake those activities. Non-financial benefits can also occur when two entities have complementary objectives (that is, the objectives of one entity add to, and make more complete, the objectives of the other entity).
32. The following examples illustrate financial benefits that an entity may receive from its involvement with another entity:
  - (a) Dividends, variable interest on debt securities, other distributions of economic benefits;
  - (b) Exposure to increases or decreases in the value of an investment in another entity;
  - (c) Exposure to loss from agreements to provide financial support, including financial support for major projects;
  - (d) Cost savings (for example, if an entity would achieve economies of scale or synergies by combining the operations or assets of the other entity with its own operations or assets);
  - (e) Residual interests in the other entity's assets and liabilities on liquidation of that other entity; and
  - (f) Other exposures to variable benefits that are not available to other entities.

33. Examples of non-financial benefits include:
- (a) The ability to benefit from the specialised knowledge of another entity;
  - (b) The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives;
  - (c) Improved outcomes;
  - (d) More efficient delivery of outcomes;
  - (e) More efficient or effective production and delivery of goods and services;
  - (f) Having an asset and related services available earlier than otherwise would be the case; and
  - (g) Having a higher level of service quality than would otherwise be the case.
34. Although only one entity can control another entity, more than one party can share in the benefits of that other entity. For example, holders of non-controlling interests can share in the financial benefits such as surpluses or distributions from an entity or the non-financial benefits such as congruence of activities with desired outcomes.

### **Link between Power and Benefits**

35. An entity controls another entity if the entity not only has power over the entity being assessed for control and exposure or rights to variable benefits from its involvement with the other entity, but also has the ability to use its power to affect the nature or amount of the benefits from its involvement with the entity being assessed for control.
36. The existence of congruent objectives alone is insufficient for an entity to conclude that it controls another entity. In order to have control the entity would also need to have the ability to use its power over the entity being assessed for control to direct that other entity to work with it to further its objectives.

37. *An entity with decision-making rights should determine whether it is a principal or an agent. An entity should also determine whether another entity with decision-making rights is acting as an agent for the entity. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the other entity when it exercises its decision-making authority. Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal.*

## **Accounting Requirements**

38. *A controlling entity should prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.*
39. *Consolidation of a controlled entity should begin from the date the entity obtains control of the other entity and cease when the entity loses control of the other entity.*

## **Consolidation Procedures**

40. Consolidated financial statements:
- (a) Combine like items of assets, liabilities, net assets/equity, revenue expenses and cash flows of the controlling entity with those of its controlled entities.
  - (b) Offset (eliminate) 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 (ASLB 40 explains how to account for any related goodwill).
  - (c) Eliminate in full intra-economic entity assets, liabilities, net assets/equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity (surpluses or deficits resulting from intra-economic entity transactions that are recognised in assets. such as inventory and fixed assets, are eliminated in full). Intra- economic entity losses may indicate an impairment that requires recognition in the consolidated financial statements.

## **Uniform Accounting Policies**

41. 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 that member's financial statements in preparing the consolidated financial statements to ensure conformity with the economic entity's accounting policies. If it is not practicable to do so, the fact is disclosed along with a brief description of the differences between the accounting policies.

## **Measurement**

42. An entity includes the revenue and expenses of a controlled entity in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the controlled entity. Revenue and expenses of the controlled entity are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of income and expenditure after the acquisition date is based on the values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.

43-45. [Refer to Appendix 1]

## **Reporting Dates<sup>10</sup>**

46. *The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements should be prepared as at the same reporting date. When the end of the reporting period of the controlling entity is different from that of a controlled entity, the controlling entity either:*
- (a) *Obtains, for consolidation purposes, additional financial information as of the same date as the financial statements of the controlling entity; or*
  - (b) *Uses the most recent financial statements of the controlled entity adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the reporting date of the financial statements of the controlled entity and that of the consolidated financial statements should not be more than three months and the length*

---

<sup>10</sup> In India, on any date as the government may decide from time to time as per its accounting year, (at present) it is 31<sup>st</sup> March.



*of the reporting periods and any difference between the reporting dates of the financial statements should be the same from period to period.*

## **Non-Controlling Interests**

47. *A controlling entity should present non-controlling interests in the consolidated balance sheet within net assets/ equity, separately from the net assets/equity of the owners of the controlling entity.*
48. Changes in a controlling entity's interest in a controlled entity that do not result in the controlling entity losing control of the controlled entity are transactions with owners in their capacity as owners.
49. *An entity should attribute the surplus or deficit and each gain or loss recognised directly in net assets/equity to the owners of the controlling entity and to the non-controlling interests.*

### *Changes in the Proportion held by Non-Controlling Interests*

51. When the proportion of the net assets/equity held by non-controlling interests changes, an entity should adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the controlled entity. The entity should recognise directly in net assets/equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the controlling entity.

## **Loss of Control**

52. *If a controlling entity loses control of a controlled entity, the controlling entity:*
  - (a) *Derecognises the assets and liabilities of the former controlled entity from the consolidated balance sheet:*
  - (b) *Recognises any investment retained in the former controlled entity at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former controlled entity in accordance with relevant ASLBs. That retained interest is remeasured, as described in paragraphs 54(b)(iii) and 55. The remeasured value at the date that control is lost shall be regarded as the fair value on initial recognition of a*

*financial asset in accordance with Guidance on ‘Financial Instruments’ or the cost on initial recognition of an investment in an associate or joint venture; and*

- (c) Recognises the gain or loss associated with the loss of control attributable to the former controlling interest, as specified in paragraphs 54–55.*

**53.** *A controlling entity might lose control of a controlled entity in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a controlling entity should consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the controlling entity should account for the multiple arrangements as a single transaction:*

- (a) They are entered into at the same time or in contemplation of each other.*
- (b) They form a single transaction designed to achieve an overall commercial effect.*
- (c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.*
- (d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of an investment is priced below- market and is compensated for by a subsequent disposal priced above market.*

**54.** *If a controlling entity loses control of a controlled entity, it should:*

- (a) Derecognise:*

- (i) The assets (including any goodwill) and liabilities of the controlled entity at their carrying amounts at the date when control is lost; and*

- (ii) The carrying amount of any non-controlling interests in the former controlled entity at the date when control is lost*

*(including any gain or loss recognised directly in net assets/equity attributable to them).*

**(b) Recognise:**

*(i) The fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;*

*(ii) If the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the controlled entity to owners in their capacity as owners, that distribution; and*

*(iii) Any investment retained in the former controlled entity at its fair value at the date when control is lost.*

**(c) *Transfer directly to accumulated surplus/deficit, if required by other ASLBs, the amounts recognised directly in net assets/equity in relation to the controlled entity on the basis described in paragraph 55.***

**(d) *Recognise any resulting difference as a gain or loss in surplus or deficit attributable to the controlling entity.***

Flowchart depicting summary of paragraphs 54 is as follows:

If a controlling entity loses control of a controlled entity, controlling entity, at the date when control is lost, should

**Derecognise:**

- carrying amount of assets and liabilities of former controlled entity
- carrying amount of any non-controlling interests in the former controlled entity (including any gain or loss recognised directly in net assets/equity attributable to them)

**Recognise:**

- fair value of the consideration received
- distribution of shares of the controlled entity to owners in their capacity as owners
- any investment retained in the former controlled entity at its fair value

Transfer directly to accumulated surplus/deficit, if required by other ASLBs, the amounts recognised directly in net assets/equity in relation to the controlled entity

Recognise any resulting difference as a gain or loss in surplus or deficit attributable to the controlling entity

**55. *If a controlling entity loses control of a controlled entity, the controlling entity should account for all amounts previously recognised directly in net assets/equity in relation to that controlled entity on the same basis as would be required if the controlling entity had directly disposed of the related assets or liabilities. If a revaluation surplus previously recognised directly in net assets/equity would be transferred directly to accumulated surplus/deficit on the disposal of the asset, the controlling entity should transfer the revaluation surplus directly to accumulated surplus/deficit when it loses control of the controlled entity.***

55A. [Refer to Appendix 1]

56-64. [Refer to Appendix C]

## **Transitional Provisions**

- 65.** *An entity should apply this Standard retrospectively, in accordance with ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors'.*
- 66.** *Notwithstanding the requirements of paragraph 33 of ASLB 3, when this Standard is first applied an entity need only present the quantitative information required by paragraph 33(f) of ASLB 3 for the annual period immediately preceding the date of initial application of this Standard (the "immediately preceding period"). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.*
- 67.** For the purposes of this Standard, the date of initial application is the beginning of the annual reporting period for which this Standard is applied for the first time.
- 68.** [Refer to Appendix 1]
- 69-73.** [Refer to Appendix C]
- 74-81.** [Refer to Appendix 1]

## Application Guidance

*This Appendix is an integral part of ASLB 35.*

AG1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 35, ‘*Consolidated Financial Statements*’.

### Assessing Control

AG2. To determine whether it controls another entity an entity should assess whether it has all the following:

- (a) Power over the other entity;
- (b) Exposure, or rights, to variable benefits from its involvement with the other entity; and
- (c) The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity.

AG3. Consideration of the following factors may assist in making that determination:

- (a) The purpose and design of the other entity (see paragraphs AG5-AG8);
- (b) What the relevant activities are and how decisions about those activities are made (see paragraphs AG13-AG15);
- (c) Whether the rights of the entity give it the current ability to direct the relevant activities of the other entity (see paragraphs AG16-AG56);
- (d) Whether the entity is exposed, or has rights, to variable benefits from its involvement with the other entity (see paragraph AG57-AG58); and
- (e) Whether the entity has the ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs AG60-AG74).

AG4. When assessing whether it controls another entity, an entity should consider the nature of its relationship with other parties (see paragraphs AG75-AG77).

## **Purpose and Design of another Entity**

- AG5. An entity should consider the purpose and design of the entity being assessed for control in order to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities and who benefits from those activities.
- AG6. When the purpose and design of the entity being assessed for control are considered, it may be clear that the entity being assessed for control is controlled by means of equity instruments that give the holder voting rights, such as ordinary shares. In this case, in the absence of any additional arrangements that alter decision-making, the assessment of control focuses on which party, if any, is able to exercise voting rights sufficient to determine the operating and financing policies of the entity being assessed for control (see paragraphs AG32-AG52). In the most straightforward case, the entity that holds a majority of those voting rights, in the absence of any other factors, controls the other entity.
- AG7. To determine whether an entity controls another entity in more complex cases, it may be necessary to consider some or all of the other factors in paragraph AG3.
- AG8. Voting rights may not be the dominant factor in deciding who controls the entity being assessed for control. If there are voting rights they may be limited in scope. The relevant activities of the entity being assessed for control may be directed by means of binding arrangements or provisions in founding documents such as articles of association or a constitution. In such cases, an entity's consideration of the purpose and design of the entity being assessed for control should also include consideration of the risks to which the other entity was designed to be exposed, the risks it was designed to pass on to the parties involved and whether the entity is exposed to some or all of those risks. Consideration of the risks includes not only the downside risk, but also the potential for upside.

## **Power**

- AG9. To have power over another entity, an entity must have existing rights that give it the current ability to direct the relevant activities. For the purpose of assessing power only substantive rights and rights that are not protective should be considered (see paragraphs AG25-AG31).

- AG10. The determination about whether an entity has power depends on the relevant activities, the way decisions about the relevant activities are made and the rights of the entity and other entities in relation to the potentially controlled entity.
- AG11. An entity normally will have power over an entity that it has established when the constituting document or enabling legislation specifies the operating and financing activities that are to be carried out by that entity. However, the impact of the constituting document or legislation is evaluated in the light of other prevailing circumstances, as all facts and circumstances need to be considered in assessing whether an entity has power over another entity. For example, a Local Body A establishes a Health Research Centre B which is affiliated to All India Institute of Medical Sciences, an autonomous and statutory body. Here, the Local Body A may not have power over Health Research Centre B though established by it as the power to direct the relevant activities belong to other entity that is not controlled by the Local Body A.

