HM Treasury

23 July 2013

GOVERNMENT FINANCIAL REPORTING MANUAL (FReM) EXPOSURE DRAFT No:

(13)02

EXPOSURE DRAFT OF PROPOSED

AMENDMENTS TO THE FReM

Interpretation and Adaptation of IFRS 10, IFRS 11, IFRS 12 and IAS 27 and IAS 28 for the public sector context

Comments to be received by 13 September 2013

FINANCIAL REPORTING POLICY TEAM
HM TREASURY

This exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) is published by HM Treasury for comment only. The proposals may be modified in the light of comments received in this consultation process before being presented to the Financial Reporting Advisory Board for its approval. Final proposals approved by the Financial Reporting Advisory Board will be published as amendments to the FReM from the proposed effective date.

Comments on this exposure draft should be submitted in writing so as to be received by 13 September 2013. Respondents are asked to send their comments electronically to FReM.consultation@hmtreasury.gsi.gov.uk

All responses will be published on the gov.uk website unless the respondent requests confidentiality.

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Proposed amendments to the FReM

Introduction

Financial Reporting Policy team, HM Treasury, has published this exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) as part of its ongoing work in ensuring that the Manual reflects the latest developments in government financial reporting.

Structure of exposure draft

The exposure draft includes a section for each FReM chapter for which an amendment is proposed. Each section includes:

(a) An explanation of why the amendment is proposed;

(b) When necessary any specific additional questions unique to that proposed amendment;

(c) The paragraphs of the FReM chapter that are affected by the proposed amendment;

(d) The proposed effective date of each proposed amendment.

Invitation to comment

HM Treasury invites comments on the proposed amendments. It would particularly welcome responses to the questions set out below. Comments are most helpful if they:

(a) Respond to the question as stated;

(b) Indicate the specific paragraph or paragraphs to which they relate;

(c) Contain a clear rationale; and

(d) Describe any alternative HM Treasury should consider.

HM Treasury will consider all comments received in writing by 13 September 2013. In considering the comments, HM Treasury will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

<table>
<tr><td colspan="2">Apply to the FReM interpretations and adaptations of IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, and amend the interpretations and adaptations of IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures.</td></tr>
<tr><td>Why the amendment is proposed</td><td>The IASB issued IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities in 2011. These standards, along with amendments made to IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures remove inconsistencies within IFRS.

Amendments to the FReM are proposed to apply the new Group Accounting Standards in full, except for the following adaptations to:

• maintain the adaptation to current group accounting standards in respect of the departmental consolidation boundary; and

• to apply the principles of IAS 28 to departments and Executive Agencies only for investments in Associates and Joint Ventures classified outside of the public sector by the ONS.

• maintain the adaptation to current group accounting standards in respect of the Whole of Government Accounts consolidation boundary.

Application guidance will be provided for the public sector context.</td></tr>
<tr><td>Paragraphs affected by the amendment</td><td>Chapter 4 paragraphs 4.2.1-4.2.17
Chapter 14 paragraph 14.2.10</td></tr>
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Executive Summary

1. This exposure draft (ED) seeks views on the proposed amendments to the FReM arising from the decision to apply IFRS 10, IFRS 11, IFRS 12 and the amendments to IAS 27 and IAS 28 (the new Group Accounting standards) introduced by the IASB in 2011 and amended in relation to transition guidance in June 2012 and Investment Entities in October 2012 (not yet EU adopted).

2. The new Group Accounting standards introduce a single concept of control to clarify the basis for producing consolidated accounts and develop disclosure requirements to allow users a better understanding of the nature, extent and financial effects of the reporting entity's relationship with other entities and joint arrangements, including off balance sheet vehicles.

3. In the Government Financial Reporting Manual (FReM) for 2013-14, the departmental consolidation boundary, as set by IAS 27, IAS 28, IAS 31, SIC 12 and SIC 13 (the current Group Accounting standards), is subject to adaptation.

4. Only those entities over which the department exercises in-year budgetary control are deemed to fall within the boundary, as established as part of the Alignment (Clear Line of Sight) Project from 2011-12. That is those bodies classified to the central government sector by the Office of National Statistics (ONS), provided legislation does not require otherwise. This boundary is similar to the concept of a group under generally accepted accounting practice, although some differences remain with the ONS control criteria.

5. Executive NDPBs and trading funds currently prepare consolidated accounts in line with current Group Accounting standards without adaptation or interpretation.

6. This ED considers how the new Group Accounting standards should apply to those entities reporting under FReM requirements. It raises interpretation issues in applying IFRS definitions focused on investee-investor relationships to the public sector context. These include the application of the term "returns" which an investor must have the power to control as a part of this concept. Careful application of the Standard's requirements is also required in other areas because public entities operate differently to investors in the private sector. This includes the role of protective rights, regulatory control and the definition of structured entities where funding is provided to such entities as a part of the on-going service obligations of the public sector entity.

7. This ED proposes that existing adaptation to current group accounting standards in respect of the departmental consolidation boundary (reflecting the ONS's classification of an entity to the central government sector) should continue, to maintain alignment with financial control applied through the budgets and the Estimates processes.

8. However, the ED also proposes that the recognition of departmental investments in associates and joint ventures outside of the public sector should now apply the equity accounting method under IAS 28, as opposed to the existing requirements to disclose interests under IAS 39, *Financial Instruments: Recognition and*

Measurement. This will present a more useful understanding of the public sectors joint arrangements with the private sector.

9. The ED proposes to maintain the adaptation to the Whole of Government Accounts consolidation boundary, based on the national accounts classification of bodies to the public sector as determined by the ONS. Aligning the WGA boundary with the national accounts definition remains an important principle in driving the usefulness of WGA, as a tool to support the macro-economic management of the UK's finances.

10. The ED proposes to apply the new Group Accounting Standards in full to all other entities applying the FReM. Application guidance is also included to assist entities in assessing their control of other entities at Appendix A and Appendix B.

11. The ED seeks your views on the proposed approach for the application and adaptation of the new Group Accounting Standards by central government, and on the accompanying proposed amendments to the FReM.

