Ref. Ares(2014)989025 - 31/03/2014

EUROPEAN COMMISSION
Budget

The Accounting Officer of the Commission

Brussels,
BUDG.DGA.C02/MK/mt

**NOTE FOR THE ATTENTION OF PROF DR ANDREAS BERGMANN,
CHAIRMAN OF THE IPSAS BOARD**

Dear Andreas,

Subject: Comments on Exposure Draft 49: Consolidated financial statements

Thank you for giving me the opportunity to comment on the Exposure Draft 49 on consolidated financial statements. The following comments are made in my capacity as Accounting Officer of the European Commission responsible for, amongst other tasks, the preparation of the annual consolidated accounts of the European Union which comprise more than 50 European Agencies, Institutions and other Bodies with an annual budget of more than EUR 140 billion. These consolidated financial statements are drawn-up following IPSAS based accounting rules.

As a general comment, I am pleased to note that the current proposal contains even more public sector related terminology and guidance on the control concept in the public sector. Please find my comments on specific matters of this exposure draft in the Annex to this note.

I look forward to our continued co-operation in the area of public sector accounting and remain at your disposal for any questions that you may have on these comments.

Kind regards,

Manfred Kraff

Annex: Comments on specific matters

c.c.: S. Fox, J. Stanford, IFAC
R. Aldea Busquets, BUDG C

Annex: Comments on specific matters

> ***Specific Matter for Comment 1:***
>
> *Do you agree with the proposed definition of control? If not, how would you change the definition?*

Comment:

Yes, we do agree.

> ***Specific Matter for Comment 2:***
>
> *Do you agree that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this Exposure Draft)? If you consider that certain categories of entities should not be consolidated, please justify your proposal having regard to user needs and indicate your preferred accounting treatment for any such controlled entities. If you have any comments about temporarily controlled entities, please respond to Specific Matter for Comment 3.*

Comment:

We agree to the proposed approach; except the current proposal for controlling entities that control investment entities (see below SMC 5).

> ***Specific Matter for Comment 3:***
>
> *Do you agree with the proposal to withdraw the exemption in IPSAS 6, Consolidated and Separate Financial Statements (December 2006) for temporarily controlled entities? If you agree with the withdrawal of the exemption please give reasons. If you disagree with the withdrawal of the exemption please indicate any modifications that you would propose to the exemption in IPSAS 6 (December 2006).*

Comment:

We do not entirely agree with the proposal to withdraw the current approach. We do think that under certain circumstances it could indeed be appropriate to exempt certain entities from consolidation. We support in this respect the arguments presented in the alternative view on exceptional public sector interventions and "short-term" control situations.

> ***Specific Matter for Comment 4:***
>
> *Do you agree that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus*

or deficit?

Comment:

We agree that there is no public sector specific reason to depart from IFRS in this respect. However, regarding the definition of an investment entity itself, we believe that a broader approach could have been more appropriate since the main argument in BC26 refers to the fact that many public sector entities manage their investments on a fair value basis. So the exemption from consolidation could apply to a broader range of public entities that manage their investments on a fair value basis.

Specific Matter for Comment 5:

Do you agree that a controlling entity, that is not itself an investment entity, but which controls an investment entity should be required to present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, Financial Instruments: Recognition and Measurement, and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with this Standard?
Do you agree that the proposed approach is appropriate and practicable? If not, what approach do you consider would be more appropriate and practicable?

Comment:

We do not entirely agree with the proposal as it currently stands. We do agree that the consolidation exception for investment entities should be rolled up to the ultimate controlling entity on the basis of the argument in BC26 that the controlling entity manages the investments of the investment entity on a fair value basis.

We are however concerned with respect to the fact that, unlike in the IFRS 10 approach, different organisation structures in different jurisdictions may lead to different accounting outcomes. On the basis of the argument that a non-investment controlling entity manages its investments on a fair value basis, then it should not make a difference whether or not an investment entity is in the scope of consolidation. An ultimate controlling entity might for example use a public sector investment entity that is, by law, outside the scope of consolidation for investment management services. We understand that in this case a line-by-line consolidation of the investments would be required. The same would be true for investments managed by a non-consolidated entrusted entity (fiduciary) or by a department of the non-investment controlling entity although the investments are managed on a fair value basis. We believe that the accounting treatment of investments of a controlling entity that manages its investments on a fair value basis should not depend on the existence of a consolidated investment entity.

If one accepts that there is a public sector specific reason to depart form IFRS 10, as it is proposed now, one should probably further explore public sector organisational structures for such investments which are, to our opinion, often designed differently than in the private sector.

Specific Matter for Comment 6:

The IPSASB has aligned the principles in this Standard with the Government Finance Statistics Manual 2013 (GFSM 2013) where feasible. Can you identify any further opportunities for alignment?

Comment:

No further opportunities identified.