



ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

DISCLOSURE OF INTERESTS IN OTHER ENTITIES (GRAP 38)

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Disclosure of Interests in Other Entities* is based on the International Public Sector Accounting Standard (IPSAS) 38 on *Disclosure of Interests in Other Entities* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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Introduction

This pronouncement is set out in paragraphs .01 to .58. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*¹.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

¹ In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

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

Scope

- .02 ***An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in disclosing information about its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated.***
- .03 ***This Standard shall be applied by an entity that has an interest in any of the following:***
- (a) controlled entities;***
 - (b) joint arrangements (i.e. joint operations or joint ventures);***
 - (c) associates; or***
 - (d) structured entities that are not consolidated.***
- .04 An entity applies the Standard of GRAP on *Consolidated Financial Statements* (GRAP 35) to assess if a structured entity is controlled or not, and whether it should be consolidated.
- .05 ***This Standard does not apply to:***
- (a) Post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.***
 - (b) An entity's separate financial statements to which the Standard of GRAP on Separate Financial Statements, applies. However:***
 - (i) If an entity has interests in structured entities that are not consolidated and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraphs .38 to .46 when preparing those separate financial statements.***
 - (ii) An investment entity that prepares financial statements in which all of its controlled entities are measured at fair value in accordance with paragraph .57 of GRAP 35 shall present the disclosures relating to investment entities required by this Standard.***

- (c) *An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.*
- (d) *An interest in another entity that is accounted for in accordance with the Standard of GRAP on Financial Instruments. However, an entity shall apply this Standard:*
 - (a) *when that interest is an interest in an associate or a joint venture that, in accordance with the Standard of GRAP on Investments in Associates and Joint Ventures (GRAP 36), is measured at fair value; or*
 - (b) *when that interest is an interest in a structured entity that is not consolidated.*

Definitions

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

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

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

Appendix A paragraphs AG7. to AG9. provide further information about interests in other entities.

Appendix A paragraphs AG57. to AG59. of GRAP 35 explain variability of benefits.

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

A structured entity *is:*

- (a) *in the case of entities where legislation is normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that legislation is not the dominant factor in deciding who controls the entity,*

such as when contractual arrangements are significant to determining control of the entity and relevant activities are directed by means of contractual arrangements; or

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

Appendix A paragraphs AG20. to AG23. provide further information about structured entities.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those Standards.

Binding arrangement

.07 Binding arrangements can be evidenced in several ways:

- (a) a contract concluded between the parties;
- (b) legislation, supporting regulations or similar means including, but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or
- (c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

Disclosing information about interests in other entities

.08 ***To meet the objective in paragraph .01, an entity shall disclose:***

(a) the significant judgements and assumptions it has made in determining:

- (i) the nature of its interest in another entity or arrangement;***
- (ii) the type of joint arrangement in which it has an interest (paragraphs .11 to .12); and***
- (iii) that it meets the definition of an investment entity, if applicable (paragraph .13); and***

(b) information about its interests in:

- (i) controlled entities (paragraphs .15 to .24);***
- (ii) joint arrangements and associates (paragraphs .33 to .37);***
- (iii) structured entities that are not consolidated (paragraphs .38 to .46);***

- (iv) *non-quantifiable ownership interests (paragraphs .47 and .48); and*
 - (v) *controlling interests acquired with the intention of disposal (paragraphs .49 to .55).*
- .09** *If the disclosures required by this Standard, together with disclosures required by other Standards of GRAP, do not meet the objective in paragraph .01, an entity shall disclose whatever additional information is necessary to meet that objective.*
- .10** *An entity shall consider the level of detail necessary to satisfy the disclosure objective in paragraph .01 and how much emphasis to place on each of the requirements in this Standard. It shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics (see Appendix A paragraphs AG2. to AG6.).*

