This accounting policy paper is based on IPSAS 38 Disclosure of Interests in Other Entities, as adopted by the Treasury of the Republic of Cyprus.

Disclosure of Interests in Other Entities

IPSAS Project Team
(by Christina Paradisioti)
The Treasury of the Republic of Cyprus

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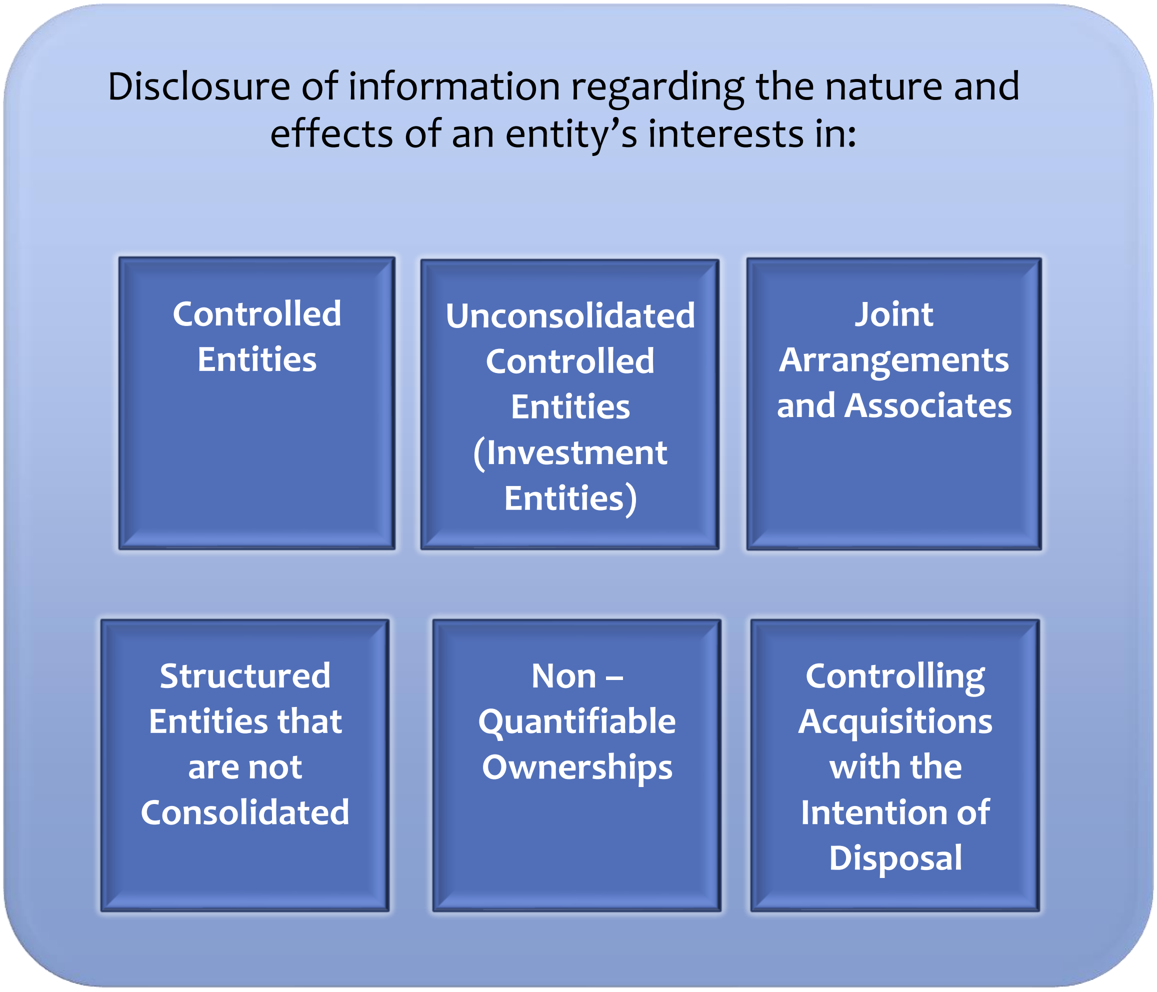
TABLE OF CONTENTS

1. INTRODUCTION

1.1 OVERVIEW



1.2 OBJECTIVES

The objective of this accounting policy 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 cashflows.

The aim of this policy is to provide technical accounting guidance for the preparation of financial statements, so as to enable the financial statements to give a true and fair view. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 SCOPE

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this policy in disclosing information about its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated. This accounting policy 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.

This accounting policy does **not** apply to:

a) Post-employment benefit plans or other long-term employee benefit plans, to which the Accounting Policy for Employee Benefits applies.
b) An entity's separate financial statements to which the Accounting Policy for 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 of paragraph 2.7 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 through surplus or deficit in accordance with paragraph 4 of the Accounting Policy for Consolidated Financial Statements shall present the disclosures relating to investment entities required by this accounting policy.
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 Accounting Policy for Financial Instruments. However, an entity shall apply this accounting policy:

i. When that interest is an interest in an associate or a joint venture that, in accordance with the Accounting Policy for Investments in Associates and Joint Ventures, is measured at fair value through surplus or deficit; or
ii. When that interest is an interest in a structured entity that is not consolidated.