### *Regulatory Control*

- AG12. Regulatory control does not usually give rise to power over an entity for the purposes of this Standard. Local bodies may have powers to establish the regulatory framework within which entities operate, to involve in major decision-making activity of other entity and to execute those decisions in other entity, to impose conditions or sanctions on their operations and to enforce those conditions or sanctions. For example, local bodies may enact regulations to protect the health and safety of the citizens, restrict the sale or use of dangerous goods like acids. However, when regulation is so tight as to effectively dictate how the entity performs its operations, then it may be necessary to consider whether the purpose and design of the entity is such that it is controlled by the regulating entity.

### *Relevant Activities and Direction of Relevant Activities*

- AG13. For many entities, a range of operating and financing activities significantly affect the benefits they generate. Any activity that assists in achieving or furthering the objectives of a controlled entity may affect the benefits to the controlling entity. Examples of activities that, depending



on the circumstances, can be relevant activities include, but are not limited to:

- (a) Using assets and incurring liabilities to provide services to service recipients;
- (b) Distributing funds to specified individuals or groups;
- (c) Collecting revenue through non-exchange transactions;
- (d) Selling and purchasing of goods or services;
- (e) Managing physical assets;
- (f) Managing financial assets during their life (including upon default);
- (g) Selecting, acquiring or disposing of assets;
- (h) Managing a portfolio of liabilities;
- (i) Researching and developing new products or processes; and
- (j) Determining a funding structure or obtaining funding.

AG14. Examples of decisions about relevant activities include but are not limited to:

- (a) Establishing operating and capital decisions of an entity, including budgets; and
- (b) Appointing and remunerating an entity's key management personnel or service providers and terminating their services or employment.

AG15. In some situations, activities both before and after a particular set of circumstances arises or event occurs, may be relevant activities. When two or more entities have the current ability to direct relevant activities and those activities occur at different times, those entities should determine which entity is able to direct the activities that most significantly affect those benefits consistently with the treatment of concurrent decision-making rights (see paragraph 28). The entities concerned should reconsider this assessment over time if relevant facts or circumstances change.

*Rights that Give an Entity Power over another Entity*

AG16. Power arises from rights. To have power over another entity, an entity must have existing rights that give the entity the current ability to direct the relevant activities of the other entity. The rights that may give an entity power can differ from case to case.

AG17. Examples of rights that, either individually or in combination, can give an entity power include but are not limited to:

- (a) Rights to give policy directions to the governing body of another entity that give the holder the ability to direct the relevant activities of the other entity;
- (b) Rights in the form of voting rights of another entity (see paragraphs AG32-AG52);
- (c) Rights to appoint, reassign or remove members of another entity's key management personnel who have the ability to direct the relevant activities;
- (d) Rights to appoint or remove another entity that directs the relevant activities;
- (e) Rights to approve or veto operating and capital budgets relating to the relevant activities of another entity;
- (f) Rights to direct the other entity to enter into, or veto any changes to, transactions for the benefit of the entity;
- (g) Rights to veto key changes to the other entity, such as the sale of a major asset or of the other entity as a whole; and
- (h) Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

AG18. In considering whether it has power, an entity will need to consider the binding arrangements that are in place and the mechanism(s) by which it has obtained power. Ways in which an entity may have obtained power, either individually or in combination with other arrangements, include:

- (a) Legislative or executive authority;
- (b) Administrative arrangements;
- (c) Contractual arrangements;

- (d) Founding documents (for example, articles of association); and
- (e) Voting or similar rights.

AG19. To determine whether an entity has rights sufficient to give it power, the entity should also consider the purpose and design of the other entity (see paragraphs AG5-AG8) and the requirements in paragraphs AG53- AG56 together with paragraphs AG20-AG22.

AG20. In some circumstances it may be difficult to determine whether an entity's rights are sufficient to give it power over another entity. In such cases, to enable the assessment of power to be made, the entity should consider evidence of whether it has the practical ability to direct the relevant activities unilaterally. Consideration is given, but is not limited, to the following, which, when considered together with its rights and the indicators in paragraphs AG21 and AG22, may provide evidence that the entity's rights are sufficient to give it power over the other entity:

- (a) The entity can, without having the contractual right to do so, appoint or approve the other entity's key management personnel who have the ability to direct the relevant activities;
- (b) The entity can, without having the contractual right to do so, direct the other entity to enter into, or can veto any changes to, significant transactions for the benefit of the entity;
- (c) The entity can dominate either the nominations process for electing members of the other entity's governing body or the obtaining of proxies from other holders of voting rights;
- (d) The other entity's key management personnel are related parties of the entity (for example, the chief executive officer of the other entity and the chief executive officer of the entity are the same person); or
- (e) The majority of the members of the other entity's governing body are related parties of the entity.

AG21. Sometimes there will be indications that the entity has a special relationship with the other entity, which suggests that the entity has more than a passive interest in the other entity. The existence of any individual indicator, or a particular combination of indicators, does not necessarily mean that the power criterion is met. However, if an entity has more than

a passive interest in another entity this may indicate that the entity has other related rights sufficient to give it power or provide evidence of existing power over another entity. For example, the following suggests that the entity has more than a passive interest in the other entity and, in combination with other rights, may indicate power:

- (a) The relationship between the entity and the other entity's operations is one of dependence, such as in the following situations:
  - (i) The entity funds a significant portion of the other entity's operations and the other entity depends on this.
  - (ii) The entity guarantees a significant portion of the other entity's obligations, and the other entity depends on this.
  - (iii) The entity provides critical services, technology, supplies or raw materials to the other entity, and the other entity depends on this.
  - (iv) The entity controls assets such as licenses or trademarks that are critical to the other entity's operations and the other entity depends on this.
  - (v) The entity provides key management personnel to the other entity (for example, when the entity's personnel have specialised knowledge of the other entity's operations) and the other entity depends on this.
- (b) A significant portion of the other entity's activities either involve or are conducted on behalf of the entity.
- (c) The entity's exposure, or rights, to benefits from its involvement with the other entity is disproportionately greater than its voting or other similar rights. For example, there may be a situation in which an entity is entitled, or exposed, to majority of the benefits of the other entity but holds lesser voting rights of the other entity.

AG22. The entities often have special relationships with other parties as a result of the indicators listed in paragraph AG21. The entities often fund the activities of other entities. Economic dependence is discussed in paragraphs AG41 to AG42.

AG23. The greater an entity's exposure, or rights, to variability of benefits from its involvement with another entity, the greater is the incentive for the entity to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of benefits is an indicator that the entity may have power. However, the extent of the entity's exposure does not, in itself, determine whether an entity has power over the other entity.

AG24. When the factors set out in paragraph AG20 and the indicators set out in paragraphs AG21-AG23 are considered together with an entity's rights, greater weight should be given to the evidence of power described in paragraph AG20.

### Substantive Rights

AG25. An entity, in assessing whether it has power, considers only substantive rights relating to another entity (held by the entity and others). For a right to be substantive, the holder must have the practical ability to exercise that right.

AG26. Determining whether rights are substantive requires judgment, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:

- (a) Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights. Examples of such barriers include but are not limited to:
  - (i) Financial penalties and incentives that would prevent (or deter) the holder from exercising its rights.
  - (ii) [Refer to Appendix 1]
  - (iii) Terms and conditions that make it unlikely that the rights would be exercised, for example, conditions that narrowly limit the timing of their exercise.
  - (iv) The absence of an explicit, reasonable mechanism in the founding documents of another entity or in applicable laws or regulations that would allow the holder to exercise its rights.
  - (v) The inability of the holder of the rights to obtain the information necessary to exercise its rights.

- (vi) Operational barriers or incentives that would prevent (or deter) the holder from exercising its rights (e.g., the absence of other managers willing or able to provide specialised services or provide the services and take on other interests held by the incumbent manager)
  - (vii) Legal or regulatory requirements that limit the manner in which rights may be exercised or that prevent the holder from exercising its rights (e.g., where another entity has statutory powers which permit it to operate independently of the government).
- (b) When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so. The lack of such a mechanism is an indicator that the rights may not be substantive. The more parties that are required to agree to exercise the rights, the less likely it is that those rights are substantive. However, a board of directors (or other governing body) whose members are independent of the decision maker may serve as a mechanism for numerous entities (or other parties) to act collectively in exercising their rights. Therefore, removal rights exercisable by an independent board of directors (or other governing body) are more likely to be substantive than if the same rights were exercisable individually by a large number of entities (or other parties).
- (c) [Refer to Appendix 1]

AG27. To be substantive, rights also need to be exercisable when decisions about the direction of the relevant activities need to be made. Usually, to be substantive, the rights need to be currently exercisable. However, sometimes rights can be substantive, even though the rights are not currently exercisable.

AG28. Substantive rights exercisable by other parties can prevent an entity from controlling the entity being assessed for control, to which those rights relate. Such substantive rights do not require the holders to have the ability to initiate decisions. As long as the rights are not merely protective (see paragraphs AG29-AG31), substantive rights held by other parties may

prevent the entity from controlling the entity being assessed for control even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities.

## Protective Rights

AG29. In evaluating whether rights give an entity power over another entity, the entity should assess whether its rights, and rights held by others, are protective rights. Protective rights relate to fundamental changes to the activities of another entity or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective (see paragraphs AG15 and AG55).

AG30. Because protective rights are designed to protect the interests of their holder without giving that party power over the entity to which those rights relate, an entity that holds only protective rights cannot have power or prevent another party from having power over the entity to which those rights relate (see paragraph 29).

AG31. Examples of protective rights include but are not limited to:

- (a) A lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.
- (b) The right of a party holding a non-controlling interest in an entity to approve capital expenditure greater than that required in the ordinary course of operations, or to approve the issue of equity or debt instruments.
- (c) The right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.
- (d) The right of a regulator to curtail or close the operations of entities that are not complying with regulations or other requirements. For example, a pollution control authority may be able to close down activities of an entity that breaches environmental regulations.
- (e) The right to remove members of the governing body of another entity under certain restricted circumstances.
- (f) [Refer to Appendix 1]

- (g) The right of an entity providing resources to a charity to demand that, if the charity were to be liquidated, the net assets of the charity would be distributed to an organisation undertaking similar activities. (However, if the entity had the power to determine specifically to where the charity's net assets would be distributed upon liquidation, the entity would have substantive rights in relation to the charity).

### *Voting Rights*

AG32. Where an entity has voting or similar rights in respect of another entity, an entity should consider whether those rights give it the current ability to direct the relevant activities of the other entity. An entity considers the requirements in this section (paragraphs AG33-AG52) in making that assessment.

### *Power with a Majority of the Voting Rights*

AG33. An entity that holds majority of the voting rights of another entity has power in the following situations, unless paragraph AG34 or paragraph AG35 applies:

- (a) The relevant activities are directed by a vote of the holder of the majority of the voting rights; or
- (b) A majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority of the voting rights.

### *Majority of the Voting Rights but no Power*

AG34. For an entity that holds a majority of the voting rights of another entity, to have power over that other entity, the entity's voting rights must be substantive, in accordance with paragraphs AG25-AG28, and must provide the entity with the current ability to direct the relevant activities, which often will be through determining operating and financing policies. If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the entity making the assessment of control, the entity making the assessment of control does not have power over the other entity.

AG35. An entity does not have power over another entity, even though the entity holds the majority of the voting rights in the other entity, when those



voting rights are not substantive. For example, an entity that has majority of the voting rights in another entity cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator.

### Power without a Majority of the Voting Rights

AG36. An entity can have power even if it holds less than a majority of the voting rights of another entity. An entity can have power with less than a majority of the voting rights of another entity, for example, through:

- (a) The power to appoint or remove a majority of the members of the board of directors (or other governing body), and control of the other entity is by that board or by that body (see paragraph AG38);
- (b) A binding arrangement between the entity and other vote holders (see paragraph AG39);
- (c) Rights arising from other binding arrangements (see paragraph AG40);
- (d) The entity's voting rights (see paragraphs AG37 and AG43-AG48);
- (e) [Refer to Appendix 1]; or
- (f) A combination of (a)-(e).