12. The proposed date for application is 1 April 2014.

General questions

Question 1

Do you agree that the current adaptations to the departmental accounting boundary should remain in applying the new Group Accounting Standards? If not why not, and what alternative do you propose?

Question 2

Do you agree that the application principles of IAS 28, *Investments in Associates and Joint Ventures*, should apply to departments and Executive Agencies for investments in Associates and Joint Ventures classified outside of the public sector by the ONS? If not why not, and what alternative do you propose?

Question 3

Do you agree with HM Treasury's proposal to apply the new Group Accounting Standards in full to Executive NDPB's and trading funds? If not why not, and what alternative do you propose?

Question 4

Do you agree that the definition of Structured Entities in IFRS 12 does not require interpretation or adaptation for the public sector context? If not, why not, and what alternative do you propose?

Question 5

Do you agree that the disclosure requirements for unconsolidated Structured Entities in IFRS 12 do not require interpretation or adaptation for the public sector context? If not, why not, and what alternative do you propose?

Question 6

Do you agree with the proposed effective date, detailed in the exposure draft? If not, why not, and what alternative do you propose?

Principles of IFRS 10

1. IFRS 10 replaces the provisions in IAS 27 Consolidated and Separate Financial Statements in relation to control and consolidation. It also replaces SIC 12 Consolidation – Special Purpose Vehicles. IFRS 10 develops a single basis of consolidation in its definition of control. It specifies that control exists only if an investor:
    - has power over an investee;
    - has exposure to variable returns from its involvement with an investee; and
    - has the ability to use its power to affect the level of variable returns.

2. This determination is regardless of the nature of the involvement with the entity being considered for consolidation. IFRS 10 does not make any significant changes to the consolidation principles in IAS 27.

Applicability of IFRS 10 to Reporting Entities

3. Central Government reporting entities apply different control frameworks in determining their consolidation boundaries.

4. **Central Government Departments** - The departmental boundary is similar to the concept of a group under IFRS, but is based on control criteria used by the Office of National Statistics (ONS) to determine the sector classification of the relevant sponsored bodies. Except where legislation requires otherwise, eNDPBs and similar public bodies that satisfy the IFRS criteria for consolidation as subsidiary undertakings, associated undertakings or joint ventures will be accounted for in accordance with IFRS only if they are designated for consolidation by order of the relevant authority under statutory instrument. In England, this order reflects the ONS's classification of an entity to the central government sector.

5. This ED proposes that the existing adaptation to current group accounting standards continues, to maintain alignment with financial control applied through the budgets and the Estimates process. Executive Agencies, legally part of a department, also report within the control criteria applied by the ONS, as directed by the Relevant Authority.

6. **Whole of Government Accounts** – the requirement to include all subsidiaries of the parent is adapted in order that WGA conforms to the statutory requirement to comprise a consolidation of those bodies that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. This is based on the national accounts classification of bodies to the public sector, as independently determined by the ONS at the reporting date. This does not affect the right of the Comptroller and Auditor General (C&AG) to form a different opinion about the classification of any body, and therefore their inclusion within WGA.

7. The ED proposes to maintain the adaptation to the Whole of Government Accounts consolidation boundary, based on the national accounts classification of bodies to

the public sector as determined by the ONS. Aligning the WGA boundary with the national accounts definition remains an important principle in driving the usefulness of WGA, as a tool to support the macro-economic management of the UK's finances.

8. The FReM also currently adapts the WGA application of IAS 27 in relation to:

   - the elimination of intra-group transactions in relating to VAT on goods and services acquired by consolidating entities for either revenue or capital purposes; and
   - the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the subsidiary's reporting date and the parent's reporting date (non-coterminous year-ends) shall not apply, and the subsidiary shall not be required to prepare additional financial statements as of the same reporting date.

   The ED proposes to maintain the adaptation relating to the elimination of VAT. The adaptation was agreed to minimise the impact on the valuation of non-current assets initially recognised inclusive of VAT. Any elimination, which applies to partially VAT-exempt public sector entities in particular, would alter the financial position without improving user understanding of the value of government assets in public service delivery, and would require significant resource to apply effectively.

   This ED proposes to remove adaptation of the requirement to adjust for non-coterminous year ends. The Treasury now considers that the consolidation of financial information for WGA can be produced within the scope of IFRS 10 (paragraph B92-93), applying practicability in adjusting for non-coterminous reporting periods. Clarification of the related interpretation of IAS 10, *Events after the Reporting Period* has been made, so that there are no adjusting events up to the date of authorisation to ensure consistent accountability across government.

9. **Central Government Arms Length Bodies (ALBs) and trading funds** - Trading funds that are Public Corporations and central government executive non-departmental public bodies (eNDPBs) are required to prepare consolidated financial statements in accordance with the requirements of IAS 27 & SIC 12 without adaptation and interpretation.

13. The Treasury proposes that IFRS 10 should apply to Executive NDPBs and trading funds without adaptation or interpretation, which will require those entities to reassess control arrangements.

14. Full application presents a risk of mis-interpretation, with IFRS definitions focused on investee-investor relationships. Whilst the standard needs careful interpretation in its application and exemplification of its requirements, the Treasury does not consider that there needs to be significant adaptation for ALBs and trading funds. Definitions within IFRS 10 guidance are exemplified for the public sector context at Appendix A to assist application of the standard.

Principles of Investment Entities (Not EU adopted)

15. IFRS 10 and IAS 28 in particular were amended in October 2012 to incorporate guidance on determining whether an entity is an investment entity. Entities classified as investment entities will no longer be required to consolidate controlled investments, but instead, carry them at fair value through profit and loss, unless the investee services relate only to the investment entities activities.

16. Investment entities are entities with substantive activities that are investing in multiple investments for capital appreciation and/or investment income. Reporting entities applying the FReM do not normally meet these criteria.

17. Subject to EU adoption, this ED proposes to apply the principles of determining investment entities to the new Group Accounting standards without interpretation or adaptation to all reporting entities.

