Executive summary

1.1 The IFRS Group Accounting Standards (IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28) are applied by HM Treasury in the Government Finance Reporting Manual (FReM) from 1 April 2014. They introduce a single concept of control within IFRS 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.

1.2 The FReM adapts the Group Accounting Standards for the public sector context in the following ways, as set out in FReM Chapter 4:

- Departments shall prepare annual reports and consolidated financial statements (as defined in Chapter 5 of the FReM) covering all entities within their consolidation boundary.
- Executive agencies shall prepare annual reports and consolidated financial statements in accordance with the requirements of, 'the Group Accounting Standards' insofar as those subsidiaries and investments are within the controlling department's consolidation boundary.
- Executive NDPBs and trading funds shall prepare consolidated financial statements in accordance with the requirements of Group Accounting Standards without adaptation and interpretation.

1.3 This guidance is for use by those government entities that are required to apply these Group Accounting Standards, or an element of them, but should not be used is applying the FReM public sector adaptations.

1.4 The Treasury recognises that terminology in IFRS is focused on the investee-investor relationship in the private sector, and thus there may be interpretation issues in applying the standards to the public sector context. This guidance therefore seeks to clarify, in particular, those areas of the Group Accounting Standards where there is scope for misinterpretation. This includes the definitions of variable returns, controlling rights, structured entities and the expected approach to disclosing interests in unconsolidated structured entities.

1.5 Transitional arrangements - In applying the Group Accounting Standards for the first time, entities should also apply the IASB's amendments to the standards, released on 28 June 2012. This guidance clarifies that although an entity should apply these standards retrospectively, in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, there are exceptions to this treatment. These include:

- situations where it is impracticable to restate an investment before the beginning of the current reporting period (IFRS 10, para C3D); and
- where the entity concludes it has control over an investment that it did not have under the previous IFRS consolidation standards, retrospective adjustment is only required to the annual period immediately preceding the date of initial application (IFRS 10 para C4a).

1 IFRS 10 - Consolidated Financial Statements

1.1 The FReM adaptations to IFRS 10 mean that departments and agencies are not required to make a full control assessment, but ALB's and trading funds applying the FReM will need to.

1.2 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. Departments will account for subsidiaries under IFRS 10 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.

1.3 Agencies should follow the requirements of IFRS 10 only if the subsidiaries are within the controlling department's consolidation boundary.

1.4 Under IFRS 10, an investor is deemed to control an investee when it is exposed to or has rights to variable returns through its power over an investee. An investor controls an investee if it has all of the following:

- power over the investee - the existing rights that give it the current ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- exposure or rights to variable returns from its involvement with an investee ; and
- the ability to use its power over the investee to affect the amount of the investor's returns. [IFRS 10 para 7]

Variable Returns

1.5 Returns are not explicitly defined in IFRS 10 but to clarify for the public sector context, they can include both financial and non-financial returns. The latter is often more appropriate in the context of the public sector entity objectives which are based on public service and benefit delivery rather than financial return. Where this is the case, control assessment should focus on who has the ability to direct activities that deliver these public benefit objectives.

1.6 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.

1.7 The application of IFRS 10 should be implicitly understood to include non-financial benefits. The basis of conclusions in the Standard confirms the IASB's intention to have a broad definition of 'returns'[1] 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

[1] IFRS 10 Basis of Conclusions B63

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.

1.8 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.

1.9 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.

1.10 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.

1.11 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

1.12 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) or Structured Entity, 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

1.13 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.

1.14 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.

1.15 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

1.16 In the public sector, there is a risk that the regulatory power of an entity could be incorrectly blurred with those powers that lead to 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 power does not give rise to power over an investee for the purposes of IFRS 10.

1.17 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.

1.18 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).

1.19 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."

1.20 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.

1.21 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.

1.22 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.

1.23 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.

1.24 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.

1.25 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.

2 IFRS 10 - How to determine control

2.1 Control for financial reporting purposes exists only if an investor (a potentially controlling entity/organisation) has powers power over the entity considered for control, exposure to variable returns from its involvement with that entity, and has the ability to use this 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), i.e. it does not need to be a formal investment in an entity).

2.2 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.

2.3 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 that ability exists as 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.

3 IFRS 11, Joint Arrangements & IAS 28, Investments in Associates and Joint Ventures

The different application of IFRS 11 and IAS 28 to Public Sector Entities

3.1 The set up of public sector investments combined with FReM adaptations to IFRS 11 and IAS 28 mean that departments and agencies are not likely to have investments in joint arrangements and associates classified to the public sector. Therefore, they will only be required to apply IFRS 11 and IAS 28 to investments in entities classified outside of the public sector by the ONS.