### Special Voting Rights Attaching to Ownership Interests (Golden Shares)

AG37. An entity may have the right of decisive vote, thus to veto all other voting rights of another entity. This type of right is sometimes referred to as a "golden share". Such special voting rights may give rise to power. Usually these rights are documented in the founding documents of the other entity (such as articles of association), and are designed to restrict the level of voting or other rights that may be held by certain parties. They may also give an entity veto powers over any major change in the other entity, such as the sale of a major asset or the sale of the other entity as a whole.

### Control of the Board or Other Governing Body

AG38. An entity may have the power to appoint or remove a majority of the members of the board of directors (or other governing body) as a result of binding arrangements (including existing legislation, executive authority, regulation, contractual, or other arrangements).

### Binding Arrangement with Other Vote Holders

AG39. A binding arrangement between an entity and other vote holders can give the entity the right to exercise voting rights sufficient to give the entity power, even if the entity does not have voting rights sufficient to give it power without the binding arrangement. However, a binding arrangement might ensure that the entity can direct enough other vote holders on how to vote to enable the entity to make decisions about the relevant activities.

#### Rights from Other Binding Arrangements

AG40. Other decision-making rights, in combination with voting rights, can give an entity the current ability to direct the relevant activities. For example, the rights specified in a binding arrangement in combination with voting rights may give an entity the current ability to direct the operating or financing policies or other key activities of another entity that significantly affect the benefits received by the entity. However, an entity would not control another entity if that other entity were able to determine its policy or program to a significant extent, (for example, by failing to comply with the binding arrangement and accepting the consequences, or by changing its constitution or dissolving itself).

#### Economic Dependence

AG41. Economic dependence, alone, does not give rise to power over an entity for the purposes of this Standard. Economic dependence may occur when:

- (a) An entity has a single major client and the loss of that client could affect the existence of the entity's operations; or
- (b) An entity's activities are predominantly funded by grants and donations and it receives the majority of its funding from a single entity.

AG42. An entity may be able to influence the financial and operating policies of another entity that is dependent on it for funding. However, a combination of factors will need to be considered to determine whether the economic dependence is such that the economically dependent entity no longer has the ultimate power to govern its own financial or operating policies. If an economically dependent entity retains discretion as to whether it will take funding from an entity, or do operations with an entity, the economically dependent entity still has the ultimate power to govern its own financial or operating policies. For example, a private aided school that accepts funding from a local body but whose governing body has retained discretion with respect to accepting funds or the manner in which those funds are to be used, would still have the ultimate power to govern its own financial or operating policies. This may be so even if local body grants provided to such an entity requires it to comply with specified conditions.

Although the entity might receive local body grants for the construction of capital assets and operating costs subject to specified service standards or restrictions on user fees, its governing bodies may have ultimate discretion about how assets are used; the entity would therefore control its financial and operating policies. It is also important to distinguish between the operations of an entity and an entity itself. The loss of a major client might affect the viability of the operations of an entity but not the existence of the entity itself.

### The Entity's Voting Rights

AG43. An entity with less than a majority of the voting rights has rights that are sufficient to give it power when the entity has the practical ability to direct the relevant activities unilaterally.

AG44. When assessing whether an entity's voting rights are sufficient to give it power, an entity considers all facts and circumstances, including:

(a) The size of the entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that:

(i) The more voting rights an entity holds, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(ii) The more voting rights an entity holds relative to other vote holders, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(iii) The more parties that would need to act together to outvote the entity, the more likely the entity is to have existing rights that give it the current ability to direct the relevant activities;

(b) [Refer to Appendix 1];

(c) Rights arising from other binding arrangements (see paragraph AG40); and

(d) Any additional facts and circumstances that indicate the entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

AG45. When the direction of relevant activities is determined by majority vote and an entity holds significantly more voting rights than any other vote holder or organised group of vote holders, and the other shareholdings are widely dispersed, it may be clear, after considering the factors listed in paragraph AG44(a)-(c) alone, that the entity has power over the other entity.

AG46. In other situations, it may be clear after considering the factors listed in paragraph AG44 (a)-(c) alone that an entity does not have power.

AG47. However, the factors listed in paragraph AG44 (a)-(c) alone may not be conclusive. If an entity, having considered those factors, is unclear whether it has power, it should consider additional facts and circumstances, such as whether holder of majority of the voting rights is passive in nature as demonstrated by voting patterns at previous shareholders' meetings. This includes the assessment of the factors set out in paragraph AG20 and the indicators in paragraphs AG21-AG23. The fewer voting rights the entity holds, and the fewer parties that would need to act together to outvote the entity, the more reliance would be placed on the additional facts and circumstances to assess whether the entity's rights are sufficient to give it power. When the facts and circumstances in paragraphs AG20-AG23 are considered together with the entity's rights, greater weight should be given to the evidence of power in paragraph AG20 than to the indicators of power in paragraphs AG21-AG23.

AG48. If it is not clear, having considered the factors listed in paragraph AG44 (a) - (d), that the entity has power, the entity does not control the other entity.

AG49-52. [Refer to Appendix 1]

#### *Power when Voting or Similar Rights do not have a Significant Effect on Benefits*

AG53. In assessing the purpose and design of another entity (see paragraphs AG5-AG8), an entity should consider the involvement and decisions made at the inception of the other entity as part of its design and evaluate whether the transaction terms and features of the involvement provide the entity with rights that are sufficient to give it power. Being involved in the design of another entity alone is not sufficient to give an entity control of that other entity. However, involvement in the design of the other entity may indicate that the entity had the opportunity to obtain rights that are sufficient to give it power over the other entity and hence the ability to determine the purpose and design of an entity may give rise to power. In the case of an entity established with most (or all) of its relevant activities predetermined at inception, having the ability to determine the purpose and design of an entity may be more relevant to the control assessment than any on-going decision- making rights.

AG54. In addition, an entity should consider rights arising from binding arrangements such as liquidation rights and rights arising from legislative or executive authority established at the inception of the other entity.

When binding arrangements involve activities that are closely related to the other entity, then these activities are, in substance, an integral part of the other entity's overall activities, even though they may occur outside the legal boundaries of the other entity. Therefore, explicit or implicit decision-making rights embedded in binding arrangements that are closely related to the other entity need to be considered as relevant activities when determining power over the other entity.

AG55. For some other entities, relevant activities occur only when particular circumstances arise or events occur. The other entity may be designed so that the direction of its activities and the benefits from those activities are predetermined unless and until those particular circumstances arise or events occur. In this case, only the decisions about the other entity's activities when those circumstances or events occur can significantly affect its benefits and thus be relevant activities. The circumstances or events need not have occurred for an entity with the ability to make those decisions to have power. The fact that the right to make decisions is contingent on circumstances arising or an event occurring does not, in itself, make those rights protective.

AG56. An entity may have an explicit or implicit commitment to ensure that another entity continues to operate as designed. Such a commitment may increase the entity's exposure to variability of benefits and thus increase the incentive for the entity to obtain rights sufficient to give it power. Therefore, a commitment to ensure that another entity operates as designed may be an indicator that the entity has power, but does not, by itself, give an entity power, nor does it prevent another party from having power.

### **Exposure, or Rights, to Variable Benefits from another Entity**

AG57. When assessing whether an entity has control of another entity, the entity determines whether it is exposed, or has rights, to variable benefits from its involvement with the other entity.

AG58. Variable benefits are benefits that are not fixed and have the potential to vary as a result of the performance of another entity. Variable benefits can be only positive, only negative or both positive and negative (see paragraph 30). An entity assesses whether benefits from another entity are variable and how variable those benefits are on the basis of the substance of the arrangement and regardless of the legal form of the benefits. For example:

- (a) In the context of non-financial benefits an entity may receive benefits as a result of the activities of another entity furthering its objectives. The benefits may be variable benefits for the purpose of this Standard because they may expose the entity to the

performance risk of the other entity. If the other entity were unable to perform those activities then the entity might incur additional costs, either from undertaking the activities itself or by providing additional funds or other forms of assistance to enable the other entity to continue providing those activities.

- (b) In the context of financial benefits an entity can hold a bond with fixed interest payments. The fixed interest payments are variable benefits for the purpose of this Standard because they are subject to default risk and they expose the entity to the credit risk of the issuer of the bond. The amount of variability (i.e., how variable those benefits are) depends on the credit risk of the bond. Similarly, fixed performance fees for managing another entity's assets are variable benefits because they expose the entity to the performance risk of the other entity. The amount of variability depends on the other entity's ability to generate sufficient revenue to pay the fee.

AG59. A liquidator would not normally have rights to variable benefits from its involvement with the entity being liquidated.

## **Link between Power and Benefits**

### *Delegated Power*

AG60. It is common for the entities to be responsible for carrying out government policy. In some cases, they may have the authority to act in their own right, in other cases they may act as an agent for Government or Ministry or another entity. For example:

- (a) A Local Body, which is authorised by a Ministry to act on the Ministry's behalf, might act solely as an agent of the responsible Ministry in relation to another entity. In such cases the Local Body would not control the other entity and would not consolidate it.
- (b) A Local Body's may operate under a delegation of power from a Ministry. The Local Body uses its own discretion in making decisions and taking actions and is not subject to direction from the Ministry. In such cases the Local Body is acting in its own right and would need to apply the other requirements of this Standard to determine whether it controlled another entity. The scope of the Local Body's decision-making authority over another entity would be a significant factor in distinguishing whether it is acting as an agent or as a principal.

- (c) An entity may establish a trust to carry out specified activities and appoints the trustee. The trustee is responsible for making decisions about the financing and operating activities of the trust in accordance with the trust deed. If the entity can replace the trustee at its discretion, the entity would need to assess whether it controls the trust given that, for example, it would be exposed, or have rights, to variable benefits in terms of the extent to which its objectives are achieved or furthered through the activities of the trust.

AG61. An entity may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls another entity, the entity should treat the decision-making rights delegated to its agent as held by the entity directly. In situations where there is more than one principal, each of the principals should assess whether it has power over the other entity by considering the requirements in paragraphs AG5- AG56. Paragraphs AG62-AG74 provide guidance on determining whether a decision maker is an agent or a principal.

AG62. A decision maker should consider the overall relationship between itself, the other entity being managed (and assessed for control) and other parties involved with that entity. In particular, a decision maker should consider all the factors below, in determining whether it is an agent:

- (a) The scope of its decision-making authority over the other entity (paragraphs AG64 and AG65);
- (b) The rights held by other parties (paragraphs AG66-AG69);
- (c) The remuneration to which it is entitled in accordance with the remuneration agreement(s) (paragraphs AG70-AG72); and
- (d) The decision maker's exposure to variability of benefits from other interests that it holds in the other entity (paragraphs AG73 and AG74).

Different weightings should be applied to each of the factors on the basis of particular facts and circumstances.

AG63. Determining whether a decision maker is an agent requires an evaluation of all the factors listed in paragraph AG62 unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause (see paragraph AG67).

## The Scope of the Decision-Making Authority

AG64. The scope of a decision maker's decision-making authority is evaluated by considering:

- (a) The activities that are permitted according to the decision-making agreement(s) and specified by law, and
- (b) The discretion that the decision maker has when making decisions about those activities.

AG65. A decision maker should consider the purpose and design of the other entity, the risks to which the other entity was designed to be exposed, the risks it was designed to pass on to the parties involved and the level of involvement the decision maker had in the design of another entity. For example, if a decision maker is significantly involved in the design of the other entity (including in determining the scope of decision-making authority), that involvement may indicate that the decision maker had the opportunity and incentive to obtain rights that result in the decision maker having the ability to direct the relevant activities.

#### Rights held by Other Parties

AG66. Substantive rights held by other parties may affect the decision maker's ability to direct the relevant activities of another entity. Substantive removal or other rights may indicate that the decision maker is an agent.