Principles of IFRS 11

18. IFRS 11 replaces IAS 31 in outlining the accounting by entities that jointly control an arrangement. If control exists under IFRS 10, but it is determined that an investor does not control an entity by itself, then a joint arrangement may exist. IFRS 11 focuses more on the underlying nature (substance) of contractual rights and obligations than the legal form of arrangements in determining the accounting for joint arrangements.

Joint Operations and Joint Ventures

19. The types of joint arrangement have been simplified to just two – joint operations and joint ventures. Both types of arrangement can exist together in the same interest. Joint operations are accounted for by recognition of the entity’s share of assets, liabilities revenues and expenses arising from a joint operation. Where the arrangement is classified as a joint venture, consolidation should be accounted for using the equity method as described by the new IAS 28.

20. A joint arrangement will exist if there is a contractual arrangement in place that gives all of the parties (or a group of the parties) control of the arrangement collectively, and if the decisions about the relevant activities require the unanimous consent of all (at least 2) of the parties that collectively control the arrangement.

21. The existence of a separate structured vehicle is normally necessary, but not always sufficient for a joint arrangement to qualify as a joint venture. The judgement on whether the arrangement is a joint venture, as opposed to a joint operation, would also need to consider whether the legal form of the separate vehicle, the contractual arrangements or other facts and circumstances give the parties rights to the specific assets and obligation for the specific liabilities relating to the arrangement, or rights to the net assets in the arrangement. If the latter then the arrangement is likely to be a joint venture.

22. Existing joint operations may now fall into the joint venture category and, with the removal of the option to consolidate the interest proportionally, there may be a

need for restatement to account for all joint ventures using the equity method. The change in accounting may impact performance data, such as asset ratios (as only net investments will be recorded) and may impact on financing agreements.

Applicability of IFRS 11 for Reporting Entities

23. When reviewing the accounting treatment of joint arrangements, it is important to firstly confirm what the joint activity is, before then determining whether the arrangement is a joint venture or joint operation.

24. ***Central Government Departments*** – The existing FReM adaptation requires full consolidation of subsidiary undertakings only if they are designated for consolidation by order of the relevant authority under statutory instrument. Accordingly, for accountability purposes, there are no associate or joint venture accounting arrangements between government departments of other public sector entities. Any formal investment in another public sector entity that does not meet the criteria for consolidation, should be reported following the requirements of IAS 39.

25. This ED proposes to continue this adaptation of IFRS 11 as described in the application of IFRS 10, which ensures that the accountability to Parliament for such investments lie with only one department. Statutory arrangements are normally established to ensure that one department controls the investment for financial reporting purposes.

26. However, the Treasury notes that there is less clarity on reporting central government department interests in associates and joint ventures classified outside of the public sector. The Treasury proposes to clarify that the recognition of departmental investments in associates and joint ventures outside of the public sector should now apply the equity accounting method under IAS 28 (set out below). Whilst this does not align with the budgeting and Estimates treatment of such investments (reported at historical cost with dividend income), it will result in improved disclosure of the group financial position and simplify the consolidation of such investments by departmental ALB’s.

27. The Treasury proposes that the equity accounting disclosure is made in the reporting column relevant to the group entity with direct joint control (i.e. the Core Department, Core Department and Agencies or Departmental Group). Disclosure of the reconciliation to Departmental Outturn will be reported in Note 3, Reconciliation of outturn to net operating cost.

28. ***Whole of Government Accounts & Central Government Arms Length Bodies (ALBs) and trading funds*** – The Treasury does not consider it necessary to interpret or adapt IFRS 11 for these reporting entities.

<u>Principles of IFRS 12</u>

29. IFRS 12, *Disclosure of Interests in Other Entities* replaces the disclosure requirements in IAS 27[1], IAS 28[2] and IAS 31[3], except for the disclosure requirements that apply only when preparing separate financial statements, which are included in IAS 27 Separate Financial Statements (as amended in May 2011).

30. IFRS 12 was produced as a part of the suite of group accounts standards to address the need for better information about the subsidiaries that are consolidated, as well as an entity's interests in joint arrangements and associates that are not consolidated but with which the entity has a special relationship. It was also a response to the global financial crisis which highlighted a lack of transparency about the risks to which a reporting entity was exposed from its involvement with structured entities, including those that it had sponsored.

31. The objectives of IFRS 12 are to require entities to disclose information that enables users of financial statements to evaluate:

    - the nature of, and risks associated with, its interests in other entities; and
    - the effects of those interests on its financial position, financial performance and cash flows.

32. In order to do this the standard sets out specific disclosure objectives and introduces more principles based disclosures than those previously required, including information about significant judgements and assumptions in determining its control or level of influence over another entity or joint arrangement.

33. The standard requires entities to disclose information about their interests in:

    - subsidiaries;
    - joint arrangements and associates; and
    - structured entities that are not controlled by the entity ie unconsolidated structured entities.

34. A structured entity is one that *"has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements."* [Appendix A IFRS 12]. Such entities often have features or attributes such as restricted activities, narrow objectives and limited self-financing capability.

Applicability of IFRS 12 for Reporting Entities

35. This ED proposes that IFRS 12 is applied without interpretation or adaptation to reporting entities. However, the Treasury considers it necessary to provide

[1] IAS 27 *Consolidated and Separate Financial Statements*
[2] IAS 28 *Investments in Associates*
[3] IAS 31 *Interests in Joint Ventures*

clarification and exemplification of the definition of structured entities and the disclosures required for unconsolidated structured entities. This is provided at Appendix A.

36. The disclosure requirements of IFRS 12 may mean an increase in the number of disclosures required by reporting entities applying the standard. This is particularly likely to be the case if the entities have an interest in any unconsolidated structured entities.

37. If unconsolidated structured entities have been established by reporting entities for service delivery purposes and there are material risks and impacts on the financial performance, position and cash flows of the entity in question these would need to be reported under IAS 1, *Presentation of Financial Statements*. In considering materiality of the risk and the relevance of information to users within the IFRS conceptual framework, the Treasury considers that the reporting impact of additional disclosure requirements might be satisfied by appropriate aggregation and cross reference to other disclosures including those for government grants.