1.4 DEFINITIONS

Associate is an entity over which the investor has significant influence.

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

An **interest in another entity** refers to the 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.

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

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

Controlled entity is an entity that is controlled by another entity.

Controlling entity is an entity that controls one or more entities.

Economic entity is a controlling entity and its controlled entities.

Equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognised in the investee's surplus or deficit.

Investment entity is an entity that:

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

Joint arrangement is an arrangement of which two or more parties have joint control.

Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

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

Relevant activities are activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.

Revenue from a structured entity 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.

Separate financial statements are those presented by an entity, in which the entity could elect, subject to the requirements of this accounting policy, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with the Accounting Policy for Financial Instruments, or using the equity method as described in the Accounting Policy for Investments in Associates and Joint Ventures.

Separate vehicle is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

A **structured entity** is:

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

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

- 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.
- Securitisation vehicles (The term "securitisation" means the operation by which a securitisation vehicle acquires or takes on risks linked to loans, goods or liabilities accepted by a third party by issuing transferable securities the value or yield of which is dependent on these risks).
- Asset – backed financings.
- Some investment funds.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, have the meaning presented in those accounting policies.

2. INFORMATION TO BE DISCLOSED

2.1 GENERAL

To meet the objective of this accounting policy, 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; and
   iii. That it meets the definition of an investment entity, if applicable; and
b) Information about its interests in:
   i. Controlled entities;
   ii. Joint arrangements and associates;
   iii. Structured entities that are not consolidated;
   iv. Non – quantifiable ownership interests; and
   v. Controlling interests acquired with the intention of disposal.

An entity shall disclose whatever additional information is necessary to meet the objective of this accounting policy. An entity shall also consider the level of detail necessary to satisfy the disclosure objective in paragraph 1.2 of this accounting policy and how much emphasis to place on each of the requirements in this accounting policy. 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.

2.2 SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS

An entity shall disclose the methodology used to determine:

a) That it has control of another entity as described in paragraph 2 of the Accounting Policy for Consolidated Financial Statements;
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.

The above disclosures shall be given in the financial statements.

2.3 Investment Entity Status

When a controlling entity determines that it is an investment entity in accordance with the Accounting Policy for Consolidated Financial Statements, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that it is an investment entity, unless it has all of the characteristics set out in paragraph 4.2 of the Accounting Policy for Consolidated Financial Statements.

When an entity becomes, or ceases to be, an investment entity, it shall disclose the change in 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 the second sub-paragraph of paragraph 4.3 of the Accounting Policy for Consolidated Financial Statements; and
c) The line item(s) in surplus or deficit in which the gain or loss is recognised (if not presented separately).

2.4 Interests in Controlled Entities

An entity shall disclose information that enables users of its consolidated financial statements:

1) To understand:
    a) The composition of the economic entity; and
    b) The interest that non-controlling interests have in the economic entity's activities and cashflows. An entity shall disclose for each of its controlled entities that have non-controlling interests that are material to the reporting entity:
        i. The name of the controlled entity;
        ii. The domicile and legal form of the controlled entity and the jurisdiction in which it operates;
        iii. The proportion of ownership interests held by non-controlling interests;
        iv. The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held;
        v. The surplus or deficit allocated to non-controlling interests of the controlled entity during the reporting period;

vi. Accumulated non-controlling interests of the controlled entity at the end of the reporting period; and

vii. Summarised financial information about the controlled entity's dividends or similar distributions paid to non-controlling interests, assets, liabilities, surplus or deficit and cashflows of the controlled entity. Such 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.

2) To evaluate:

a) The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the economic entity. In this respect, the entity shall disclose:

i. 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:
   - 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.
   - 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.

ii. 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 (for example 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).

iii. The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

b) The nature of, and changes in, the risks associated with its interests in consolidated structured entities. In this respect, the following apply:

i. 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).

ii. 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:
    - 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
    - the reasons for providing the support.

iii. 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.

iv. 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.

c) The consequences of changes in its ownership interest in a controlled entity that do not result in a loss of control. In this respect, an entity shall present a schedule that shows the effects on the net assets/ equity attributable to owners of the controlling entity of any changes in its ownership interest in a controlled entity that do not result in a loss of control.

d) The consequences of losing control of a controlled entity during the reporting period. In this respect, an entity shall disclose the gain or loss, if any, calculated in accordance with paragraph 3.2.4 of the Accounting Policy for Consolidated Financial Statements and:

i. 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

ii. The line item(s) in surplus or deficit in which the gain or loss is recognised (if not presented separately).

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 3.2.2 of the Accounting Policy for Consolidated Financial Statements) an entity shall disclose:

1) The date of the end of the reporting period of the financial statements of that controlled entity; and
2) The reason for using a different date or period.

2.5 INTERESTS IN UNCONSOLIDATED CONTROLLED ENTITIES (INVESTMENT ENTITIES)

An investment entity that, in accordance with the Accounting Policy for Consolidated Financial Statements, is required to apply the exemption to consolidation and instead account for its investment in a controlled entity at fair value through surplus or deficit, shall disclose that fact.