AG67. When a single party holds substantive removal rights and can remove the decision maker without cause, this, in isolation, is sufficient to conclude that the decision maker is an agent. If more than one party holds such rights (and no individual party can remove the decision maker without the agreement of other parties) those rights are not, in isolation, conclusive in determining that a decision maker acts primarily on behalf and for the benefit of others. In addition, the greater the number of parties required to act together to exercise rights to remove a decision maker and the greater the magnitude of, and variability associated with, the decision maker's other economic interests (i.e., remuneration and other interests), the less the weighting that shall be placed on this factor.

AG68. Substantive rights held by other parties that restrict a decision maker's discretion shall be considered in a similar manner to removal rights when evaluating whether the decision maker is an agent. For example, a decision maker that is required to obtain approval from a small number of other parties for its actions is generally an agent. (See paragraphs AG25-AG28 for additional guidance on rights and whether they are substantive).

AG69. Consideration of the rights held by other parties shall include an assessment of any rights exercisable by another entity's board of directors (or other governing body) and their effect on the decision-making authority (see paragraph AG26 (b)).



## Remuneration

- AG70. The greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the benefits expected from the activities of the other entity, the more likely the decision maker is a principal.
- AG71. In determining whether it is a principal or an agent the decision maker should also consider whether the remuneration agreement includes only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis.
- AG72. A decision maker cannot be an agent unless the conditions set out in paragraph AG74(a) and (b) are present. However, meeting those conditions in isolation is not sufficient to conclude that a decision maker is an agent.

## Exposure to Variability of Benefits from Other Interests

- AG73. A decision maker that holds other interests in another entity (e.g., investments in the other entity or provides guarantees with respect to the performance of the other entity), should consider its exposure to variability of benefits from those interests in assessing whether it is an agent. Holding other interests in another entity indicates that the decision maker may be a principal.
- AG74. In evaluating its exposure to variability of benefits from other interests in the other entity a decision maker should consider the following:
- (a) The greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision maker is a principal.
  - (b) Whether its exposure to variability of benefits is different from that of the other entities that receive benefits from the entity being assessed for control and, if so, whether this might influence its actions. For example, this might be the case when a decision maker holds subordinated interests in, or provides other forms of credit enhancement to, another entity.

The decision maker should evaluate its exposure relative to the total variability of benefits of the other entity. This evaluation is made primarily on the basis of benefits expected from the activities of the other entity but should not ignore the decision maker's maximum exposure to variability of benefits of the other entity through other interests that the decision maker holds.

## **Relationship with Other Parties**

- AG75. When assessing control, an entity should consider the nature of its relationship with other parties and whether those other parties are acting on the entity's behalf (i.e., they are "de facto agents"). The determination of whether other parties are acting as de facto agents requires judgment, considering not only the nature of the relationship but also how those parties interact with each other and the entity.
- AG76. Such a relationship need not involve a binding arrangement. Such relationships could also arise from legislative or executive authority that does not meet the definition of a binding arrangement. A party is a de facto agent when the entity has, or those that direct the activities of the entity have, the ability to direct that party to act on the entity's behalf. In these circumstances, the entity should consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable benefits through the de facto agent together-with its own when assessing control of another entity.
- AG77. The following are examples of such other parties that, by the nature of their relationship, might act as de facto agents for the entity:
- (a) The entity's related parties.
  - (b) A party that received its interest in the other entity as a contribution or loan from the entity making the assessment of control.
  - (c) A party that has agreed not to sell, transfer or encumber its interests in the other entity without the entity's prior approval (except for situations in which the entity and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties).
  - (d) A party that cannot finance its operations without subordinated financial support from the entity.
  - (e) Another entity for which the majority of the members of its governing body or for which its key management personnel are the same as those of the entity.
  - (f) A party that has a close operational relationship with the entity, such as the relationship between a professional service provider and one of its significant clients.

## **Control of Specified Assets**

- AG78. An entity should consider whether it treats a portion of another entity as a deemed separate entity and, if so, whether it controls the deemed separate entity.
- AG79. An entity should treat a portion of another entity as a deemed separate entity if and only if the following condition is satisfied:  
Specified assets of the other entity (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the other entity. Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets. In substance, none of the benefits from the specified assets can be used by the remaining portion of the other entity and none of the liabilities of the deemed separate entity are payable from the assets of the remainder of the other entity. Thus, in substance, all the assets, liabilities and equity instruments of that deemed separate entity are ring-fenced from the overall other entity. Such a deemed separate entity is often called a "silo".
- AG80. When the condition in paragraph AG79 is satisfied, an entity should identify the activities that significantly affect the benefits of the deemed separate entity and how those activities are directed in order to assess whether it has power over that portion of the other entity. When assessing control of the deemed separate entity, the entity should also consider whether it has exposure or rights to variable benefits from its involvement with that deemed separate entity and the ability to use its power over that portion of the other entity to affect the amount of the benefits from that entity.
- AG81. If the entity controls the deemed separate entity, the entity should consolidate that portion of the other entity. In that case, other parties exclude that portion of the other entity when assessing control of, and in consolidating, the other entity.

## **Continuous Assessment**

- AG82. An entity should reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 20.
- AG83. If there is a change in how power over another entity can be exercised, that change must be reflected in how an entity assesses its power over another entity. For example, changes to decision-making rights can mean that the relevant activities are no longer directed through voting rights, but

instead other agreements, such as contracts, give another party or parties the current ability to direct the relevant activities.

AG84. An event can cause an entity to gain or lose power over another entity without the entity being involved in that event. For example, an entity can gain power over another entity because decision-making rights held by another party or parties that previously prevented the entity from controlling another entity have lapsed.

AG85. An entity also considers changes affecting its exposure, or rights, to variable benefits from its involvement with another entity. For example, an entity that has power over another entity can lose control of that other entity if the entity ceases to be entitled or have the ability to receive benefits or to be exposed to obligations, because the entity would fail to satisfy paragraph 20(b) (e.g., if a contract to receive performance-related fees is terminated).

AG86. An entity should consider whether its assessment that it acts as an agent or a principal has changed. Changes in the overall relationship between the entity and other parties can mean that an entity no longer acts as an agent, even though it has previously acted as an agent, and vice versa. For example, if changes to the rights of the entity, or of other parties, occur, the entity should reconsider its status as a principal or an agent.

AG87. An entity's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g., a change in the other entity's benefits driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in paragraph 20 or changes the overall relationship between a principal and an agent.

AG88-106. [Refer to Appendix C]

**[Refer to Appendix 1]**

## Guidance for Investment Entities<sup>11</sup>

*This appendix is not an integral part of the draft ASLB 35. It defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.*

**C1. A controlling entity that is an investment entity should not present consolidated financial statements if it is required, in accordance with paragraph C3 of this Appendix, to measure all of its controlled entities at fair value through surplus or deficit.**

*A controlling entity (that is not an investment entity) also need not present consolidated financial statements if its controlled entity is an investment entity that measure all of its investments at fair value through surplus or deficit in accordance with paragraph C3 of this Appendix.*

### Definition

**C2. The Following term is used in this Appendix with the meanings specified:**

**An investment entity is an entity that:**

- (a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;**
- (b) Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and**
- (c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.**

### Investment Entities: Fair Value Requirement

**C3. Except as described in paragraph C4, an investment entity should not consolidate its controlled entities or apply ASLB 40 when it obtains control of another entity. Instead, an investment entity should measure**

---

<sup>11</sup> The Concept of Investment entity may not be relevant for local bodies in current scenario. Therefore, all the provisions pertaining to Investment entity have been moved to this Appendix.

*an investment in a controlled entity at fair value through surplus or deficit in accordance with Guidance on ‘Financial Instruments’<sup>12</sup>.*

- C4.** *Notwithstanding the requirement in paragraph C3, if an investment entity has a controlled entity that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities (see paragraphs C27-C29), it should consolidate that controlled entity in accordance with paragraphs 38-55 of this Standard and apply the requirements of ASLB 40 to the acquisition of any such controlled entity.*
- C5.** *A controlling entity of an investment entity that is not itself an investment entity should present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value through surplus or deficit in accordance with Guidance on ‘Financial Instruments’ and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with paragraphs 38-55 of this Standard.*

### **Determining Whether an Entity is an Investment Entity**

- C6.** *An entity should consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Paragraphs C18-C35 describe aspects of the definition of an investment entity in more detail. If facts and circumstances indicate that there are changes to one or more of the three elements that make up the definition of an investment entity, a controlling entity should reassess whether it is an investment entity.*
- C7.** *A controlling entity that either ceases to be an investment entity or becomes an investment entity should account for the change in its status prospectively from the date at which the change in status occurred (see paragraphs C10-C11 of this Appendix).*

### **Judgments and Assumptions**

- C8.** *An investment entity should disclose the information required by ASLB 38 about significant judgments and assumptions made in determining that it is an investment entity unless it has all of the following characteristics:*

---

<sup>12</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’.

- (a) *It has obtained funds from more than one investor (see paragraphs C18-C19);*
- (b) *It has ownership interests in the form of equity or similar interests (see paragraphs C20-C21); and*
- (c) *It has more than one investment (see paragraphs C25-C26).*

C9. The absence of any of these characteristics does not necessarily disqualify an entity from being classified as an investment entity. However, the absence of any of these characteristics means that an entity is required to disclose information about the significant judgments and assumptions made in determining that it is an investment entity.

### **Accounting for a Change in Investment Entity Status**

**C10.** *When an entity ceases to be an investment entity, it should apply ASLB 40 to any controlled entity that was previously measured at fair value through surplus or deficit in accordance with paragraph C3 of this Appendix. The date of the change of status should be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date should represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All controlled entities should be consolidated in accordance with paragraphs 38-51 of the Standard from the date of change of status.*

**C11.** *When an entity becomes an investment entity, it should cease to consolidate its controlled entities at the date of the change in status, except for any controlled entity that should continue to be consolidated in accordance with paragraph C4 of this Appendix. The investment entity should apply the requirements of paragraphs 52 and 53 of the Standard to those controlled entities that it ceases to consolidate as though the investment entity had lost control of those controlled entities at that date.*

### **Transitional Provisions**

**C12.** *At the date of initial application, an entity should assess whether it is an investment entity on the basis of the facts and circumstances that exist at that date. If, at the date of initial application, an entity concludes that it*



*is an investment entity, it should apply the requirements of paragraphs C13-C16 of this Appendix.*

**C13.** *Except for any controlled entity that is consolidated in accordance with paragraph C4 of this Appendix), an investment entity should measure its investment in each controlled entity at fair value through surplus or deficit as if the requirements of this Standard had always been effective. The investment entity should retrospectively adjust both the annual period that immediately precedes the date of initial application and net assets/equity at the beginning of the immediately preceding period for any difference between:*

- (a) The previous carrying amount of the controlled entity; and*
- (b) The fair value of the investment entity's investment in the controlled entity.*

*The cumulative amount of any fair value adjustments previously recognised directly in net assets/equity should be transferred to accumulated surplus/deficit at the beginning of the annual period immediately preceding the date of initial application.*

**C14.** *An investment entity should use the fair value amounts that were previously reported to investors or to management.*

**C15.** *If measuring an investment in a controlled entity in accordance with paragraph C13 of this Appendix is impracticable (as defined in ASLB 3), an investment entity should apply the requirements of this Standard at the beginning of the earliest period for which application of paragraph C13 of this Appendix is practicable, which may be the current period. The investor should retrospectively adjust the annual period that immediately precedes the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. If this is the case, the adjustment to net assets/equity should be recognised at the beginning of the current period.*

**C16.** *If an investment entity has disposed of, or has lost control of, an investment in a controlled entity before the date of initial application of this Standard, the investment entity is not required to make adjustments to the previous accounting for that controlled entity.*

## **Application Guidance on Investment Entities**

### **Determining Whether an Entity is an Investment Entity**

C17. An entity should consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. Paragraphs C18-C35 describe aspects of the definition of an investment entity in more detail.

### **Number of Investors**

C18. The definition of an investment entity requires that the entity have one or more investors. An investment entity may have several investors who pool their funds to gain access to investment management services and investment opportunities that they might not have had access to individually. Having several investors would make it less likely that the entity, or other members of the economic entity containing the entity, would obtain benefits other than capital appreciation or investment revenue.