Principles of IAS 27

38. The amendment of IAS 27 in 2011 resulted in the Standard now containing all of the new Group Accounting standards' requirements relating only to separate financial statements, reflected in the Standard's amended title, *Separate Financial Statements*.

39. IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. Separate financial statements are those normally prepared in addition to consolidated financial statements.

Applicability of IAS 27 for Reporting Entities

40. This ED proposes to apply IAS 27 without interpretation or adaptation to all reporting entities.

Principles of IAS 28

41. IAS 28, as amended in 2011, is intended to be applied by all entities that are investors with joint control of, or significant influence over, an investee. It prescribes the accounting for investments in associates and sets out the requirements for the application of equity accounting when accounting for investments in associates and joint ventures.

42. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not have control or joint control of those policies. An entity applies IFRS 11 to determine the type of joint arrangement in which it is involved. If determined to be a joint venture, the investment is

recognised under IAS 28 using the equity method. Exemption from equity accounting is permitted within the standard is certain circumstances.

Applicability of IAS 28 for Reporting Entities

43. This ED proposes to apply IAS 28 without interpretation or adaptation to all reporting entities, within the proposed adaptations to IFRS 11 for the Departmental Accounting boundary.

Group Accounting Standards transition relief (Not EU adopted)

44. The objective of the amendments to the new Group Accounting Standards (*Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance*) is to clarify the IASB's intention when first issuing the transition guidance in IFRS 10. The amendments provide transition relief in IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.

45. Subject to EU adoption, this ED proposes to apply the transition relief to the new Group Accounting Standards without interpretation or adaptation to all reporting entities.

FReM chapters addressed

The following table shows the topics addressed by these proposed amendments.

FReM Chapter	Subject of amendments
Chapter 4, Accounting Boundaries	Departments will continue to prepare annual reports and consolidated financial statements (as defined in Chapter 5, *Form and Content of Annual Reports and Accounts*) covering all entities within their consolidation boundary. Accordingly, the new Group Accounting standards will only apply in full to Departments if the entity is within the departmental boundary and is regarded as an extension of the parent entity. Departments and Executive Agencies must apply IAS 28 in full for investments in associates and joint ventures classified outside of the public sector by the ONS. The above standards will apply in full to all other entities that apply the FReM.
Chapter 14, Whole of Government Accounts	Application of the new Group Consolidation standards, maintaining the current adaptation to IAS 27.

Proposed amendment to Government Financial Reporting Manual

Chapter 4, *Accounting Boundaries*

Chapter 14, *Whole of Government Accounts*

Introduction

An amendment to Chapter 4, *Accounting Boundaries* and Chapter 14, *Whole of Government Accounts* is proposed.

Why the amendments are proposed

The amendments proposed in this Exposure Draft seek to amend the FReM to apply the new Group Accounting Standards to the public sector.

Proposed amendments

4. Accounting boundaries

Chapter 4 Contents

4.1 Introduction

4.1.1 This chapter sets out the accounting principles and standards that should be applied in determining the accounting boundaries of the reporting entities covered by this Manual.

4.2 Accounting standards

4.2.1 The following accounting standards deal with accounting boundaries:

IFRS 10, *Consolidated Financial Statements*

IFRS 11, *Joint Arrangements*

IFRS 12, *Disclosure of Interests in Other Entities*

IAS 27, *Separate Financial Statements*

IAS 28, *Investments in Associates and Joint Ventures*

~~IAS 27 *Consolidated and Separate Financial Statements*~~

~~IAS 28 *Investments in Associates*~~

~~IAS 31 *Interests in Joint Ventures*~~

~~SIC 12 *Consolidation – Special Purpose Entities*~~

~~SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers.*~~

IFRS 3 *Business Combinations*

Applicability

4.2.2 Departments shall prepare annual reports and consolidated financial statements (as defined in Chapter 5 of this Manual) covering all entities within their consolidation boundary. Executive NDPBs and trading funds shall prepare consolidated financial statements in accordance with the requirements of IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 ~~and IAS 31~~ without adaptation and interpretation.

4.2.3 The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies. Except where legislation requires otherwise, executive non-departmental and similar public bodies that satisfy the IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 ~~IAS 27, IAS 28, IAS 31 and SIC 12~~ criteria for consolidation as subsidiary undertakings, associated undertakings or joint ventures will be accounted for in accordance with IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 ~~IAS 27, IAS 28 and IAS 31~~ only if they are designated for consolidation by order of the relevant authority under statutory instrument, which will reflect the ONS's classification of an entity to the central government sector.

4.2.4 Where a department has a formal investment in another public sector entity that does not meet the criteria for consolidation, it should be reported following the requirements of IAS 39 (see FReM chapter 9). Where a department has a formal investment in another entity that is not classified to the public sector, it should be reported in accordance with IFRS 11, IFRS 12 and IAS 28.

4.2.5 For the purposes of applying the principles of consolidation, the department will be the parent entity in departmental consolidations. The financial statements of all entities whose results are to be consolidated will generally have the same accounting reference date. The relevant authority will consider the treatment of non-coterminous reference dates if cases arise.

~~4.2.6 SIC 13 applies to non-monetary contributions in joint ventures that fall within the accounting boundary.~~

Objective of IFRS 10

4.2.7 The objective of IFRS 10 is to provide a single basis of consolidation in its definition of control. It specifies that control by a parent entity (investor) exists only if the investor: has power over an investee; has exposure to variable returns from its involvement with an investee; and has the ability to use its power to affect the level of variable returns.

Objective of IFRS 11

4.2.8 IFRS 11 outlines the accounting by entities that jointly control an arrangement. If control exists under IFRS 10, but it is determined that an investor does not control an entity by itself, then a joint arrangement may exist. IFRS 11 focuses more on the underlying nature (substance) of contractual rights and obligations than the legal form of arrangements in determining the accounting for joint arrangements.

