IGAS 9: Government Investments in Equity

GOVERNMENT ACCOUNTING STANDARDS ADVISORY BOARD

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Contents

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Introduction

1. The Union Government, State Governments, and Governments of Union Territories with Legislatures (hereinafter called Government), make investments in entities like Government companies, Statutory Corporations, other Joint Stock Companies and Cooperative Banks/ Societies etc. In addition, the Union Government also invests in international bodies and authorities like the International Monetary Fund, Asian Development Fund, and International Finance Corporation.

2. Government's investments in equity include direct investment in share capital, conversion of outstanding loans (principal and interest) against the entity into equity, and conversion of dividends declared by the entity, but not received, into equity. IGAS 9 covers all such investment in equity, and does not cover investment in the loan capital of the entity.

Objective

3. The objective of the Standard is to lay down the norms for recognition, measurement, and reporting of investments of the Government in the Financial Statements so that the financial statements provide a true and fair view of investments of the Government, consistent with best international practices.

Scope

4. This Standard applies to investments made in different investee entities by the Government for incorporation, and presentation in the Financial Statements. This standard will apply only to Government accounts being maintained on cash basis . It applies to investment in equity of the investee entities and not in debt, like debentures, bonds, and such other instruments which are normally accounted for by the investee entities as long term and short term debt. The Financial Statements shall not be considered as giving a true and fair view of investments unless they comply with this Standard.

Definitions

5. The following terms used in the Standard have meanings as specified hereunder unless the context otherwise requires:

i. Accounting Authority is the authority that prepares the financial statements of the Government.

ii. Accounting Period means the financial year covered by the financial statements, which is normally from 01 April to 31 March.

iii. Bonus Shares are shares issued free of cost to the shareholders by an investee entity by capitalising its reserves and / or the security premiums as per the requirement of the relevant law.

iv. Cash basis of accounting is one wherein the accounting transactions of the Government represent the actual cash receipts and disbursements during a financial year as distinguished from the amount due to *or* from the investee entity during the same period.

v. Disinvestment/ divestment / retirement of Government Equity means the sale or transfer of equity shares by the Government.

vi. Equity share is a share , which is not a preference share

vii. Financial Statements mean the Annual Finance Accounts of the respective Government.

viii. Government means the Union Government or any State Government or Government of any Union Territory with Legislature.

ix. Government investment in equity includes investment in equity shares obtained by the Government on payment of cash or in exchange of any other asset; exercise of a right granted by the investee; issuance of bonus shares by the investee entity; reinvestment of dividends; or conversion of loans into equity.

x. Historical Cost is the cost of acquisition of equity shares.

xi. Investee Entity is an entity in which an investment is made by the Government.

xii. Investee Group consists of a group of investee entities of similar nature and characteristics that can be collectively and distinctively addressed such as Statutory Corporations, Joint Stock Companies, International Bodies, State Cooperative Banks/other banks, Cooperative Societies, Employees Consumer Cooperative Societies, etc.

xiii. Preference shares mean shares which have the following two characteristics:

(a) that with respect to dividends, carry a preferential right to be paid a fixed amount or an amount calculated at a fixed rate ;

(b) that with respect to capital, they carry, over the equity share holder, on winding up or repayments of capital, a preferential right to be repaid the amount of the capital paid up or deemed to have been paid up.

xiv. Right shares are an allotment of shares on the issue of fresh capital by an investee entity to which a shareholder, by virtue of his holding, is entitled to, certain shares on payment in the investee enterprise in proportion to the number of shares already held by him.

Recognition

6. An investment in equity shall be recognised by the Government as an asset from the date on which the investment details are entered in the books of the entity.

7. Loans converted into equity and dividends declared but not distributed by the investee entity , converted into equity shall be treated as equity investments from the date on which such conversion takes place, i.e. from the date on which details of conversion are entered in the books of the investee entity.

Measurement

8. The method of initial measurement of investments in the financial statements of the Government is the historical cost of the investment. Where investment in equity is acquired on payment of cash including on exercise of rights granted by the investee, the historical cost is the amount of cash disbursed. Historical cost of Bonus shares is nil as there is no payment of cash. In case the Government acquires equity shares in consideration of any other asset, e.g., land, the historical cost of such investment shall be the face value of the equity shares. Where the equity shares are acquired on reinvestment of dividends, the historical cost of such shares is the amount of dividends against which the shares are allotted. Historical cost of equity shares acquired on conversion of loans is the amount of the loan outstanding (principal and interest) against which such shares are allotted.

9. Total market value of the investments will be calculated on the basis of the price quoted on the last day of the financial year in the primary market of trading of that particular stock *or* in case the quoted price is not available on that date, the price on the date at which it was last quoted before the closing of the financial year. This will be applicable to the listed companies whose shares are regularly traded on a recognised stock exchange during the year.

10. Investments subsequent to initial measurement shall also be reflected in the financial statements at historical cost.

11. The total amount of investments on the last date of an accounting period shall be the investments at the beginning of the period with additions and disinvestment / sale of investments during the period.