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 the jurisdiction in which it operates; and
c) The proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.

If an investment entity is the controlling entity of another investment entity, the controlling entity shall also provide the disclosures listed in (a) to (c) above, 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 entities) that contain the above information.

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.

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.

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).

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.

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 section 2.5 of this accounting policy in respect of such unconsolidated controlled entities.

2.6 INTERESTS IN JOINT ARRANGEMENTS AND ASSOCIATES

An entity shall disclose information that enables users of its financial statements to evaluate:

1) 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. In this respect, 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 the jurisdiction in which it operates; and
iv. The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

b) For each joint venture and associate that is material to the reporting entity:
    i. Whether the investment in the joint venture or associate is measured using the equity method or at fair value;
    ii. Summarized financial information about the joint venture or associate including, but not necessarily limited to:
        - dividends or similar distributions received from the joint venture or associate;
        - current assets;
        - non – current assets;
        - current liabilities;
        - non – current liabilities;
        - revenue;
        - tax expense;
        - pre – tax gain or loss recognised on the disposal of assets or statements of liabilities attributable to discontinuing operations; and
        - surplus or deficit.
    iii. Additional financial information about each joint venture that is material to the reporting entity of the amounts of:
        - cash and cash equivalents included in current assets;
        - current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in current liabilities;
        - non – current financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions) included in non – current liabilities;
        - depreciation and amortisation;
        - interest revenue;
        - interest expense; and

- income tax expense.

iv. 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) In aggregate for all individually immaterial joint ventures, and, **separately**, in aggregate for all individually immaterial associates, the following information:

i. Revenue.
ii. Tax expense.
iii. Pre – tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations.
iv. Surplus or deficit.

d) 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.

e) 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.

f) 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.

An investment entity is not required to provide the disclosures required by paragraphs 2.6(1)(b) – 2.6(1)(c) of this accounting policy.

2) The nature of, and changes in, the risks associated with its interests in joint ventures and associates. In this respect, an entity shall disclose:

a) Commitments (made but not recognised) that it has relating to its joint ventures separately from the amount of other commitments. Commitments are those that may give rise to a future outflow of cash or other resources. Examples of such unrecognised commitments include unrecognised commitments to provide loans or other financial support to a joint venture, or to contribute resources (e.g. assets or services) to a joint venture.

b) 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, in accordance with the Accounting Policy for Provisions, Contingent Liabilities and Contingent Assets.

2.7 INTERESTS IN STRUCTURED ENTITIES THAT ARE NOT CONSOLIDATED

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

1) To understand the nature and extent of its interests in structured entities that are not consolidated. In this respect, 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, the purpose, size and activities of the structured entity and how the structured entity is financed. If an entity has sponsored a structured entity that is not consolidated for which it does not provide information required by paragraph 2.7(2)(a), 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.

2) To evaluate the nature of, and changes in, the risks associated with its interests in structured entities that are not consolidated. In this respect, an entity shall:
   a) Disclose a summary of:
      i. The carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in structured entities that are not consolidated;
      ii. The line items in the statement of financial position in which those assets and liabilities are recognised;
      iii. 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

iv. 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.

b) 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), disclose:

   i. The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and
   ii. The reasons for providing the support.

c) 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.

2.8 NON – QUANTIFIABLE OWNERSHIP INTERESTS

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.

To the extent that this information has not already been provided in accordance with this accounting policy, an entity shall disclose, in respect of each non – quantifiable ownership interest that is material to the reporting entity:

1) The name of the entity in which it has an ownership interest; and
2) The nature of its ownership interest in the entity.

2.9 CONTROLLING INTERESTS ACQUIRED WITH THE INTENTION OF DISPOSAL

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 (e.g. government intervention by obtaining control of a financial institution to prevent failure).

For each of such a controlled entity, an entity shall disclose the following information in the notes:

1) The name of the controlled entity and a description of its key activities;
2) The rationale for the acquisition of the controlling interest and the factors considered in determining that control exists;
3) The impact on the consolidated financial statements of consolidating the controlled entity including the effect on assets, liabilities, revenue, expenses and net assets/ equity; and
4) The current status of the approach to disposal, including the expected method and timing of disposal.

The disclosures listed in 2.9(1) – 2.9(4) above 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:

1) The fact that there has been a disposal or change of intention; and
2) The effect of the disposal or change of intention on the consolidated financial statements.

Where other disclosures required by this or other accounting policies would provide information relevant to paragraph 2.9 of this accounting policy, a cross – reference to those other disclosures shall be provided.

3. TRANSITIONAL PROVISIONS

The disclosure requirements of this accounting policy need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which this accounting policy is applied.

The disclosure requirements of paragraphs 2.7, 2.8 and 2.9 of this accounting policy need not be applied for any period presented that begins before the first annual period for which this accounting policy is applied.

4. EFFECTIVE DATE

This rule shall be effective for annual financial statements covering periods beginning on or after 1 January 2024.

5. REFERENCES

This accounting policy is based on the following IPSAS standards:

IPSAS 33 First – time Adoption of Accrual Basis IPSASs

IPSAS 38 Disclosure of Interests in Other Entities