Objective of IFRS 12

4.2.9 IFRS 12, provides a single source of guidance on disclosure requirements for consolidated financial statements. The objectives of IFRS 12 are to require entities to disclose information that enables users of financial statements to evaluate: the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

Objective of IAS 27

4.2.10 The objective of IAS 27 is to set the standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. Separate financial statements are those normally prepared in addition to consolidated financial statements.

Objective of IAS 28

4.2.11 IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee. The objectives are to prescribe the accounting for investments in associates and it sets out the requirements for the application of equity accounting when accounting for investments in associates and joint ventures.

~~*Objective of IAS 27*~~

~~4.2.12 The objective of IAS 27 is to require parent undertakings to provide financial information about the economic activities of their group in consolidated financial statements. These consolidated financial statements should present the financial information of the group as a single economic entity.~~

~~*Objective of IAS 28*~~

~~4.2.13 The objective of IAS 28 is to reflect the effect of investments in associates where the reporting entity is partly accountable for the associate's activities.~~

~~*Objective of IAS 31*~~

~~4.2.14 The objective of IAS 31 is to reflect the effect of a venturer's shares in joint ventures. The IAS also deals with joint arrangements relating to operations and assets that are not entities.~~

~~*Objective of SIC 12*~~

~~4.2.15 The objective of SIC 12 is to ensure that, regardless of the equity holding and control structure, where in substance the special purpose entity is controlled by the sponsor, it should be consolidated.~~

~~*Objective of SIC 13*~~

~~4.2.16 SIC 13 requires that, where venturers make non-monetary contributions in exchange for an equity share in a jointly controlled entity, the venturer recognises in profit and loss the element of any gain or loss that is attributable to the equity interests of the other venturers, except in specific circumstances.~~

The departmental accounting boundary

4.2.17 In addition to reportable activities, the following reporting entities are outside the departmental resource accounting boundary:

a) any body classified as a public corporation by the Office for National Statistics (which includes trading funds);

b) any body classified to the local government sector by the Office for National Statistics;

c) NHS Trusts, NHS Foundation Trusts, ~~and~~ HSS Trusts and other health bodies not classified to the central government sector by the Office for National Statistics;

d) any body classified to the private or rest of the world sectors by the Office for National Statistics.

4.2.18 The departmental resource accounting boundary will, therefore, include the following entities:

a) Supply-financed agencies;

b) non-agency parts of the department accounted for through the Supply process and other bodies whose expenditure is accounted for in separate financial statements, including non-executive NDPBs such as Advisory NDPBs and Tribunal NDPBs;

c) executive NDPBs or other public bodies that produce their own financial statements and which are classified by the Office for National Statistics to the central government sector; and

d) Health bodies classified to central government by the Office for National Statistics.

14 Whole of Government Accounts

Chapter 14 Contents

14.1 Introduction

14.1.1 The Treasury prepares Whole of Government Accounts (WGA) for the whole of the UK public sector (central government, local government and public corporations) under section 9 of the Government Resources and Accounts Act 2000. WGA is prepared under generally accepted accounting practice as defined in chapter 2 of this Manual.

14.1.2 The Government's aims in making the commitment to WGA were to provide improved data for fiscal planning, to increase transparency and to improve accountability to Parliament. WGA is requiring bodies within the public sector to prepare data on a consistent basis. It is thereby improving the comparability of financial data. WGA increases the completeness of public sector financial data through the inclusion of provisions, contingent liabilities etc. and is independently audited and certified by the Comptroller & Auditor General.

14.1.3 WGA has the ability to provide additional and complementary data to that in national accounts, (which is currently used for fiscal management), for use by government, Parliament and the taxpayer where the scope of the accounts is consistent with that of the national accounts.

14.1.4 This chapter considers the specific accounting and disclosure requirements adopted in the consolidated WGA as compared with the requirements for the financial statements of the reporting entities and reportable activities covered by this Manual.

14.2 Accounting standards applied to Whole of Government Accounts

14.2.1 This section summarises the applicability of accounting standards to WGA. Adaptations and interpretations of standards that apply to WGA are explained in the paragraphs below.

Accounting Standard	Adapted in other chapters	Interpreted in other chapters	Adapted for WGA	Interpreted in WGA
...				
~~IAS 27 Consolidated and Separate Financial Statements~~	~~Yes~~	~~No~~	~~Yes~~	~~Yes~~
~~IAS 28 Investments in Associates~~	~~No~~	~~No~~	~~No~~	~~No~~
~~IAS 31 Interest in Joint ventures~~	~~Yes~~	~~No~~	~~No~~	~~No~~
IAS 10 Events after the Reporting Period	No	Yes	No	~~No~~ Yes
IFRS 10, Consolidated Financial Statements	Yes	No	Yes	No
IFRS 11, Joint Arrangements	Yes	No	No	No
IFRS 12, Disclosure of Interests in Other Entities	No	No	No	No
IAS 27, Separate Financial Statements	No	No	No	No
IAS 28, Investments in Associates and Joint Ventures	Yes	No	No	No

...

IAS 10, Events after the Reporting Period

14.2.4 The interpretation of IAS 10 required for annual accounts is not required for WGA, except that, the requirement that the financial statements be adjusted for events that provide evidence of conditions that existed at the reporting period will not apply. These events will be disclosed in line with non-adjusting events. ~~significant transactions or events that occur between the date of the consolidated body's reporting date and the WGA reporting date will not apply.~~

...

IFRS 10, Consolidated Financial Statements ~~IAS 27 Consolidated and separate financial statements~~

14.2.10 IFRS 10 ~~IAS 27~~ is adapted for WGA in the following ways:

a) These accounts are drawn up for the purposes of Government and Parliament as a whole and not as a requirement of any individual entity. No one body appears to have the ability to control all of the bodies within the consolidation, and as a consequence, for the purposes of WGA, no parent company will be disclosed in the statements and notes, only the position of the consolidated bodies.

b) the requirement to include all investees (subsidiaries) of the investor (parent) is adapted in order that WGA shall conform to the statutory requirement in the Government Resources and Accounts Act 2000 that WGA comprise a consolidation of those bodies that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. This will be based on the national accounts classification of bodies to the public sector, as independently determined by the Office of National Statistics at the reporting date. This does not affect the right of the Comptroller and Auditor General to form a different opinion about the classification of any body, and therefore their inclusion within WGA.

c) The requirement to eliminate in full income tax, National Insurance Contributions and Value Added Tax balances and transactions between consolidated entities and Her Majesty's Revenue and Customs, and non-domestic rates payable by consolidated entities to local authorities, is adapted to exclude the elimination of input Value Added Tax on goods and services acquired by consolidating entities for either revenue or capital purposes.