Disclosure

12. The Financial Statements of the Government shall disclose the amount of investments at the beginning and at the end of the accounting period showing additional investments, disinvestments / divestments or retirement /write down of capital / transfer of share if any . They will reflect the additions made during the year by way of investments to the opening balance and disinvestments/ divestments there from, for arriving at the closing balance. Types of investments are specifically mentioned and acquisitions of investments in terms of exchange of goods/other assets are also recorded. The amount of dividend received shall be reflected as revenue of the period.

13. The Financial Statements of the Government shall disclose the following details under the statement of 'Investments made by the Government' :

i. Detailed Statement of Investments made Investee Entity wise (**Table 1**).

ii. Detailed Statement of Disinvestments / divestments / retirement of capital / transfer of shares made Investee Entity wise (**Table 1A**)

iii. Summary of Investments: Investee group-wise (such as Statutory Corporations, Joint Stock Companies, Cooperative Banks, etc., as mentioned in paragraph 1.). (**Table 2**)

iv. Additional disclosures of investee entities which have not submitted accounts and / or have suffered a loss during the preceeding three consecutive years (**Table 3**)

13. The detailed statement of investments, investee entity-wise in the Financial Statements

of the Government shall report details including the full name of the entity, investee group to which the entity belongs, the Ministry or Department under which the investee is functioning, whether the enterprise is in operation or not etc. Details of disinvestment / divestments / retirement of capital / transfer of share during the year are reported in the Statement of disinvestment / retirement of capital, investee entity wise (**Table 1A**). While indicating the type and number of units, the units acquired, and those allotted as bonus shares, shall be depicted separately along with year of allotment (**Table 1**). The statements shall also disclose the total paid up capital of the entity. This would help indicate the extent of government control and whether the investment has increased *or* decreased. Moreover, where the units of investments are traded in the market, the amount of investment in terms of market value may also be disclosed. The price quoted on the last day of the financial year in the primary market of trading of that particular stock *or* in case the quoted price is not available on that date, the price on the date at which it was last quoted before the closing of the financial year may be taken into account.

14. The amount of dividend received and credited to Government revenue shall also be reported entity wise. In case the dividend received pertains to previous accounting periods, the year to which the amounts actually pertain are disclosed by way of a foot note. (**Table 1**).

15. Additional disclosures shall include the investments and disinvestments / divestments / retirement of capital / transfer of shares made during the reporting period. In addition, disclosures shall be made by way of a note to accounts in respect of investments in entities which have made a net loss i.e., loss after interest and taxes in the previous accounting period along with remarks where further investments have been made during the reporting period (**Table-3)**. Where the accounts of the investee entities are in arrears for more than three consecutive years, the fact should be disclosed, along with remarks in cases where the Government has invested in the entity during the reporting period. (**Table 3**).

16. All the figures in the financial statements are in lakh rupees.

Effective date and Transition

17. This Indian Government Accounting Standard becomes effective for the financial statements covering periods beginning from the 01 April of the year following the notification of the Standard by the Government.

Format for disclosure

18. The formats for disclosures in the financial statements of the Government are shown hereunder.

Statement of Investments of the Government

Table 1: Detailed Statement of Investments made: Investee Entity wise

(in Lakh rupees)

Sl. No	Name of the Entity	Opening balance on 01 April of the Financial Year	Details of Investment (cumulative)				Amounts invested during the year				Closing balance on 31 March of the Financial Year	*Total Market Value of Investment on the basis of quoted prices on the last day of the financial year.	Dividend received and credited to Government Accounts	Dividend declared by investee entities but not paid by them	Remarks
	Investee Group-I Statutory Corporations. Ministry (for Union Government)/Department for State Government and Union Territory with legislature Enterprises in Operation Investee 1 etc Non Operational enterprises Investee 1 etc Investee Group-II Government Companies Ministry (for Union Government) /Department for State Government and Union Territory with Legislature Enterprises in Operation Investee 1 etc. Non Operational enterprises Investee 1 etc. Investee Group-3 Joint Stock Companies etc.		Type of Investment	Number of Units	Face Value of each Unit In₹	Invested Amount	Type of Investment	Number of Units	Face Value of each Unit In₹	Invested Amount					
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16

* This will be applicable to the listed companies whose shares were regularlytraded on a recognized stock exchange during the year.

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Table 1 A: Detailed statement of Disinvestments / divestments/ retirement of capital / transfer of shares made: Investee Entity wise

(in **Lakh** rupees)

Sl. No.	Name of the Entity (Ref Entity No as in Table 1)	Details of disinvestment/retirement of capital during the year				Remarks
		Type of Investment	Number of Units	Face Value of each Unit at the time of disinvestment	Disinvested Amount	
1	2	3	4	5	6	7

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Table 2: Summary of investments: Investee Group wise

(in Lakh rupees)

Sl. No.	Investee Group	Balance on April 1, 20X0	Investments made during the year	Decrease of investment, if any, during the year	Balance on March 31, 20X1 (3+4-5)	Remarks
1	2	3	4	5	6	7

Table 3: Additional Disclosures of Investee Entities which have not submitted accounts and/or have suffered a loss during the preceeding three consecutive years

(in Lakh rupees)

Sl. No.	Name of Entity (Reference no. as per table 1)	Details of Investments				Amount invested	No of years for which accounts not submitted	Period of Loss	Total paid up capital of investee	Remarks
		Year of investment	Type of Shares	Number of Shares	Face value of each Share					
1	2	3	4	5	6	7	8	9	10	11