C19. However, in the entities it is also common for an investment entity to be formed by, or for, a single controlling entity that represents or supports the interests of a wider group of investors (e.g., a pension fund or trust).

### *Ownership Interests*

C20. An investment entity is typically, but is not required to be, a separate legal entity. The investors in an investment entity will often, but not always, have ownership interests in the form of equity or similar interests (e.g., partnership interests), to which proportionate shares of the net assets of the investment entity are attributed. The definition of an investment entity does not specify that all investors must have the same rights. Having different classes of investors, some of which have rights only to a specific investment or groups of investments or which have different proportionate shares of the net assets, does not preclude an entity from being an investment entity.

C21. The definition of an investment entity does not specify that the investors must have an ownership interest that meets the definition of net assets/equity in accordance with other applicable ASLBs. An entity that has significant ownership interests in the form of debt that does not meet the definition of net assets/equity may still qualify as an investment entity,

provided that the debt holders are exposed to variable returns from changes in the fair value of the entity's net assets.

## **Purpose**

- C22. The definition of an investment entity requires that the purpose of the entity is to invest solely for returns from capital appreciation, investment revenue (such as dividends or similar distributions, interest or rental revenue), or both. Documents that indicate what the entity's investment objectives are, such as the entity's mandate, constitution, offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity's purpose. Further evidence may include the manner in which the entity presents itself to other parties, for example, an entity may present its objective as providing medium-term investment for capital appreciation.
- C23. An entity that has additional objectives that are inconsistent with the purpose of an investment entity would not meet the definition of an investment entity. Examples of when this may occur are as follows:
- (a) An investor whose objective is to jointly develop, produce or market products with its investees. The entity will earn returns from the development, production or marketing activity as well as from its investments;
  - (b) An investor whose objectives require it to be aligned with the economic, social or environmental policies of another entity. For example, if an entity is required to align its investment policies with other objectives such as owning certain operations or improving employment outcomes in an area; and
  - (c) An investor whose individual investment decisions have to be ratified or approved by a controlling entity or which is required to follow the direction of a controlling entity. Such ratifications, approvals or decisions are likely to be inconsistent with the purpose of an investment entity.
- C24. An entity's purpose may change over time. In assessing whether it continues to meet the definition of an investment entity, an entity would need to have regard to any changes in the environment in which it operates and the impact of such changes on its investment strategy.

*Demonstrating Purpose through Holding More than One Investment*

- C25. An investment entity may have a number of ways in which it can demonstrate that its purpose is to invest funds for capital appreciation, investment revenue or both. One way is by holding several investments to diversify its risk and maximise its returns. An entity may hold a portfolio of investments directly or indirectly, for example by holding a single investment in another investment entity that itself holds several investments.
- C26. There may be times when the entity holds a single investment. However, holding a single investment does not necessarily prevent an entity from meeting the definition of an investment entity. For example, an investment entity may hold only a single investment when the entity:
- (a) Is in its start-up period and has not yet identified suitable investments and, therefore, has not yet executed its investment plan to acquire several investments;
  - (b) Has not yet made other investments to replace those it has disposed of;
  - (c) Is established to pool investors' funds to invest in a single investment when that investment is unobtainable by individual investors (e.g., when the required minimum investment is too high for an individual investor); or
  - (d) Is in the process of being disestablished.

#### *Investment-Related Services and Activities*

- C27. An investment entity may provide investment-related services (e.g., investment advisory services, investment management, investment support and administrative services), either directly or through a controlled entity, to third parties as well as to its controlling entity or other investors, even if those activities are substantial to the entity, subject to the entity continuing to meet the definition of an investment entity.
- C28. An investment entity may also participate in the following investment-related activities, either directly or through a controlled entity, if these activities are undertaken to maximise the investment return (capital appreciation or investment revenue) from its investees and do not represent a separate substantial activity or a separate substantial source of revenue to the investment entity:
- (a) Providing management services and strategic advice to an investee; and

- (b) Providing financial support to an investee, such as a loan, capital commitment or guarantee.

C29. If an investment entity has a controlled entity that is not itself an investment entity and whose main purpose and activities are providing investment-related services or activities that relate to the investment entity's investment activities, such as those described in paragraphs C27-C28, to the entity or other parties, it should consolidate that controlled entity in accordance with paragraph C4 of this Appendix. If the controlled entity that provides the investment-related services or activities is itself an investment entity, the controlling investment entity should measure that controlled entity at fair value through surplus or deficit in accordance with paragraph C3 of this Appendix.

### *Exit Strategies*

C30. An entity's investment plans also provide evidence of its purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity should have an exit strategy documenting how the entity plans to realise capital appreciation from substantially all of its equity investments and non-financial asset investments. An investment entity should also have an exit strategy for any debt instruments that have the potential to be held indefinitely, for example perpetual debt investments. The entity need not document specific exit strategies for each individual investment but should identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments. Exit mechanisms that are only put in place for default events, such as a breach of contract or non-performance, are not considered exit strategies for the purpose of this assessment.

C31. Exit strategies can vary by type of investment. For investments in private equity securities, examples of exit strategies include an initial public offering, a private placement, a trade sale of an operation, distributions (to investors) of ownership interests in investees and sales of assets (including the sale of an investee's assets followed by a liquidation of the investee). For equity investments that are traded in a public market, examples of exit strategies include selling the investment in a private placement or in a public market. For real estate investments, an example of an exit strategy includes the sale of the real estate through specialised property dealers or the open market.

C32. An investment entity may have an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or

similar operations reasons. In this case, the investment entity investor need not have an exit strategy for that investment, provided that the investment entity investee has appropriate exit strategies for its investments.

### **Fair Value Measurement**

C33. An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results in more relevant information than, for example, consolidating its controlled entities. In order to demonstrate that it meets this element of the definition, an investment entity:

- (a) Provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is required or permitted in accordance with ASLBs; and
- (b) Reports fair value information internally to the entity's key management personnel (as defined in ASLB 20, '*Related Party Disclosures*'), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

C34. In order to meet the requirement in C28 (a), an investment entity would:

- (a) Elect to account for any investment property using the fair value model in ASLB 16, '*Investment Property*';
- (b) [Refer to Appendix 1]; and
- (c) Measure its financial assets at fair value as per Guidance on '*Financial Instruments*'.

C35. An investment entity may have some non-investment assets, such as a head office property and related equipment, and may also have financial liabilities. The fair value measurement element of the definition of an investment entity applies to an investment entity's investments. Accordingly, an investment entity need not measure its non-investment assets or its liabilities at fair value.

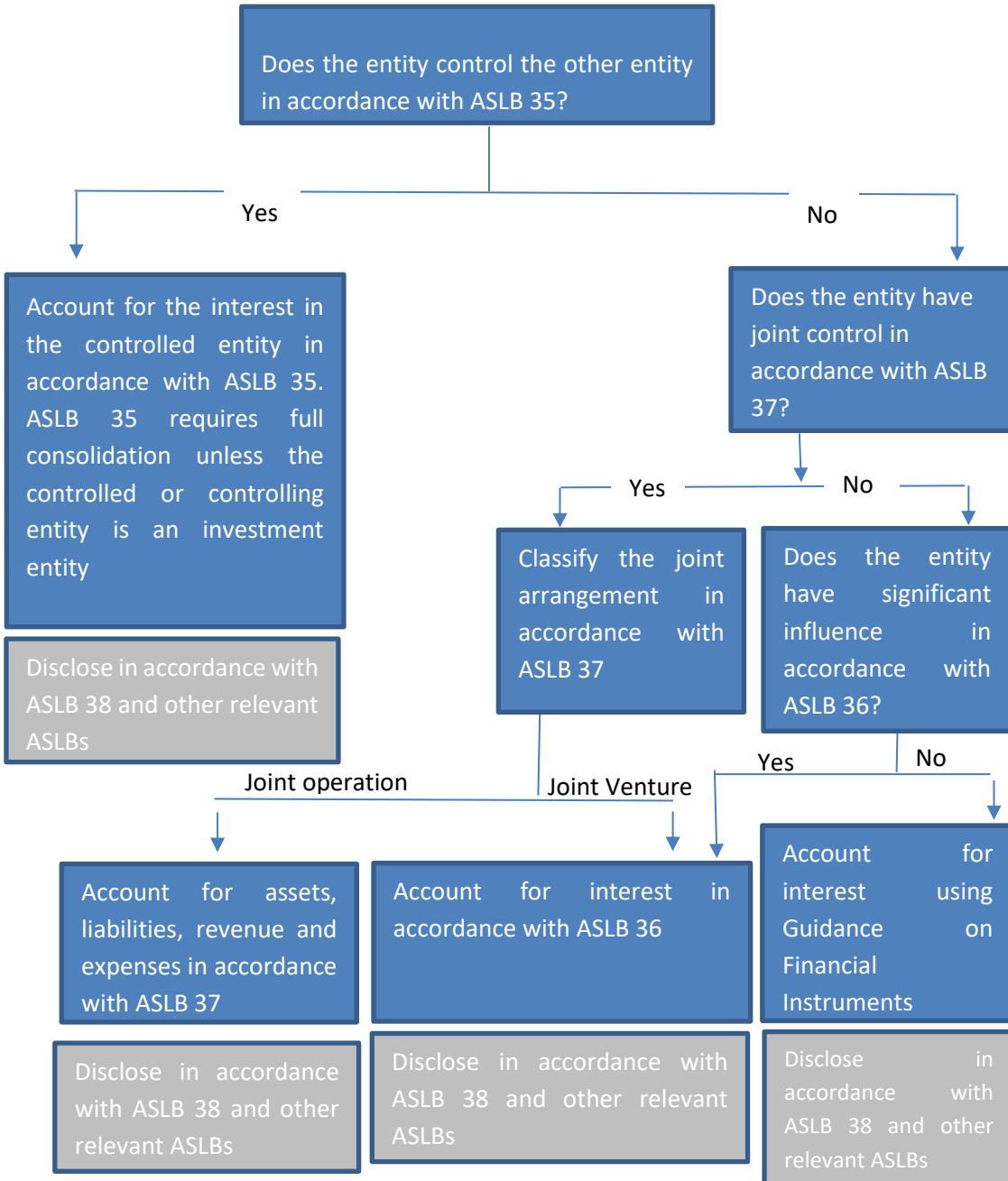
# Implementation Guidance

*This guidance accompanies, but is not part of, ASLB 35.*

## Nature of Relationship with Another Entity

IG1. The diagram below summarises the accounting for various types of involvement with another entity.

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



## Illustrative Examples

*These examples accompany, but are not part of, ASLB 35.*

IE1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 35.

### **Power (paragraphs AG9–AG55 & paragraph C3 of Appendix C)**

IE2. The following example illustrates an assessment of whether power exists for the purposes of this Standard.

#### **Example 1**

A Local Body ‘A’ partially funds the activities of a Local Body ‘B’. Some of this funding is required to be spent on specified activities. The Local Body ‘B’ has a council that is elected every four years by the citizens. The council decides how to use the Local Body B’s resources for the benefit of the citizens. The activities of the Local Body ‘B’ are diverse and include library services, provision of leisure facilities, management of refuse and wastewater, and enforcement of building and health and safety regulations. These activities are the relevant activities of the Local Body ‘B’. Many of these activities also coincide with the interests of the Local Body ‘A’.

Despite its partial funding of the Local Body B’s activities, the Local Body ‘A’ does not have the power to direct the relevant activities of the Local Body ‘B’. The rights of the Local Body ‘B’ over the relevant activities preclude the Local Body ‘A’ from having control.

#### *Regulatory Control (paragraph AG12)*

IE3. The following examples illustrate various forms of regulatory control. None of these forms of regulatory control give rise to power over the relevant activities for the purposes of this Standard. However, those examples do not rule out that there may be instances where power over the relevant activities for the purposes of this Standard may derive from regulatory control.



**Example 2**

A pollution control authority has the power to close down the operations of entities that are not complying with environmental regulations.

The existence of this power does not constitute power over the relevant activities.