~~d) the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the subsidiary's reporting date and the parent's reporting date shall not apply, and the subsidiary shall not be required to prepare additional financial statements as of the same reporting date.~~

Effective date of amendment

The effective date for the proposed amendment is 1 April 2014.

Appendix A

Guidance and Exemplification of the application of IFRS 10 & IFRS 12 for the public sector context

Application of IFRS 10

Variable Returns

1. Returns are not explicitly defined in IFRS 10. However, the examples in the IFRS 10 application guidance and the approach to the standard focus on more direct financial returns, which are less commonly associated with public sector entities that are created as not-for-profit organisations where financial performance is not the prime objective.

2. The application of IFRS 10 should be implicitly understood to include other non-financial benefits. The basis of conclusions in the Standard confirms the IASB's intention to have a broad definition of 'returns'[4] that would include synergistic returns as well as more direct returns; for example, dividends. In addition to the direct financial returns set out in the application guidance to the Standard (paragraph B57), there is an explicit reference to returns that are not available to other interest holders, including economies of scale and the sourcing of scarce products. This would allow public sector accounts preparers in the application of the standard to include other benefits or advantages which improve or generate service potential on behalf of another entity.

3. The concept of variable returns in the standard includes other advantages and benefits (and disbenefits) that are non-financial, including the provision of services for one entity on behalf of another entity.

4. Further indication of the broad approach to returns is provided in IFRS 10 paragraph 15, which specifies that variable returns can be only positive, only negative or both positive and negative. Variability in non-financial returns would include the loss of that service provision and changes in the quality of service provision.

5. In an assessment of control by a reporting entity arising as a result of its involvement in another entity, this wide definition of returns was only one aspect of the new definition of control under IFRS 10. Control of one entity by another would mean that the public sector body has power or existing rights that give it the current ability to direct the relevant activities and the ability to use that power to affect the level of variable returns.

[4] IFRS 10 Basis of Conclusions B63

6. The following two examples demonstrate the types of returns which entities of the public sector might be exposed to and how the term "returns" would be applied:

Example 1 – Financial and Non-Financial Returns

An NDPB establishes a not-for-profit entity to provide a number of its services within a set budget. The not-for-profit entity provides these services to the public. The NDPB is able to direct the relevant activities (the services) through its executive arrangements in such a way that it is able to affect the costs and quality of the services being provided to the public. The NDPB 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 NDPB controls the not-for-profit entity.

Example 2 – Financial and Non-Financial Returns including Negative Returns

An NDPB establishes a charitable trust to work with volunteer groups and requires it to achieve specific outcomes relating to the NDPB's particular organisational objectives for improving cultural awareness. The charitable trust reports to the NDPB on an annual basis and its objects are linked to the organisational objectives of the NDPB. There is no direct financial return in this example, but the charitable trust is providing service potential for the NDPB in a way that it cannot do itself. In this case, the varying returns are not linked to direct monetary benefits.

The NDPB is required to provide the relevant services to meet its organisational objectives – this is being provided in a synergistic way as prescribed by the standard. This form of service provision ensures that the service is provided in a cost effective way. In order to demonstrate control, the NDPB would need to be able to use its power (which might be as a result of corporate trustees directing the charity or some other executive decision making process) to control the relevant activities to vary the returns. IFRS 10 also states that returns may be wholly positive or negative or both. The returns in this example also illustrate the concept of negative returns, as the NDPB would otherwise have to provide the service itself or arrange for its service provision in another way.

Economic Dependence

7. There is a risk that the funding arrangements of a public sector entity could be blurred with control, though the standard sets out that economic dependence on its own does not lead to the investor having power over the investee. Grant funding may lead to the consideration of control of an implicit Special Purpose Vehicle (SPV), but this funding would need to be supported by an operational mandate for the SPV, have to be the main or sole source of funding for the entity and there would need to be strict direction on the processes, outputs and outcomes associated with the funding. This situation is not considered to be normal within the public sector in the UK.

Example 3 – Economic Dependence

An NDPB provides funding to an entity that it has established to support educational attainment for science and technology (and includes a dual objective for increasing tourism) by establishing a science and technology centre. The conditions of this funding specify:

- that the NDPB is able to appoint the key management personnel of the entity,
- the location of the building that the centre is to be provided from, its opening times its capacity and the objectives of the centre, the types of exhibit and services it must provide (eg seminars and demonstrations),
- staffing levels, and
- targets for outcomes to be reached each quarter.

The level of direction provided by the conditions of this funding indicates that the NDPB controls this entity.

Example 4 – Economic Dependence

A catering services company provides catering services to all the Medical Research Centres in the UK. An incorporated Shared Service Centre acts as a central point to agree catering standards across all Research Centres and to ensure that the Centres are able to purchase the services at the best price. The Research Centre contracts form over 60 per cent of the income of the catering services company.

The Shared Service Centre does not control the catering entity because the catering entity can choose to stop supplying its services, seek other work, or cease to operate.

Rights Other than Voting Rights

8. IFRS 10 specifies that power arises from rights. To have power over another investee, an entity will need to possess existing rights that give it the current ability to direct the relevant activities. These rights might arise from voting rights. However, in the public sector these rights might arise from rights to give policy directions to the management of another entity, rights to veto changes to the entity or rights to appoint, reassign or remove members of another entity's key management personnel.

9. The determination about whether an entity has power depends on the relevant activities being carried out, the way decisions about the relevant activities are made and the rights the entity and other parties have in relation to the potentially controlled entity. It is likely that, in more complex control scenarios in the public sector, an entity's interest or involvement in another entity might need to be considered from the perspective of a structured or special purpose entity, as these rights are less likely to be derived from voting rights.