3.2 Central Government ALB's will normally have only one parent department. This set up is based on principles set out in Managing Public Money, to ensure clear financial management and reporting accountability, even where additional frameworks may set risk sharing agreements between departments. This approach is also reflected in Treasury budgeting guidance for co-funded NDPBs (See Consolidated Budgeting Guidance for more details).

3.3 Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles.

3.4 Agencies should follow the requirements of IFRS 11 and IAS 28 with respect to public sector entities only if the entities are within the controlling department's consolidation boundary.

3.5 ALB's and trading funds applying the FReM apply the Standards in full.

IFRS 11 and IAS 28

3.6 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. It also simplifies the types of joint arrangements to just two – joint operations and joint ventures.

3.7 IAS 28, as amended in 2011, applies to 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.

3.8 When applying IFRS 11 and IAS 28 for the first time, and the FReM changes to the reporting of investments outside of the public sector by departments and agencies, entities will need to consider the new approaches to reporting joint arrangements, which include the following:

Proportional consolidation to equity method of accounting

3.9 Proportional consolidation of joint ventures is no longer permitted, so entities must make arrangements to retrospectively change the accounting approach to equity-based, in accordance with IFRS transition guidance.

3.10 Proportionate consolidation is not widely used in the public sector, but those entities applying the standard that currently proportionately consolidate will no longer show their share of revenue in the income statement. This will impact key metrics such as revenue growth, and gross accounting may impact asset ratios, so restatement of these too may be useful.

IAS 39 to IAS 28 accounting by Departments and Agencies

3.11 Departments and agencies previously accounting for associate and joint venture investments in entities classified to the private sector under IAS 39 will need to account for these under the IAS 28 equity accounting method.

3.12 This change should be restated where practicable. The treatment in the single entity and group position should also be same, i.e. showing the net share of profit/loss and net assets/liabilities.

3.13 The change in accounting will not be reflected in budgets and Estimates, which will continue to report such interest as financial investments, recording dividend receivable and market value of the investment. Departments should report any misalignment difference in the notes to the accounts.

Reclassification from Joint Venture to Joint Operation

3.14 With more focus on the underlying nature (substance) of contractual rights and obligations than the legal form of arrangements, some joint ventures reported under the current standards may now be classified as joint operations. Network or infrastructure share arrangements in particular may fit into this category. Entities should consider the substance of contractual rights and obligations and restate where appropriate.

4 IFRS 12, Disclosure of Interests in Other Entities

4.1 IFRS 12 was produced 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.

4.2 IFRS 12 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 the new IAS 27 Separate Financial Statements.

4.3 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.

4.4 IFRS 12 is required to be applied by an entity that has an interest in subsidiaries, joint arrangements and associates. The Standard also provides guidance on the disclosure requirements of unconsolidated structured entities [IFRS 12 para 5].

4.5 Materiality is a key concept throughout IFRS disclosure requirements, and it is included in the IFRS Conceptual Framework to clarify that it is an entity-specific aspect of relevance, based on the nature and/or magnitude of the items to which the information relates in the context of an individual entity's financial report. Disclosure of interests in investments, and the size of that disclosure, should only be made if they are capable of making a difference in the decisions made by users.

4.6 Materiality judgement is therefore key to ensuring compliance with IFRS 12 in a practicable and pragmatic way. There are several areas of public sector investment disclosure, in particular where reporting entities should make sensible judgements. These include:

- the disclosure of unconsolidated structured entities, discussed below;
- Making adjustments between subsidiary and department consolidations that are based on IFRS and the departmental consolidation boundary respectively. For example, to simplify the adjustment process, the department should judge whether the subsidiary single-entity accounts for departmental group consolidation, rather than IFRS-based subsidiary group accounts represents a simple and materially

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

correct approach to consolidation. A department should also consider whether the adjustment is needed at all to produce materially accurate accounts; and

- applying transition arrangements on initial application of the new standards, as discussed in the Executive Summary.

Structured Entities

4.7 Subject to materiality considerations, the disclosure requirements of IFRS 12 may mean an increase in the number of disclosures required by public sector entities applying the standard, notably in relation entities that have an interest in any unconsolidated structured entities.

4.8 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."

4.9 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).

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

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

4.11 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.

4.12 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.

4.13 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; i.e. where these public sector entities are established for service delivery purposes and by means of contractual arrangements[4].

4.14 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 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

4.15 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.

[4] 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."

4.16 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.

4.17 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.

4.18 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.

4.19 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.

4.20 An entity reporting its financial relationship with unconsolidated structured entities should give consideration to the most appropriate way to disclose this information. For example if there are significant numbers of unconsolidated structured entities an aggregation may be more useful for users of the accounts, and it may be appropriate to substitute detailed disclosure for cross-references to other publically available financial information and cross-referencing to other financial reporting information with the same financial statement, such as disclosures of government grants. The approach should ultimately be focused on ensuring that the financial statements remain relevant to users.