IPSASB Exposure Drafts

ED 48, *Separate Financial Statements*

ED 49, *Consolidated Financial Statements*

ED 50, *Investments in Associates and Joint Ventures*

ED 51, *Joint Arrangements*

ED 52, *Disclosure of Interests in Other Entities*

response to exposure drafts

28 February 2014

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/ 140228 SC0206

Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto
Ontario M5V 3H2
CANADA
Submitted electronically

February 2014

Dear Stephenie Fox

IPSASB Exposure Drafts
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CIPFA is pleased to present its response to this exposure draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comment

As noted in successive responses, CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's project to develop and maintain IFRS converged IPSASs or through wholly public sector specific IPSASs.

The proposals in these ED IPSASs have the effect of maintaining up to date standards in respect of interests in other entities, having regard to the IASB initiatives in this area including new standards IFRS 10-12 and amended standards IAS 27 and 28. Responses to the IPSASB consultation on its workplan also identified a need to review the concept of control as used by public sector entities for the purpose of determining entity accounting boundaries and categorising relationships for reporting purposes.

The proposals mainly echo the changes and the logic of the IFRS developments. While the IASB pursued these as part of a convergence project with US GAAP, they also reflected a concern that the standards had been developed in a way that led to inconsistencies in application, particularly in the determination of the existence of control. In some cases the reporting and disclosure focused on legal form rather than the substance of the arrangement.

CIPFA generally supports the proposals.

Comments on issues not covered by IPSAS standards

The proposed IPSAS XX (ED 49) notes that guidance is not provided on public sector combinations. Unlike IFRS 10, it does not cross-refer to a relevant standard, because the body of IPSASs currently lacks a standard on public sector combinations. Reporting on these needs to follow the same principles for determination of the entity boundary and reporting on interests in related entities. We would urge the Board to complete its project on public sector combinations as soon as possible.

We also note that much of the discussion in the Basis of Conclusions for proposed IPSAS XX (ED 49) relates to whole of government accounts (WGA), but that there is no mention of whole of government accounts in the body of the proposed standard. While the material in the Basis of Conclusions sets out the reasons why IPSASB has elected not to allow alternative approaches to be used for consolidation of WGA, we nevertheless consider that Whole of Government Accounts are an important and distinctively public sector topic, and that it would be helpful for more information on their characteristic features to be provided in this IPSAS or in other guidance.

Response to specific questions

Comments on the specific matters for comment are provided in the attached Annex.

I hope this is a helpful contribution to the development of the Board's guidance in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t:+44(0)20 7543 5794).

Yours faithfully

Alison Scott
Assistant Director, Policy and Technical
CIPFA
3, Robert St, London, WC2N 6RL
Tel: 01604 889451
e:alison.scott@cipfa.org
www.cipfa.org

ANNEX A

Specific Matters for Comment

ED 48, *Separate Financial Statements*
Specific Matter for Comment 1: Do you agree generally with the proposals for separate financial statements? In particular, do you agree with the proposal to permit the use of the equity method, in addition to cost or fair value, for investments in other entities?
CIPFA generally agrees with the proposals in ED 48, including the proposal to permit the use of the equity method. We note that the proposal to permit the use of the equity method is aligned with the proposal recent IASB Exposure Draft ED/2013/10 *Equity Method in Separate Financial Statements* which was issued after the issuance of this IPSASB ED.

ED 49*, Consolidated Financial Statements*
Specific Matter for Comment 1: Do you agree with the proposed definition of control? If not, how would you change the definition?
CIPFA agrees with the proposed definition of control, but we suggest that some additional clarification would be useful. We agree that it is helpful to confirm that public sector entities obtain value from their assets both through conventional monetary returns and through wider benefits achieved through service provision in line with entity objectives. The proposed IPSAS XX (ED 49) achieves this by using a definition based on rights or exposure to 'benefits' rather than the IFRS 10 term 'returns'. It is very important to communicate the fact that 'benefits' may be negative as well as positive, and we note that this is addressed in the definition of 'Benefit'. The focus on benefits 'from' the potentially controlled entity may be more subjective than that in IFRS 10, which considers the share of the total returns 'of' the entity. It is therefore particularly important to prove the link between benefits and the power to direct the relevant activities of the entity. The ED IPSAS does this at paragraphs 31-32, but we are not sure this fully outlines the principles by which a decision could be made as to which of two competing entities with similar objectives has control.
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.
CIPFA agrees that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this Exposure Draft).
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).
CIPFA agrees with the proposal to withdraw the exemption in IPSAS 6 for temporarily controlled entities, for the reasons outlined in the exposure draft Basis for Conclusions.

ED 49, Consolidated Financial Statements (continued)
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?
Yes
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?
Yes.
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?
CIPFA has not identified any further opportunities.

ED 50, *Investments in Associates and Joint Ventures*
Specific Matter for Comment 1 Do you generally agree with the proposals in the Exposure Draft? If not, please provide reasons.
CIPFA generally agrees with the proposals in ED 50.
Specific Matter for Comment 2 Do you agree with the proposal that the scope of the Exposure Draft be restricted to situations where there is a quantifiable ownership interest?
CIPFA agrees. IPSAS 7 uses 'shareholding or other formal equity structure' but this is too narrow for the wider variety of structures which are intended to be covered by the proposed IPSAS.
Specific Matter for Comment 3 Do you agree with the proposal to require the use of the equity method to account for investments in joint ventures? If not, please provide reasons and indicate your preferred treatment.
CIPFA agrees with this proposal.

Drafting Comment

Having regard to the use of black letter type in ED 50, we suggest that the material in paragraph 22 sets out a key requirement and this should also be signalled in black letter type.

ED 51, *Joint Arrangements*
Specific Matter for Comment 1: Do you agree that joint arrangements should be classified as joint ventures or joint operations based on whether an entity has (i) rights to assets and obligations for liabilities, or (ii) rights to net assets?
CIPFA generally agrees with this proposal.
Specific Matter for Comment 2: Do you agree that joint ventures should be accounted for in consolidated financial statements using the equity method?
Yes

ED 52, *Disclosure of Interests in Other Entities*
Specific Matter for Comment 1: Do you agree the proposed disclosures in this draft Standard? If not, why? Are there any additional disclosures that would be useful for users of financial statements?
CIPFA generally agrees with these proposals.
Specific Matter for Comment 2: Do you agree with the proposal that entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity are not structured entities? If not, please explain why and explain how you would identify entities in respect of which the structured entity disclosures would be appropriate.
CIPFA agrees with the proposed approach.