10. IFRS 10 does not include any bright lines and therefore judgement will be required to assess control. This judgement will need to consider whether contractual arrangements and other legal or constructive rights enable the entity to significantly affect the variation in service or returns of the entity being considered. If the rights over another entity give it the right to specify what an entity does in relation to its relevant activities, or how it does it, then it is likely to control the entity.

Substantive and Protective Rights

11. In the public sector, there is a risk that the regulation of an entity could be blurred with control. There are public sector and private sector examples of regulation impacting on the ability of an entity to operate freely; for example:

- government intervention on financial sector remuneration policy, granting of licences, intervening in energy pricing, health and safety policies, restrictions on the sale or use of dangerous goods and general legislation,

- statutory provision of public services, with the power to intervene in a protective capacity.

Regulatory control does not give rise to power over an investee for the purposes of IFRS 10.

12. Although regulation can restrict financial and operating policy, regulation must be considered at the micro (entity) level, not the macro-level. Regulation at this level is different to, for example, a silent partner or shareholding, because there is no link to voting rights and therefore, there is no control.

13. Any analysis of control would require a careful analysis of the rights of an entity to control the activities of another entity. Distinction needs to be made between those rights which are protective rights of the authority and those which are active rights to control the relevant activities of another entity (note that the standard refers to these as substantive rights).

14. Protective rights are defined in Appendix A to IFRS 10 as:

"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."

15. Protective rights are a regular feature of both the public and the private sector. Protective rights relate to fundamental changes to the activities of an entity being considered for consolidation or apply in exceptional circumstances. However, IFRS 10 is clear that not all rights that apply in exceptional circumstances, or are contingent on events, are protective.

16. An example cited by IFRS 10 of a protective right is 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. Protective rights in the public sector include the right to remove members of the governing body of another entity under certain restricted circumstances. Other public sector examples of protective rights are grant conditions which include stipulations on the type of expenditure that the grant is intended to fund.

17. IFRS 10 requires that when assessing whether an entity has power, it must consider only substantive rights (and not the protective rights) that it and others hold relating to an entity being considered for consolidation. For a right to be substantive, the holder must have the (current) practical ability to exercise that right. To be substantive, rights also need to be exercisable when decisions about the direction of the relevant activities need to be made. However, IFRS 10 application guidance sets out that sometimes rights can be substantive, even though the rights are not currently exercisable. This would be when the relevant activities being considered are dependent on specific events sometime in the future.

18. The definition of protective rights does not include all rights that arise as a result of legislative direction by one entity over another entity. Rights arising from legislative or other forms of legal authority in combination with voting rights may, in certain circumstances, be sufficient to give a public sector entity control over the relevant activities of another entity.

19. If protective rights were either so onerous and/or numerous that they affected an entity's ability to operate, then these protective rights might be deemed to be actively controlling the way in which an entity performs its relevant activities. The point at which this will be achieved will be a matter of judgement for the accounts preparer. In the example of the conditions of grant funding provided to an entity set out in paragraph 12 above, if these conditions were such that that they specified the operational mandate for the grant outcomes then these might be deemed to be active or substantive. As noted earlier this is not considered to be common in the United Kingdom public sector. Alternatively, if all of the actions of a public sector entity are governed by regulation, it might be an indicator that the entity is acting as an agent on behalf of another entity. An agent is a party primarily engaged to act on behalf and for the benefit of other parties and therefore does not control the other entity when it exercises its decision making authority.

Example 5– An example of a Protective Right

The catering services company in example 4 provides catering services to all Medical Research Centres in the UK. The Shared Service Centre acts as a central point to agree catering standards across the Research Centres and to ensure that the Centres are able to purchase the services at the best price. It also has rights under various forms of legislation to ensure that the catering is provided to minimum health and safety and environmental standards. This would allow it to curtail or if in significant breach of these standards close the site of the company.

The ability to curtail the services is an example of a protective right but the Shared Service Centre does not control the company.

20. Where protective rights over an entity are activated because of the occurrence of a specific event, the activation of this protective right might mean that at that point in time the right becomes an active or substantive right. When the event in question takes place, these rights might give rise to control. However, they would not do so until the right is currently exercisable; for example, where an entity utilises its statutory rights to take control of the operations of another entity (and thus has power over its relevant activities) because that entity has failed to meet statutory performance levels.

Application of IFRS 12 for the public sector context

21. The disclosure requirements of IFRS 12 may mean an increase in the number of disclosures required by public sector entities applying the standard. This is particularly likely to be the case if the entities have an interest in any unconsolidated structured entities.

Structured Entities

22. Appendix A of IFRS 12 defines structured entities as follows:

"An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements."

23. Paragraph B22 of IFRS 12 sets out that a structured entity often has some or all of the following features or attributes:

a) restricted activities;

b) a narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;

c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support

d) financing in the form of multiple contractually linked instruments issued to investors that create concentrations of credit or other risks (tranches).

24. Examples of structured entities (provided by the standard, paragraph B23) include:

a) securitisation vehicles
b) asset-backed financings and
c) some investment funds.

25. These entities are likely to exist in the public sector, albeit not in large numbers and therefore the basis of this definition has been included in the FReM. However, the activities and the features highlighted in the paragraphs above are not typically ones entered into public sector entities. As set out above, the IASB intended to require the disclosure of more information about the impact of special relationships and sponsored entities, referred to under IAS 27 as special purpose entities (SPEs), and therefore in theory the definition of structured entities should not have a wide application in the public sector.

26. The IFRS 12 structured entity definition focuses on entities where control is obtained in some other way than by voting rights. The existence or otherwise of voting rights has a different emphasis in the public sector where entities might be established as service delivery vehicles by means of contractual arrangements, for public benefit reasons and not solely for the purposes required by the entities in the private sector set out in the examples above; for example financing assets or services.

27. The question that arises in the public sector is that the way in which some entities are established for the provision of public sector services might bring more entities into the definition than was intended by the standard; ie where these public sector entities are established for service delivery purposes and by means of contractual arrangements[5].