Significant judgements and assumptions

- .11** *An entity shall disclose the methodology used to determine:*
- (a) *that it has control of another entity as described in paragraphs .15 and .17 of GRAP 35;*
 - (b) *that it has joint control of an arrangement or significant influence over another entity; and*
 - (c) *the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.*
- .12** *To comply with paragraph .11, an entity shall disclose, for example, the factors considered in determining that:*
- (a) *it controls a specific entity (or similar category of entities) where the interest in the other entity is not evidenced by the holding of equity or debt instruments;*
 - (b) *it does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities);*
 - (c) *it controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities);*
 - (d) *it is an agent or a principal (see Appendix A paragraphs AG60. to AG74. of GRAP 35;*
 - (e) *it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity; and*
 - (f) *it has significant influence even though it holds less than 20 per cent of the voting rights of another entity.*

Investment entity status

- .13** *When a controlling entity determines that it is an investment entity in accordance with GRAP 35, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that it is an investment entity. An investment entity is not required to disclose this information if it has all of the characteristics in paragraph .62 of GRAP 35.*
- .14** *When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:*
- (a) the total fair value, as of the date of change of status, of the controlled entities that cease to be consolidated;*
 - (b) the total gain or loss, if any, calculated in accordance with paragraph .64 of GRAP 35; and*
 - (c) the line item(s) in surplus or deficit in which the gain or loss is recognised (if not presented separately).*

Interests in controlled entities

- .15** *An entity shall disclose information that enables users of its consolidated financial statements:*
- (a) to understand:*
 - (i) the composition of the economic entity; and*
 - (ii) the interest that non-controlling interests have in the economic entity's activities and cash flows (paragraph .17); and*
 - (b) to evaluate:*
 - (i) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the economic entity (paragraph .18);*
 - (ii) the nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs .19 to .22);*
 - (iii) the consequences of changes in its ownership interest in a controlled entity that do not result in a loss of control (paragraph .23); and*
 - (iv) the consequences of losing control of a controlled entity during the reporting period (paragraph .24).*
- .16** *When the financial statements of a controlled entity used in the preparation of consolidated financial statements are as of a date or for a period that is different*

from that of the consolidated financial statements (see paragraph .47 of GRAP 35) an entity shall disclose:

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

The interest that non-controlling interests have in the economic entity's activities and cash flows

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

- (a) the name of the controlled entity;*
- (b) the domicile and legal form of the controlled entity;*
- (c) the proportion of ownership interests held by non-controlling interests and, if different, the proportion of voting rights held;*
- (d) the surplus or deficit allocated to non-controlling interests of the controlled entity during the reporting period;*
- (e) accumulated non-controlling interests of the controlled entity at the end of the reporting period; and*
- (f) summarised financial information about the controlled entity (see Appendix A paragraph AG10.).*

The nature and extent of significant restrictions

.18 *An entity shall disclose:*

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

- (c) *The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.*

Nature of the risks associated with an entity's interest in consolidated structured entities

- .19** *An entity shall disclose the terms of any binding arrangements that could require the controlling entity or its controlled entities to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g. liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).*
- .20** *If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement to do so, provided financial or other support to a consolidated structured entity (e.g. purchasing assets of, or instruments issued by, the structured entity), the entity shall disclose:*
- (a) the type and amount of support provided, including situations in which the controlling entity or its controlled entities assisted the structured entity in obtaining financial support; and*
 - (b) the reasons for providing the support.*
- .21** *If during the reporting period a controlling entity or any of its controlled entities has, without having an obligation under a binding arrangement to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision.*
- .22** *An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.*

Consequences of changes in a controlling entity's ownership interest in a controlled entity that do not result in a loss of control

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

Consequences of losing control of a controlled entity during the reporting period

- .24** *An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph .53 of GRAP 35 and:*

- (a) *the portion of that gain or loss attributable to measuring any investment retained in the former controlled entity at its fair value at the date when control is lost; and*
- (b) *the line item(s) in surplus or deficit in which the gain or loss is recognised (if not presented separately).*

Interests in unconsolidated controlled entities (investment entities)