**Example 3**

A Local Body has the power to pass zoning laws to limit the location of fast food outlets or to ban them altogether.

The existence of this power does not constitute power over the relevant activities of the fast food outlets.

**Example 4 -5** [Refer to Appendix 1]*Relevant Activities and Direction of Relevant Activities (paragraphs AG13–AG15)*

- IE4. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity for the purposes of this Standard.

**Example 6** [Refer to Appendix 1]**Example 7**

An investment vehicle is created and financed with a debt instrument held by an entity (the debt investor) and equity instruments held by a number of other investors. The equity tranche is designed to absorb the first losses and to receive any residual benefit from the investment vehicle. One of the equity investors who holds 30 per cent of the equity instruments is also the asset manager. The investment vehicle uses its proceeds to purchase a portfolio of financial assets, exposing the investment vehicle to the credit risk associated with the possible default of principal and interest payments of the assets. The transaction is marketed to the debt investor as an investment with minimal exposure to the credit risk associated with the possible default of the assets in the portfolio because of the nature of these assets and because the equity tranche is designed to absorb the first losses of the investment vehicle. The benefits from the investment vehicle are significantly affected

by the management of the investment vehicle's asset portfolio, which includes decisions about the selection, acquisition and disposal of the assets within portfolio guidelines and the management upon default of any portfolio assets. All those activities are managed by the asset manager until defaults reach a specified proportion of the portfolio value (i.e., when the value of the portfolio is such that the equity tranche of the investment vehicle has been consumed). From that time, a third- party trustee manages the assets according to the instructions of the debt investor. Managing the investment vehicle's asset portfolio is the relevant activity of the investment vehicle. The asset manager has the ability to direct the relevant activities until defaulted assets reach the specified proportion of the portfolio value; the debt investor has the ability to direct the relevant activities when the value of defaulted assets surpasses that specified proportion of the portfolio value. The asset manager and the debt investor each need to determine whether they are able to direct the activities that most significantly affect the benefits from the investment vehicle, including considering the purpose and design of the investment vehicle as well as each party's exposure to variability of benefits.

*Rights that Give an Entity Power over another Entity (paragraphs AG16–AG28)*

- IE5. The following examples illustrate assessments of whether an entity has the power to direct the relevant activities of another entity for the purposes of this Standard.

## **Example 8**

A Local Body establishes a housing program that provides low-cost housing to weaker sections of society. The program is operated under an agreement with a development authority. The development authority's only activity is to manage the housing facility. The development authority has no ownership instruments.

The relevant activities of the development authority comprise:

- Reviewing and selecting applicants for housing;
- The day-to-day operation of the housing program;
- Maintaining the houses and common facilities; and
- Improving and extending the housing facilities.

The board of governors of the development authority has 16 members, with eight appointed by (and subject to removal by) the Local Body. The chair is appointed by the board from amongst the appointees of the Local Body, and has a casting vote that is rarely exercised. The board meets regularly and reviews reports received from the development authority's management. Based on these reports, the board may confirm or override management decisions. In addition, the board makes decisions on major issues such as significant maintenance and investing further capital to build additional housing, after reviewing vacancy levels and the demand for housing.

The Local Body owns the land on which the housing facilities stand and has contributed capital and operating funds to the development authority since it was established. The development authority owns the housing facilities.

The development authority retains any surplus resulting from the operation of the facilities and under its constitution is unable to provide a direct financial return to the Local Body. The above fact pattern applies to examples 8A and 8B described below. Each example is considered in isolation.

### **Example 8A**

Based on the facts and circumstances outlined above, the Local Body controls the development authority.

The Local Body has rights that give it the current ability to direct the relevant activities of the development authority, regardless of whether it chooses to exercise those rights.

The Local Body appoints eight members of the board of governors, one of whom will become the chair, who has a casting vote. As a result, the Local Body has power over the development authority through substantive rights that give it the current ability to direct the relevant activities of the development authority, regardless of whether the Local Body chooses to exercise those substantive rights.

The Local Body also has exposure or rights to variable benefits from its involvement with the development authority. The Local Body obtains non-financial benefits through the development authority furthering its social objective of meeting the need for low-cost housing for weaker sections of society. Although not able to receive direct financial benefits, the Local Body obtains indirect benefits through its ability to direct how the financial returns are to be employed in the housing program.

The Local Body also satisfies the final control criterion. Through its appointees on the board, the Local Body has the ability to use its power to affect the nature or amount of its benefits from the development authority.

The Local Body satisfies all three criteria for control and therefore the Local Body controls the development authority.

**Example 8B**

In this example, the facts of Example 8A apply, except that:

- (a) The development authority's board of governors is elected through a public nomination and voting process that does not give rights to the Local Body to appoint board members; and
- (b) Decisions made by the development authority's board are reviewed by the Local Body, which may offer advice to the development authority.

Based on the revised facts and circumstances outlined above, the Local Body does not have substantive rights relating to the development authority and therefore does not have power over the development authority.

The Local Body's social objectives in relation to low- cost housing for weaker sections of society are still being achieved and therefore it will still obtain direct non-financial benefits. However, congruence of objectives alone is insufficient to conclude that one entity controls another entity (refer paragraph 36).

The Local Body does not have power and consequently does not have the ability to use power to affect the nature or amount of the Local Body's benefits. The Local Body is unable to satisfy two of the three control criteria and therefore the Local Body does not control the development authority.

**Example 9**

A Local Body 'A' has the right to appoint and remove the majority of members of a Local Body 'B'. This power has been used by Local Body 'A' in past but currently Local Body 'A' has not done so because it does not wish, for political reasons, to be regarded as interfering in the activities of the Local Body 'B'. In this case the Local Body 'A' still has substantive rights, even though it has chosen not to use them.

**Example 10** [Refer to Appendix 1]

**Example 11**

An entity being assessed for control has annual shareholder meetings at which decisions to direct the relevant activities are made. The next scheduled shareholders' meeting is in eight months. However, shareholders that individually or collectively hold at least 5 per cent of the voting rights can call a special meeting to change the existing policies over the relevant activities, but a requirement to give notice to the other shareholders means that such a meeting cannot be held for at least 30 days. Policies over the relevant activities can be changed only at special or scheduled shareholders' meetings. This includes the approval of material sales of assets as well as the making or disposing of significant investments.

The above fact pattern applies to example 11A described below.

**Example 11A**

An entity holds a majority of the voting rights in the other entity. The entity's voting rights are substantive because the entity is able to make decisions about the direction of the relevant activities when they need to be made. The fact that it takes 30 days before the entity can exercise its voting rights does not stop the entity from having the current ability to direct the relevant activities from the moment the entity acquires the shareholding.

**Example 11B-11D** [Refer to Appendix 1]

*Power without a Majority of the Voting Rights and Special Voting Rights Attaching to Ownership Interests (paragraphs AG36–AG37)*

IE6. The following examples illustrate assessments of whether special voting rights attaching to ownership interests in another entity give rise to power for the purposes of this Standard.

**Example 13**

A Local Body sold all of its shares in a company, but kept a golden share (with a nominal value of one rupee). The golden share granted the holder of the share a 15 percent shareholding in the company, and consequently the ability to block any potential takeover of the operations. It also required that the chairman of the board and the chief executive be citizens of the country. The rationale for the golden share was to protect the company from an overseas acquisition, principally on the grounds of national security.

The Local Body has protective rights, not substantive rights.

**Example 14** [Refer to Appendix 1]

*Control of the Board or Other Governing Body (paragraph AG38)*

IE7. The following example illustrates assessments of whether an entity has control of the board or governing body of another entity for the purposes of this Standard. The existence of such control may provide evidence that an entity has sufficient rights to have power over another entity.

**Example 15**

A museum is governed by a board of trustees who are chosen by the Local Body responsible for funding the museum. The trustees have freedom to make decisions about the operation of the museum.

The Local Body has the power to appoint the majority of the museum's trustees. The Local Body has the potential to exercise power over the museum.

*Economic Dependence (paragraphs AG41–AG42)*

- IE8. The following examples illustrate assessments of whether dependence on funding from another entity gives rise to power in the context of this Standard.

**Example 16**

A research institution is one of many institutions that receive the majority of their funding from a Local Body. The institutions submit proposals and the funding is allocated through a tendering process. The research institution retains the right to accept or decline funding.

The Local Body does not control the research institution because the research institution can choose to decline funding from the Local Body, seek alternative sources of funding or cease to operate.

**Example 17**

A catering entity has a binding arrangement to supply food to a Local Body-owned school. The arrangement is between the catering entity and the school. The school contracts generate the majority of the revenue of the catering entity. There are general requirements, set out in regulations, which are applicable to all such arrangements including nutritional standards and policies on procurement. For example, the arrangements specify how much produce must be purchased locally.

Current arrangements are for a period of two years. At the end of this period, if the catering entity wishes to continue supplying school meals it is required to go through a tendering process and compete with other entities for the operation.

The school does not control the catering entity because the catering entity can choose to stop supplying school meals, seek other work, or cease to operate.



**Example 18**

An international donor funds a project of a Local Body. The Local Body has its own governing board but is highly dependent on the donor for funding. The Local Body retains the power to turn down funding from the donor.

The international donor does not control the Local Body because the Local Body can choose not to accept funding from the donor and seek alternative sources of funding, or cease to operate.

*Voting Rights (paragraphs AG43–AG48)*

IE9. The following examples illustrate assessments of whether an entity with less than a majority of the voting rights in another entity has the practical ability to direct the relevant activities unilaterally, and whether its rights are sufficient to give it power over that other entity for the purposes of this Standard.

**Example 19**

An entity acquires 48 per cent of the voting rights of another entity. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders have any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the entity determined that a 48 per cent interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the entity concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

**Example 20**

Entity A holds 40 per cent of the voting rights of another entity and twelve other investors each hold 5 per cent of the voting rights of the other entity. A shareholder agreement grants Entity A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. In this case, Entity A concludes that the absolute size of its holding and the relative size of the other shareholdings alone are not conclusive in determining whether it has rights sufficient to give it power. However, Entity A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the other entity. The fact that Entity A might not have exercised this right or the likelihood of Entity A exercising its right to select, appoint or remove management should not be considered when assessing whether Entity A has power.

**Example 21**

Entity A holds 45 per cent of the voting rights of another entity. Two other investors each hold 26 per cent of the voting rights of the other entity. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision-making. In this case, the size of Entity A's voting interest and its size relative to the other shareholdings are sufficient to conclude that Entity A does not have power. Only two other investors would need to co-operate to be able to prevent Entity A from directing the relevant activities of the other entity.

### **Example 22**

An entity holds 35 per cent of the voting rights of another entity. Three other shareholders each hold 5 per cent of the voting rights of the other entity. The remaining voting rights are held by numerous other shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has arrangements to consult any of the others or make collective decisions. Decisions about the relevant activities of the other entity require the approval of a majority of votes cast at relevant shareholders' meetings—75 per cent of the voting rights of the other entity have been cast at recent relevant shareholders' meetings. In this case, the active participation of the other shareholders at recent shareholders' meetings indicates that the entity would not have the practical ability to direct the relevant activities unilaterally, regardless of whether the entity has directed the relevant activities because a sufficient number of other shareholders voted in the same way as the entity.

IE10. Example 23-24[Refer to Appendix 1]

*Power when Voting or Similar Rights do not have a Significant Effect on Benefits (paragraphs AG53–AG55 and paragraph C3 of Appendix C)*

IE11. The following examples illustrate assessments of whether an entity has power in the absence of voting rights or similar rights for the purposes of this Standard.

**Example 25**

A Local Body has legislation that governs the establishment of cultural and heritage boards. These boards have a separate legal status and have limited liability. The powers and objectives of the boards, along with their reporting requirements are specified by legislation. The main function of each board is to administer the board's assets, mainly property, for the general benefit of beneficiaries. Boards are permitted to spend money on the promotion of health, education, vocational training, and the social and economic welfare of the beneficiaries. They have limited authority to spend money unless it is for a purpose specifically mentioned in the legislation. Each board must deliver an annual financial report to the Local Body. The beneficiaries (as defined by each board and comprising people from a specified area) elect the members of the board. Trustees are appointed for a three-year term by way of voting by beneficiaries at the annual general meeting. Each board determines its own operating and financial policies and strategy. The activities that have the biggest impact on the achievement of the boards' objectives are the management of property and the distribution of funds to the beneficiaries.