28. The Treasury considers that in the case of entities meeting the definition of structured entities, the entity would have had to have been designed so that voting rights are not the dominant factor in deciding control and that the activities of the entity governed by the contractual arrangements would need to be relevant activities as defined in IFRS 10. If an entity established by the public sector (to access particular forms of financing or to manage a service delivery issue in a particular way) met the definition of a structured entity then it should be considered for consolidation and disclosures under IFRS 10 and 12 (subject to materiality considerations).

Example 5 – Example of a Structured Entity in an NDPB

An NDPB has established a trust as a charitable entity to operate a sporting venue serving the nation. Sports teams pay to use the facilities and funds are also received by means of voluntary contributions from the

[5] Paragraph 31 of the IFRS 12 has very broad requirements. It requires that - "An entity shall disclose any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support."

public. The NDPB can appoint nine out of the 20 members of the Executive Board of the Trust and has a contractual agreement with the Trust which:

- enables it to appoint the Trusts Managing Director
- allows it to specify the service levels and quality targets
- permits it to specify staffing numbers
- specifies the payment of a management fee to the Trust for the prescribed levels of service
- requires that the Trust's corporate plan must include the same objectives as the NDPBs plans to promote cultural and sporting excellence.
- specifies that the trust may not amend service provision or add new services without the agreement of the NDPB.

The NDPB does not establish control by means of its ability to appoint members to the Executive Board but by means of the contractual agreement with the Trust.

Disclosures for Unconsolidated Structured Entities

29. Unconsolidated structured entities are those structured entities that are not controlled by the entity that has the interest in it. IFRS 12 introduces disclosures about unconsolidated structured entities that were not required previously under IAS 27. As described above, one of the objectives of the standard is to increase transparency about investees that are not consolidated. The introduction of these new disclosure requirements may result in additional reporting and associated resourcing.

30. Many public sector entities do not establish structured entities of the type and nature anticipated by IFRS 12. However, the nature of public sector entities is to support and have an involvement in other entities, in the public and other sectors.

31. The type of entities which might be pulled into the definitions of unconsolidated structured entities are likely to include trusts, and Special Purpose Vehicles established by entities to deliver services or reconfigure an element of service delivery. The support given is often by means of grant funding or other on-going financial support including the donation of assets or the provision of financial guarantees. These entities may or may not meet the definition of structured entities.

32. The IFRS 12 basis for conclusion (paragraphs B2 to B6) highlights the need to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation. The focus in these paragraphs on the qualitative and quantitative impact of the information presented is also a clear indication in the standard that materiality will play an important role for accounts preparers in determining which disclosures need to be aggregated and presented in the financial statements.

33. It is possible that more entities will be brought into the definition of unconsolidated structured entities than might either be anticipated by the standard or than those disclosed by private sector entities. However, if unconsolidated structured entities have been established by the public sector for service delivery purposes and there are material risks and impacts on the financial performance, position and cash flows of the entity in question these would need to be reported, with appropriate aggregation and cross-referencing to other financial reporting information, such as disclosures of government grants, to ensure the financial statements remain relevant to users.

Appendix B

<u>Application Guidance -</u>
<u>Consideration of control by reporting entities under IFRS 10</u>

Control for financial reporting purposes exists only if an investor (a potentially controlling entity/organisation) has:

- power over an investee (entity considered for control);
- exposure to variable returns from its involvement with an investee;
- and has the ability to use its power to affect the level of variable returns.

(IFRS 10 makes it clear that the control relationship is regardless of the nature of its involvement with an entity (the investee), ie it does not need to be a formal investment in an entity).

I. To assess whether control exists over another entity, the following questions must be considered.

1. Who has an interest in the investee in which control might arise?

2. Do any of these entities have 50% voting rights in the investee?

3. Who has rights over the **relevant activities and other key decision-making** of the investee?

4. Do these rights give rise to **power** over the investee (is this a current ability)?

5. Are the significant rights **substantive** or protective?

6. Who has exposure or a right to variable **returns**?

7. Is the power linked to the variable **returns**?

8. If voting rights are not key to control of the investee, are there tight contractual arrangements that determine power over relevant activities and variable returns?

Note: IFRS requires a faithful representation of financial information in the financial statements and therefore the questions set out above need to consider the economic substance of transactions in practice and not the legal form.

II. Clarification of IFRS accounting definitions for the public sector context.

Power	Existing rights that give the current ability to direct the relevant activities. The power over the investee entity is not limited to more than 50% of voting rights, although without other factors, the majority holder has control where these are substantive. De-facto power may exist with less than 50% voting rights, in which case

	consideration must be given to **relevant activities**, **other decision-making power** and **substantive rights.**
Returns	Examples of returns include: a) Non-financial benefits (positive or negative), which include the provision of public services which another entity would otherwise have to provide itself. Variability in returns would include the loss of that service provision and the changes in the quality of service provision. b) returns that are not available to other interest holders. For example, another entity might use its own assets in combination with the assets of the investee, such as combining operating functions to achieve economies of scale, cost savings, sourcing scarce products, gaining access to proprietary knowledge or limiting some operations or assets, to enhance the value of their other assets. c) Direct financial returns and other distributions of economic benefits from the investee (eg interest from debt issued by the investee) and changes in the value of the entity with control's investment in the investee. d) remuneration for servicing an investees assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investees assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an entity with control has from its involvement with the investee.
Relevant Activities & other Decision-making powers	Relevant activities are activities of the investee that significantly affect the investees service delivery. For example, they include supply of the public service objective, asset management, Research & Development and financing. Other decision-making powers include power over operating activities, policy direction, budget setting and remuneration policy.
Substantive rights	Rights are substantive when an entity has the practical ability to exercise its rights and when those rights are exercisable when decisions about the direction of the investees relevant activities need to be made. Protective rights on the other hand are designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.
Structured Entities	If voting rights are not key to control – Investees may be considered SE's where there are contractual arrangements that dictate relevant activities instead, which may lead to control using variable return and relevant activities criteria. An SE will normally has restricted activities, narrow objectives, requires support to finance its activities.