- .25** *An investment entity that, in accordance with GRAP 35 is required to apply the exception to consolidation and instead account for its investment in a controlled entity at fair value shall disclose that fact.*
- .26** *For each unconsolidated controlled entity, an investment entity shall disclose:*
 - (a) *the controlled entity's name;*
 - (b) *the domicile and legal form of the controlled entity; and*
 - (c) *the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.*
- .27** *If an investment entity is the controlling entity of another investment entity, the controlling entity shall also provide the disclosures in paragraphs .26(a) to (c) for investments that are controlled by its controlled investment entity. The disclosure may be provided by including, in the financial statements of the controlling entity, the financial statements of the controlled entity (or controlled entities) that contain the above information.*
- .28** *An investment entity shall disclose:*
 - (a) *the nature and extent of any significant restrictions arising from binding arrangements (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated controlled entity to transfer funds to the investment entity in the form of cash dividends, or similar distributions, or to repay loans or advances made to the unconsolidated controlled entity by the investment entity; and*
 - (b) *any current commitments or intentions to provide financial or other support to an unconsolidated controlled entity, including commitments or intentions to assist the controlled entity in obtaining financial support.*
- .29** *If, during the reporting period, an investment entity or any of its controlled entities has, without having an obligation arising from a binding arrangement to do so, provided financial or other support to an unconsolidated controlled entity (e.g. purchasing assets of, or instruments issued by, the controlled entity or assisting the controlled entity in obtaining financial support), the entity shall disclose:*

- (a) *the type and amount of support provided to each unconsolidated controlled entity; and*
 - (b) *the reasons for providing the support.*
- .30** *An investment entity shall disclose the terms of any binding arrangements that could require the entity or its unconsolidated controlled entities to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g. liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).*
- .31** *If during the reporting period an investment entity or any of its unconsolidated controlled entities has, without having an obligation arising from a binding arrangement to do so, provided financial or other support to an unconsolidated, structured entity that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity shall disclose an explanation of the relevant factors in reaching the decision to provide that support.*
- .32** *A controlling entity that controls an investment entity and is not itself an investment entity, shall disclose in its consolidated financial statements, the information required by paragraphs .25 to .31 in respect of such unconsolidated controlled entities.*

Interests in joint arrangements and associates

- .33** *An entity shall disclose information that enables users of its financial statements to evaluate:*
- (a) *the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs .34 and .36); and*
 - (b) *the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph .37).*

Nature, extent and financial effects of an entity's interests in joint arrangements and associates

- .34** *An entity shall disclose:*
- (a) *For each joint arrangement and associate that is material to the reporting entity:*
 - (i) *the name of the joint arrangement or associate;*
 - (ii) *the nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the*

joint arrangement or associate and whether they are strategic to the entity's activities);

(iii) the domicile and legal form of the joint arrangement or associate; and

(iv) the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

(b) For each joint venture and associate that is material to the reporting entity:

(i) whether the investment in the joint venture or associate is measured using the equity method or at fair value;

(ii) summarised financial information about the joint venture or associate as specified in Appendix A paragraphs AG12. and AG13.; and

(iii) if the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.

(c) Financial information as specified in Appendix A paragraph AG16. about the entity's investments in joint ventures and associates that are not individually material:

(i) in aggregate for all individually immaterial joint ventures; and

(ii) in aggregate for all individually immaterial associates. This aggregated information is to be disclosed separately from the aggregated information on joint ventures.

.35 An investment entity need not provide the disclosures required by paragraphs .34(b) to (c).

.36 An entity shall also disclose:

(a) The nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements, regulatory requirements or binding arrangements between investors with joint control of, or significant influence over, a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends or similar distributions, or to repay loans or advances made by the entity.

(b) When the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:

(i) the date of the end of the reporting period of the financial statements of that joint venture or associate; and

(ii) the reason for using a different date or period.

- (c) *The unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method.*

Risk associated with an entity's interests in joint ventures and associates

.37 *An entity shall disclose:*

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

Interests in structured entities that are not consolidated

.38 *An entity shall disclose information that enables users of its financial statements:*

- (a) *to understand the nature and extent of its interests in structured entities that are not consolidated (paragraphs .41 to .43); and*
- (b) *to evaluate the nature of, and changes in, the risks associated with its interests in structured entities that are not consolidated (paragraphs .44 to .46).*

.39 The information required by paragraph .38(b) includes information about an entity's exposure to risk from involvement that it had with structured entities that are not consolidated in previous periods (e.g. sponsoring the structured entity), even if the entity no longer has any involvement by way of binding arrangement with the structured entity at the reporting date.