The Local Body does not control the boards. The Local Body was involved in establishing the legislation that governs the activities of the boards, but does not have rights over the relevant activities of the boards.

### **Example 26**

Five Local Bodies create a separate company to deliver shared services to participating Local Bodies. The company operates under contract to these Local Bodies. The company's major objective is the provision of services to these Local Bodies.

The company is owned by all of the participating Local Bodies with each owning one share and allowed one vote. The chief executive of each Local Body is permitted to be a board member of the company. The board of the company is responsible for strategic direction, approval of operations cases and monitoring of performance.

For each shared activity there is an advisory group that is responsible for operational management and decision-making in relation to that activity. Each advisory group consists of one representative from each local body.

The benefits of the shared services arrangement are:

- Improved levels and quality of service;
- A co-ordinated and consistent approach to the provision of services;
- Reductions in the cost of support and administrative services;
- Opportunities to develop new initiatives; and
- Economies of scale resulting from a single entity representing many councils in procurement.

If further shared service activities are established that lead to the need for further capital, the company will either issue a new class of equity instrument or will form a controlled entity to hold the interest in the new assets.

The company covers its costs in two ways. It retains a percentage of savings from its bulk purchasing activities and it charges an administrative transaction cost of services provided to the Local Bodies.

None of the Local Bodies individually controls the company. In deciding how to account for its interest in the company each Local Body would also need to consider whether it is a party to a joint arrangement as defined in ASLB 37, '*Joint Arrangements*'.

**Example 27**

A leisure trust was established as a charity, limited by guarantee, to operate and manage sport and leisure facilities for senior citizens on behalf of a Local Body. Under the terms of the agreement with the Local Body, the leisure trust is responsible for the operational management, delivery and development of the city's sports and leisure facilities. The trust is required to operate the existing leisure facilities of the Local Body. The level of service required, including hours of operation and staffing levels, are specified by the Local Body. The leisure trust's activities must be consistent with the long-term plan of the Local Body and a significant portion of the trust's activities are funded by the Local Body. The leisure trust may not create new facilities nor may it engage in any other activities without the approval of the Local Body.

If the leisure trust ceases to operate, the proceeds must be distributed to another charity with similar purposes. The Local Body is not responsible for the debts of the leisure trust (its liability is limited to Rupee one).

The Local Body controls the leisure trust. By specifying in detail the way in which the leisure trust must operate the Local Body has predetermined the leisure trust's activities and the nature of benefits to the Local Body.

**Example 28**

A Local Body transfers its leisure centers, libraries and theatres to a charitable trust.

In creating the trust, the Local Body expects to benefit from cost savings, increased use of facilities by the public and better access to funding restricted to charities. The trust can decide the nature and extent of facilities to be provided and can engage in any other charitable purpose. The board of the trust is elected by the community. The Local Body is entitled to have one representative on the board. The trust is required to retain any surplus and use it for the objectives of the trust.

The Local Body benefits from the trust's activities but it does not control the trust. The Local Body cannot direct how the trust uses its resources.

### **Example 29**

Trust A promotes, supports and undertakes programs, actions and initiatives to beautify City A. It receives funding from the local body for various services, including graffiti removal, beautification projects and running environmental events. It reports back to the local body on its performance in delivering these services. If the trust did not exist, the local body would need to find some other way to deliver these services. The trust also receives assistance through donations and volunteer work by the local community including local operations, schools, community groups and individuals.

The trust was originally established by an elected official of the local body.

The governing body of the local body appoints all the trustees (having regard to certain requirements such as balance in gender and location of trustees). There are between five and 12 trustees. The trustees appoint the officers.

Changes to the trust deed must be approved by the trustees and the governing body of the Local Body.

If the trust is wound up, surplus assets must be transferred to a similar charitable body in the same geographical area. This transfer of assets is subject to the approval of the local body.

The local body has a mix of rights over the trust including rights to:

- (a) Appoint, reassign or remove members of the trust's key management personnel who have the ability to direct the relevant activities;
- (b) Approve or veto operating and capital budgets relating to the relevant activities of the trust; and
- (c) Veto key changes to the trust, such as the sale of a major asset or of the trust as a whole.

The local body is able to direct the relevant activities (the services) of the trust through its arrangements in such a way that it is able to affect the costs and quality of the services being provided. The local body is exposed to variable returns (both the economic effects of the service and the quality of the service). As it uses its power to affect these returns, the local body controls the trust.

### **Example 30**

Entity A is a local body that promotes the construction of new houses, the repair and modernisation of existing houses, and the improvement of housing and living conditions. It also facilitates access to housing finance and promotes competition and efficiency in the provision of housing finance.

Entity A established a separate trust which has narrowly defined objectives. The trust's functions are to acquire interests in eligible housing loans and issue mortgage bonds. Entity A guarantees the bonds issued by the trust but does not provide ongoing funding – the trust finances its activities through the revenue from its investments. If the trust is wound up the trust's assets are to be distributed to one or more charitable organisations. Entity A does not have on-going decision-making rights over the trust's activities.

Entity A has power over the relevant activities of the trust because it determined the relevant activities of the trust when it established the trust. Entity A is also exposed to variable benefits both through its exposure to the guaranteed bonds and because the trust's activities, determined by Entity A in establishing the trust, help Entity A to achieve its objectives.



### **Example 31**

A funding agency was established by legislation (say Companies Act, 2013). It is owned by ten local bodies. It operates on a for-profit basis. The funding agency will raise debt funding and provide that funding to the participating local bodies. Its primary purpose is to provide more efficient funding costs and diversified funding sources for the local bodies. It may undertake any other activities considered by the board to be reasonably related or incidental to, or in connection with, that operation.

The main benefits to the participating local bodies are the reduced borrowing costs. The board of the funding agency may decide to pay dividends but dividend payments are expected to be low.

The board is responsible for the strategic direction and control of the funding agency's activities. The board will comprise between four and seven directors with a majority of independent directors.

There is also a shareholders' council which is made up of ten appointees of the shareholders (including an appointee from the Local Body). The role of the shareholders' council is to:

- Review the performance of the funding agency and the Board, and report to shareholders on that performance;
- Make recommendations to shareholders as to the appointment, removal, replacement and remuneration of directors; and
- Coordinate shareholders' governance decisions.

The funding agency purchases debt securities in accordance with its lending and/or investment policies, as approved by the board and/or shareholders.

To participate in the funding agency as a principal shareholding authority, each local body made an initial capital investment of Rs. 100,000, provided security against future property taxes and agreed to borrow a set portion of its borrowing needs from the funding agency for a period of three years.

The participating local bodies do not control the funding agency. In deciding how to account for their interest in the funding agency the participating local bodies would also need to consider whether they are parties to a joint arrangement as defined in ASLB 37.

### **Example 32**

Entity A's only operation activity, as specified in its founding documents, is to purchase receivables and service them on a day-to-day basis for Entity B. The servicing on a day-to-day basis includes the collection and passing on of principal and interest payments as they fall due. Upon default of a receivable Entity A automatically puts the receivable to Entity B as agreed separately in a put agreement between Entity A and Entity B. The only relevant activity is managing the receivables upon default because it is the only activity that can significantly affect Entity A's financial performance. Managing the receivables before default is not a relevant activity because it does not require substantive decisions to be made that could significantly affect Entity A's financial performance—the activities before default are predetermined and amount only to collecting cash flows as they fall due and passing them on to Entity B. Therefore, only Entity B's right to manage the assets upon default should be considered when assessing the overall activities of Entity A that significantly affect Entity A's financial performance. In this example, the design of Entity A ensures that Entity B has decision-making authority over the activities that significantly affect the financial performance at the only time that such decision-making authority is required. The terms of the put agreement are integral to the overall transaction and the establishment of Entity A. Therefore, the terms of the put agreement together with the founding documents of Entity A lead to the conclusion that Entity B has power over Entity A even though Entity B takes ownership of the receivables only upon default and manages the defaulted receivables outside the legal boundaries of Entity A.

*Exposure, or Rights, to Variable Benefits from another Entity (paragraph C4 of Appendix C)*

IE12. The following examples illustrate assessments of whether an entity receives variable benefits from another entity for the purposes of this Standard.

**Example 33**

A local body has established childcare centres (run by a local body) that provide quality early childhood education services and are critical in attracting and retaining staff of local body. Childcare centres obtain funding from local body.

The above background information is relevant to examples 33A and 33B described below. Each example is considered in isolation.

**Example 33A**

A Local Body has established childcare centers that receives funding from Local Body for its educational programs. The centers operate in local body owned buildings. Each center has its own manager, staff and budget. The centers are used by local body staff only. The local body has the right to close centers or relocate them to other properties. Because the childcare center is on local body property, the staff are required to comply with health and safety policies of the local body. The management team of the childcare center has the ability to determine all other operating policies.

Local Body receives non-financial benefits from having childcare services. Although Local Body is not involved in the day-to-day running of the centers, it has the ability to close the centers or change their hours of operation.

Local Body controls the childcare centers.

### **Example 33B**

Local Body has made a building available free of charge for the provision of childcare services. The childcare services are provided by an incorporated society. All parents using the childcare center are members of the society. The members appoint the Board of the incorporated society and are in charge of the childcare center's operating and financial policies. The childcare center can be used by staff and the general public, with staff having priority. Because the childcare center is on local body property, the staff and parents are required to comply with health and safety policies of the local body. The incorporated society is the licensed provider of childcare services. If the incorporated society ceases to operate, its resources must be distributed to a similar non-profit organisation. The incorporated society could choose not to use the Local Body's buildings in providing its services.

Although the Local Body receives non-financial benefits from having childcare services available on Local Body's property, it does not have power to direct the relevant activities of the incorporated society. The members of the incorporated society, being the parents of the children, have the power to direct the relevant activities of the incorporated society. The Local Body does not control the incorporated society.

### **Link between Power and Benefits**

*Delegated Power (paragraphs C7-C10 of Appendix C)*

IE13. The following examples illustrate assessments of whether an entity is acting as a principal or an agent for the purposes of this Standard.

**Example 34**

A Local Body may be responsible for monitoring the performance of another entity. The role of the Local Body is to make sure the other entity's approach is consistent with the Local Body's goals, provide Ministry with quality assurance about delivery and results and assess and notify the Ministry of any risks. The Local Body has an explicit agreement with the Ministry which sets out its monitoring responsibilities. The Local Body has the authority to request information from the other entity and provides advice to the Ministry on any funding requests from that entity. The Local Body also advises the Ministry as to whether the other entity should be permitted to undertake certain activities. The Local Body is acting as an agent of the Ministry.

**Example 35**

A Local Body establishes a trust to co-ordinate fundraising efforts for the benefit of health programs and other health initiatives in the region. The trust also invests and manages designated endowment funds. The funds raised are applied to the Local Body-owned hospitals and aged care facilities in the region.

The Local Body appoints all the trustees on the board of the trust and funds the trust's operating costs. The trust is a registered charity and is exempt from income tax.

Based on the following analysis, the Local Body controls the trust:

- (a) The Local Body can give directions to the trustees, and the trustees have the current ability to direct the relevant activities of the trust. The trustees have power over the trust and the Local Body can replace the trustees at its discretion. The trustees' fiduciary obligation to act in the best interest of the beneficiaries does not prevent the Local Body from having power over the trust;
- (b) The Local Body has exposure and rights to variable benefits from involvement with the trust;
- (c) The Local Body can use its power over the trust to affect the nature or amount of the trust's benefits; and
- (d) The activities of the trust are complementary to the activities of the Local Body.