.40 An investment entity need not provide the disclosures required by paragraph .38 for a structured entity that it controls but which is not consolidated, and for which it presents the disclosures required by paragraphs .25 to .31.

Nature of interests

.41 *An entity shall disclose qualitative and quantitative information about its interests in structured entities that are not consolidated, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.*

- .42** *If an entity has sponsored a structured entity that is not consolidated for which it does not provide information required by paragraph .44 (e.g. because it does not have an interest in the entity at the reporting date), the entity shall disclose:*
- (a) how it has determined which structured entities it has sponsored;*
 - (b) revenue from those structured entities during the reporting period, including a description of the types of revenue presented; and*
 - (c) the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.*
- .43** *An entity shall present the information in paragraphs .42(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see Appendix A paragraphs AG2. to AG6.).*

Nature of risks

- .44** *An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:*
- (a) the carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in structured entities that are not consolidated;*
 - (b) the line items in the statement of financial position in which those assets and liabilities are recognised;*
 - (c) the amount that best represents the entity's maximum exposure to loss from its interests in structured entities that are not consolidated, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in structured entities that are not consolidated it shall disclose that fact and the reasons; and*
 - (d) a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in structured entities that are not consolidated and the entity's maximum exposure to loss from those entities.*
- .45** *If during the reporting period an entity has, without having an obligation under a binding arrangement to do so, provided financial or other support to a structured entity that is not consolidated in which it previously had or currently has an interest (for example, purchasing assets of, or instruments issued by, the structured entity), the entity shall disclose:*
- (a) the type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and*
 - (b) the reasons for providing the support.*
- .46** *An entity shall disclose any current intentions to provide financial or other support to a structured entity that is not consolidated, including intentions to*

assist the structured entity in obtaining financial support. Such current intentions include intentions to provide support as a result of obligations under binding arrangements and intentions to provide support where the entity has no obligation under a binding arrangement.

Non-quantifiable ownership interests

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

Controlling interests acquired with the intention of disposal

- .49** *An entity, other than an investment entity, shall disclose information regarding its interest in a controlled entity when, at the point at which control arose, the entity had the intention of disposing of that interest and, at the reporting date, it has an active intention to dispose of that interest.*
- .50** There are a number of situations in which an entity may obtain control of another entity, but where the entity has an active intention to dispose of all or part of its controlling interest in the near future.
- .51** Because of a government's broad responsibility for the economic well-being of the economy, it may intervene to prevent the consequences of failure of an entity, such as a financial institution. For example, an entity in one sphere of government may intervene in the administration of an entity in another sphere of government if that entity is unable to fulfil its constitutional or legislative mandate. Such interventions may lead to a government obtaining control of another entity, although it has no intention of maintaining control over that entity. Rather, its intention may be to sell, or otherwise dispose of, its interest in the controlled entity. If the other entity needs to be restructured to facilitate disposal the restructuring can occur over a period of one or more years and the government may retain some residual assets or liabilities at the end of the process. The consolidation of such controlled entities for the reporting periods in which control is present, can have a significant impact on the consolidated financial statements. The obtaining of control as a result of interventions to prevent failure is most likely to occur in the context of a government, but could also occur in the case of individual entities.
- .52** An entity may also acquire a controlling interest in another entity, with the intention of disposing of all or part of that interest, in implementing a government's policy objectives.

For example, a government may direct an entity to acquire certain interests in other entities for the purpose of redistribution.

.53 An entity shall disclose the following information in the notes in respect of each controlled entity referred to in paragraph .49:

- (a) the name of the controlled entity and a description of its key activities;**
- (b) the rationale for the acquisition of the controlling interest and the factors considered in determining that control exists;**
- (c) the impact on the consolidated financial statements of consolidating the controlled entity including the effect on assets, liabilities, revenue, expenses and net assets; and**
- (d) the current status of the approach to disposal, including the expected method and timing of disposal.**

.54 The disclosures required by paragraph .53 shall be provided at each reporting date until the entity disposes of the controlling interest or ceases to have the intention to dispose of that interest. In the period in which the entity disposes of the controlling interest or ceases to have the intention to dispose of the controlling interest it shall disclose:

- (a) the fact that there has been a disposal or change of intention; and**
- (b) the effect of the disposal or change of intention on the consolidated financial statements.**

.55 Where other disclosures required by this Standard or other Standards of GRAP would provide information relevant to paragraphs .53 or .54 a cross-reference to those other disclosures shall be provided.