**Example 36-38** [Refer to Appendix 1]

**Example 39**

A Local Body administers ten funds. The funds hold specified assets (such as land, property and investments) that belonged to local bodies that previously had their own Local Body but which have since been amalgamated with other local bodies. The funds receive the revenue associated with the assets and certain taxes such as the property taxes for that Local Body. The rights of the funds to hold these specified assets and receive the specified revenue are set out in legislation. The assets and revenue of the fund may be applied solely for the benefit of the inhabitants of the former local bodies.

The Local Body has wide discretion over spending by the funds. Funds must be applied for the benefit of the citizens in such a manner as using reasonable judgment the Local Body thinks proper and having regard to the interests of the inhabitants of the former Local Body. The Local Body may apply the fund to spending which is not covered by taxation. Expenditure charged to the fund must be for purposes permitted by law.

The funds are controlled by the Local Body.

**Example 40 -44** [Refer to Appendix 1]

*Accounting requirements: loss of control (paragraphs 52–55)*

IE13A. The following example illustrates the treatment of a sale of an interest in a controlled entity that does not contain an operation.

**Example 44A**

- (a) A controlling entity has a 100 per cent interest in a controlled entity that does not contain an operation. The controlling entity sells 70 per cent of its interest in the controlled entity to an associate in which it has a 20 per cent interest. As a consequence of this transaction, the controlling entity loses control of the controlled entity. The carrying amount of the net assets of the controlled entity is Rs. 100 and the carrying amount of the interest sold is Rs. 70 (Rs. 70 = Rs. 100 × 70%). The fair value of the consideration received is Rs. 210, which is also the fair value of the interest sold. The investment retained in the former controlled entity is an associate and its fair value is Rs. 90. The gain determined in accordance with paragraphs 54–55, is Rs. 200 (Rs. 210 + Rs. 90 – Rs. 100).

*Investment Entities (paragraphs C17-C35 of Appendix C)*

IE14. The following examples illustrate assessments of whether an entity is an investment entity for the purposes of this Standard.

**Example 45-46** [Refer to Appendix 1]

**Example 47**

Real Estate Entity was formed to develop, own and operate retail, office and other commercial properties. Real Estate Entity typically holds its property in separate wholly-owned controlled entities, which have no other substantial assets or liabilities other than borrowings used to finance the related investment property. Real Estate Entity and each of its controlled entities report their investment properties at fair value in accordance with ASLB 16, '*Investment Property*'. Real Estate Entity does not have a set time frame for disposing of its property investments, but uses fair value to help identify the optimal time for disposal. Although fair value is one performance indicator, Real Estate Entity and its investors use other measures, including information about expected cash flows, rental revenues and expenses, to assess performance and to make investment decisions. The key management personnel of Real Estate Entity do not consider fair value information to be the primary measurement attribute to evaluate the performance of its investments but rather a part of a group of equally relevant key performance indicators.

Real Estate Entity undertakes extensive property and asset management activities, including property maintenance, capital expenditure, redevelopment, marketing and tenant selection, some of which it outsources to third parties. This includes the selection of properties for refurbishment, development and the negotiation with suppliers for the design and construction work to be done to develop such properties. This development activity forms a separate substantial part of Real Estate Entity's activities.

Real Estate Entity does not meet the definition of an investment entity because:

- (a) Real Estate Entity has a separate substantial activity that involves the active management of its property portfolio, including lease negotiations, refurbishments and development activities, and marketing of properties to provide benefits other than capital appreciation, investment revenue, or both;
- (b) The investment plans of Real Estate Entity do not include specified exit strategies for its investments. As a result, Real Estate Entity plans to hold those property investments indefinitely; and
- (c) Although Real Estate Entity reports its investment properties at fair value in accordance with ASLB 16, fair value is not the primary measurement attribute used by management to evaluate the performance of its investments. Other performance indicators are used to evaluate performance and make investment decisions.

#### Example 49

Corporate Municipal Entity “A” was established with the principal activity of providing equity finance to both existing and new entities. Its investment objective is to seek capital appreciation and returns. All acquisitions are made on that basis. The strategy of the Corporate Municipal Entity “A” is to increase the fair value of investments in order to realise a gain on disposal. Management assesses and monitors fair value of the investments on a regular basis. The Corporate Municipal Entity “A” regularly disposes of investments when they reach a certain stage of maturity so as to provide funds for ongoing investment opportunities. Any surplus is distributed to the Local Body in the form of dividends.

The Corporate Municipal Entity “A” also provides investment related services to the Local Body regarding the Local Body’s policies for assisting entities in financial distress. It acts as an agent in managing and implementing some of the Local Body’s operations incentive schemes. The Corporate Municipal Entity “A” is not exposed to any losses or risks as a result of its involvement with these schemes.

The Corporate Municipal Entity “A” is an investment entity. It meets all three aspects of the definition of an investment entity.



## 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) 35 and the corresponding International Public Sector Accounting Standard (IPSAS) 35, ‘Consolidated Financial Statements’.*

### **Comparison with IPSAS 35, ‘Consolidated Financial Statements’**

1. Different terminologies have been used in the ASLB 35 as compared to corresponding IPSAS 35, e.g., terms ‘entity’, ‘statement of income and expenditure’ and ‘balance sheet’ have been used in ASLB 35 in place of ‘public sector’, ‘statement of financial performance’ and ‘statement of financial position’.
2. Paragraph 3A pertaining to applicability of ASLBs has been inserted in ASLB 35 in line with other issued ASLBs.
3. The following paragraphs of IPSAS 35 have been deleted. In order to maintain consistency with the corresponding IPSAS 35, the paragraph numbers have been retained:
  - (i) Paragraphs 43-45 and AG49-52 pertaining to the concept of ‘potential voting rights’ have been deleted to simplify this Standard and in line with already issued ASLB 36, ‘*Investment in Associates and Joint Ventures*’.
  - (ii) The definition of ‘investment entity’ provided in paragraph 14 and other paragraphs 2(e), 7, 56-64, 69-73 and AG88-106 of IPSAS 35 pertaining to the concept of ‘investment entities’ have been shifted from the main Standard to Appendix C namely ‘*Guidance for Investment Entities*’ (which is not an integral part of ASLB 35) because this concept may not be relevant for Local Bodies in current scenario but may be relevant in future. Similar explanation has also been provided in a footnote appended to Appendix C.
  - (iii) At various places in Standard and Appendix, the reference to the Guidance on ‘Financial Instruments’ has been provided that is yet to be formulated/ issued. The clarification on obtaining guidance with regard to the above has been incorporated in the footnote to appended to paragraphs 22 and C3.
  - (iv) 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. (deleted paragraph 55A & C34(b))
  - (v) Paragraphs 68 & 74-78 of IPSAS 35 pertains to consequential changes where IPSAS 6 had been implemented which has been superseded by IPSAS 35. Therefore, the provision pertaining to the same have been deleted.
  - (vi) Paragraphs 79-80 pertaining to effective date have been deleted as ASLB 35 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

4. The following paragraphs of IPSAS 35 have been amended to make it more relevant in the context of Local Bodies in India:
  - (i) ASLB 35 prescribes that if any of the condition prescribed in paragraphs 5 is satisfied then a controlling entity can avail exemption and need not to prepare consolidated financial statements.
  - (ii) Paragraphs AG17, AG26, AG36, AG44 and AG 54 have been modified due to the deletion of concept of 'potential voting rights'.
  - (iii) The footnotes have been appended to the following paragraphs:
    - a. Paragraph 4: to clarify the term 'entity combination',
    - b. Paragraph 5: with regard to the terms/ concepts used under exemptions from consolidation, and to clarify the term 'domestic stock exchange',
  - (iv) The term 'aggregated financial statements' has been replaced with 'combined financial statements'. A footnote has also been appended to explain the term 'combined financial statements'. (paragraph 10)
  - (v) Both ASLB 35 and IPSAS 35 require that the uniform accounting policies should be used for preparation of consolidated financial statements and in case a member of economic activity uses different accounting policies for like transactions, appropriate adjustments to be made to the member's financial statements in preparing consolidated financial statements. In addition, ASLB 35 provide exemption to this that if it is not practicable to make appropriate adjustments to the accounting policies of the member, the fact should be disclosed along with a brief description of the differences between the accounting policies. (paragraph 41)
  - (vi) Time limit of three months has been allowed in line with already issued ASLB 36, '*Investments in Associates and Joint Ventures*' in case the end of reporting dates of 'controlled entity' and 'controlling entity' differs. A footnote has also been appended to paragraph 46 to provide more clarification regarding reporting date in the context of Local Bodies in India.
  - (vii) Statement of Changes in equity is not required to be prepared by the Local Bodies as per the decision of the Council of ICAI. Hence, consequential modification has been done in paragraph 49.
  - (viii) A flow chart has been inserted to clarify the concept of loss of control. (paragraphs 54)
5. Paragraphs 11-13 appear as 'Deleted' in IPSAS 35. In order to maintain consistency with paragraph numbers of IPSAS 35, the paragraph numbers have been retained in ASLB 35.
6. Some examples of IPSAS 35 have been deleted or modified in light of Indian conditions and some examples have been included in ASLB 35. (paragraphs 9, 16, 17, 23, 25, 29, AG11, AG26, AG31, AG42 and AG60)
7. Consequential changes resulting from the above departures have been made in ASLB 35.

8. Appendix B containing amendments to other IPSASs has been deleted. The consequential amendment in other already issued ASLBs will be taken up while undertaking project of revision of ASLBs.

## Appendix 2

*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) 35 and the existing Accounting Standard (AS) 21, 'Consolidated Financial Statements'.*

### **Comparison with Existing AS 21, 'Consolidated Financial Statements'**

1. ASLB 35 uses different terminologies, in certain instances, from existing AS 21. For example, ASLB 35 uses the terms “economic entity”, “controlling entity”, “controlled entity” and “statement of income and expenditure” whereas existing AS 21 uses the terms “group”, “parent”, “subsidiary” and “statement of profit and loss”, respectively.
2. ASLB 35 makes the preparation of consolidated financial statements mandatory for a controlling entity (subject to limited exceptions). Whereas existing AS 21 does not mandate the preparation of consolidated financial statements by a parent. However, if a parent presents consolidated financial statements, it is required to apply existing AS 21 in preparing and presenting such financial statements.
3. As per existing AS 21, ‘control’ is the ownership of more than one-half of the voting power of an enterprise or control of the composition of the board of directors or other similar governing body of another enterprise so as to obtain economic benefits from its activities. Thus, existing AS 21 lays down quantitative parameters for determining whether an entity controls another entity. The definition of ‘control’ in ASLB 35, on the other hand, is principle based - an entity controls another entity when the entity is exposed, or has rights, to variable returns from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity. Due to differences in the definitions of ‘control’ under the two standards, in some cases, the assessment as to whether an entity controls another entity differ between the two standards.
4. The associates and joint ventures will be accounted for in accordance with relevant ASLBs on these subjects and they will not come under the purview of ASLB 35 whereas existing AS 21 prescribes to consolidate a group of enterprises that are under the control of a parent.
5. There can occasionally be situations where application of the definition of ‘control’ as per existing AS 21 results in there being two parents of an entity. In such a case, both the parents are required to consolidate the entity in their respective consolidated financial statements. On the other hand, as per the definition of ‘control’ under ASLB 35, control of an entity can be with one entity only.
6. As per existing AS 21, a subsidiary is excluded from consolidation when control is intended to be temporary or when it operates under severe long term restrictions which

significantly impair its ability to transfer funds to the parent. Such exclusions are not there in ASLB 35.

7. As per existing AS 21, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements cannot exceed six months. Under ASLB 35, such difference cannot exceed three months.
8. Existing AS 21 is also applied in accounting for investments in subsidiaries in the separate financial statements of a parent. In ASLB, it is covered by a separate Standard namely ASLB 34, '*Separate Financial Statements*'.
9. ASLB 35 contains appendices and illustrative examples that are more reflective of the circumstances of the Local Bodies.
10. Existing AS 21 also prescribes the disclosure requirements relating to consolidated financial statements. ASLB 35 does not prescribe it, there would be a separate ASLB namely ASLB 38, '*Disclosure of Interests in Other Entities*' that will deal with the same.