Transitional provisions

.56 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Effective date

.57 An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.



GRAP 38

Withdrawal of the Standards of GRAP on *Consolidated and Separate Financial Statements, Investments in Associates and Interests in Joint Ventures*

- .58 This Standard supersedes the previous Standards of GRAP on *Consolidated and Separate Financial Statements, Investments in Associates and Interests in Joint Ventures* issued in November 2005.

Appendix A - Application guidance

This Appendix is an integral part of this Standard.

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

Aggregation (paragraph .10)

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

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

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

- (a) controlled entities;
- (b) joint ventures;
- (c) joint operations;
- (d) associates; and
- (e) structured entities that are not consolidated.

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

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

- (a) Nature of activities (e.g. a research and development entity).
- (b) Industry classification (e.g. business and residential investment properties).
- (c) Geography (e.g. country or region).

Interests in other entities

- AG7. An interest in another entity refers to involvement by way of binding arrangements or otherwise that exposes the reporting entity to variability of benefits from the performance of the other entity. Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in this Standard. That assessment shall include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entity and other parties.
- AG8. A reporting entity is typically exposed to variability of benefits from the performance of another entity by holding instruments (such as equity or debt instruments issued by the other entity) or having another involvement that absorbs variability. For example, assume a structured entity holds a loan portfolio. The structured entity obtains a credit default swap from another entity (the reporting entity) to protect itself from the default of interest and principal payments on the loans. The reporting entity has involvement that exposes it to variability of benefits from the performance of the structured entity because the credit default swap absorbs variability of benefits, in the form of returns, of the structured entity.
- AG9. Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of benefits for the other entity but do not typically expose the reporting entity to variability of benefits from the performance of the other entity. For example, assume a structured entity is established to provide investment opportunities for investors who wish to have exposure to Entity Z's credit risk (Entity Z is unrelated to any party involved in the arrangement). The structured entity obtains funding by issuing to those investors notes that are linked to Entity Z's credit risk (credit-linked notes) and uses the proceeds to invest in a portfolio of risk-free financial assets. The structured entity obtains exposure to Entity Z's credit risk by entering into a credit default swap (CDS) with a swap counterparty. The CDS passes Entity Z's credit risk to the structured entity in return for a fee paid by the swap counterparty. The investors in the structured entity receive higher benefits that reflect both the structured entity's return from its asset portfolio and the CDS fee. The swap counterparty does not have involvement with the structured entity that exposes it to variability of benefits from the performance of the structured entity because the CDS transfers variability to the structured entity, rather than absorbing variability of benefits of the structured entity.

Summarised financial information for controlled entities, joint ventures and associates (paragraphs .17 and .34)

- AG10. For each controlled entity that has non-controlling interests that are material to the reporting entity, an entity shall disclose:
- (a) dividends or similar distributions paid to non-controlling interests; and

- (b) summarised financial information about the assets, liabilities, surplus or deficit and cash flows of the controlled entity that enables users to understand the interest that non-controlling interests have in the economic entity's activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue and surplus or deficit.
- AG11. The summarised financial information required by paragraph AG10(b) shall be the amounts before inter-entity eliminations.
- AG12. For each joint venture and associate that is material to the reporting entity, an entity shall disclose:
 - (a) dividends or similar distributions received from the joint venture or associate; and
 - (b) summarised financial information for the joint venture or associate (see paragraphs AG14. and AG15.) including, but not necessarily limited to:
 - (i) current assets;
 - (ii) non-current assets;
 - (iii) current liabilities;
 - (iv) non-current liabilities;
 - (v) revenue;
 - (vi) tax expense (where applicable);
 - (vii) pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinued operations; and
 - (viii) surplus or deficit.
- AG13. In addition to the summarised financial information required by paragraph AG12., an entity shall disclose for each joint venture that is material to the reporting entity the amount of:
 - (a) cash and cash equivalents included in paragraph AG12(b)(i);
 - (b) current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iii);
 - (c) non-current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in paragraph AG12(b)(iv);
 - (d) depreciation and amortisation;
 - (e) interest revenue;
 - (f) interest expense; and

(g) income tax expense (where applicable).

AG14. The summarised financial information presented in accordance with paragraphs AG12. and AG13. shall be the amounts included in the financial statements prepared in accordance with the Standards of GRAP for the joint venture or the associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:

- (a) the amounts included in the financial statements prepared in accordance with the Standards of GRAP for the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies; and
- (b) the entity shall provide a reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture or associate.

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

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

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

AG16. An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

- (a) Revenue.
- (b) Tax expense (where applicable).
- (c) Pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinued operations.
- (d) Surplus or deficit.

An entity provides the disclosures separately for joint ventures and associates.

Contractual commitments for joint ventures (paragraph .37(a))

AG17. An entity shall disclose total contractual commitments it has made but not recognised at the reporting date (including its share of commitments made jointly with other

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investors with joint control of a joint venture) relating to its interests in joint ventures. Contractual commitments are those that may give rise to a future outflow of cash or other resources.

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

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

AG19. The requirements and examples in paragraphs AG17. and AG18. illustrate some of the types of disclosure required by paragraphs .27 and .28 of the Standard of GRAP on *Related Party Disclosures*.

Interests in structured entities that are not consolidated (paragraphs .38 to .46)

Structured entities

AG20. A structured entity is an entity that has been designed so that the conventional ways in which an entity is controlled are not the dominant factors in deciding who controls the entity. In the case of entities such as departments or ministries where legislation is often the dominant factor in deciding who has control of an entity, a structured entity is an entity that has been designed so that legislation is not the dominant factor in deciding who controls the entity. In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity (which may be the case for some entities with profit objectives), a structured entity is an entity

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

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

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

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

- (a) a partnership between a government and a private sector entity that is not a joint venture, being a partnership established and directed by binding arrangements;
- (b) securitisation vehicles;
- (c) asset-backed financings; or
- (d) some investment funds.

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

Nature of risks from interests in structured entities that are not consolidated (paragraphs .44 to .46)

AG24. In addition to the information required by paragraphs .44 to .46, an entity shall disclose additional information that is necessary to meet the disclosure objective in paragraph .38(b).

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

- (a) The terms of an arrangement that could require the entity to provide financial support to a structured entity that is not consolidated (e.g. liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support), including:
 - (i) A description of events or circumstances that could expose the reporting entity to a loss.
 - (ii) Whether there are any terms that would limit the obligation.
 - (iii) Whether there are any other parties that provide financial support and, if so, how the reporting entity's obligation ranks with those of other parties.
- (b) Losses incurred by the entity during the reporting period relating to its interests in structured entities that are not consolidated.
- (c) The types of revenue the entity received during the reporting period from its interests in structured entities that are not consolidated.
- (d) Whether the entity is required to absorb losses of a structured entity that is not consolidated before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity's interest in the structured entity that is not consolidated.
- (e) Information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in structured entities that are not consolidated.
- (f) Any difficulties a structured entity that is not consolidated has experienced in financing its activities during the reporting period.
- (g) In relation to the funding of a structured entity that is not consolidated, the forms of funding (e.g. commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analyses of the assets and funding of a structured entity if the structured entity has longer-term assets funded by shorter-term funding.



Comparison with the International Public Sector Accounting Standard on *Disclosure of Interests in Other Entities* (January 2015)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Disclosure of Interests in Other Entities* (IPSAS 38). The main differences between this Standard and IPSAS 38 are as follows:

- IPSAS 38 describes the residual of total assets after deducting total liabilities as “net assets/equity” whereas this Standard refers to “net assets”.
- This Standard requires that the disclosures to be presented on significant judgements and assumptions should be disclosed in the financial statements only. IPSAS 38 also allows an entity to provide these disclosures in other statements to which a cross-reference is then included in the financial statements.
- This Standard only requires disclosure requirements in relation to contractual commitments whereas IPSAS 38 requires the disclosure of all commitments.
- Additional guidance has been included to explain the intervention into the administration of one sphere of government by another sphere.