Federation of European Accountants
Fédération des Experts comptables Européens

Ms Stephenie Fox
Technical Director
IPSASB
IFAC

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20 February 2014

Ref.: PSC/AKI/PGI

Dear Ms Fox,

IPSASB ED 49 Consolidated Financial Statements

(1) FEE (the Federation of European Accountants, www.fee.be) is pleased to submit its views on this proposed International Public Sector Accounting Standard.

General Comments on the Exposure Draft

(2) We strongly support IPSASB's programme which helpfully combines IFRS converged IPSASs on matters which are common to both private and public sectors, public sector specific IPSASs on matters which are unique to the sector, and conceptual work which will inform the development of standards in future, seeking to achieve the optimum balance between maintaining comparability and addressing sector specific issues.

(3) We have reviewed the changes in terminology between this Exposure Draft and its donor Standard, IFRS 10, and agree that the revised terminology better represents the position of public sector bodies. We also agree with the inclusion of additional commentary and illustrative examples in the Exposure Draft to clarify the applicability of the proposed Standard to accounting by public sector entities.

(4) We have also considered the IPSASB's decision to replace references to IFRS 9 Financial Instruments contained in IAS 27 with references to the IPSASs dealing with financial instruments. As the IPSASB has not yet considered the applicability to the public sector of this standard, and also in view of the fact that the IASB's proposed amendments to this standard are not complete, we agree with the IPSASB's decision to remove references to it in this Exposure Draft. Likewise, we also agree with the IPSASB's decision to replace references with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, with

those of relevant IPSASs on the grounds that IPSASB has not yet considered this standard for applicability to the public sector.

Specific Matters for Comments

(5) FEE's views are set out below on the Specific Matters on which the IPSASB would particularly value comments.

Specific Matter for Comment 1

Do you agree with the proposed definition of control? If not, how would you change the definition?

(6) We agree with the definition of control in the Exposure Draft being based around the concept of an entity being exposed to or having rights to variable benefits from its involvement in another entity and having the ability to affect the nature and rights over those benefits as a result of its power over that entity.

Specific Matter for Comment 2

Do you agree that a controlling entity should consolidate all controlled entities (except where otherwise stated in this ED)? 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.

(7) We agree that as a general principle an entity should consolidate all entities over which it has control with the exception of investment entities. Apart from investment entities, we have not identified other categories of entity that should be exempted from consolidation.

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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).

(8) We agree with the proposed withdrawal of the exemption from consolidation for temporarily controlled entities. It is our belief that even if the initial intention is only to control such entities for a short period, in circumstances where control by a public sector body becomes necessary a longer period of control is often unavoidable. This is especially the case where a substantial reorganisation of the entity acquired is necessary before it can be removed from public control.

(9) In order to fully highlight the risks and costs involved in the public sector taking control of such entities, as well as to improve comparability within public sector accounting, we believe that such entities should be accounted for in a manner consistent with the other entities over which the public sector body has control, even if the initial intention is that control over them is to be temporary.

Specific Matter for Comment 4

Do you agree that a controlling entity that is an investment entity should account for its investments at fair value through surplus and deficit?

(10) On balance, we agree with the IPSASB's proposal for an exception to the consolidation principle on the basis that the measurement of investees controlled by an investment entity at fair value produces more decision useful information than consolidation.

(11) We believe that if an investment controlled by an investment entity is held for capital appreciation, investment income or both only and the investor has a stated exit strategy for the investment or strategies for generating long-term investment income - that investment should be measured at fair value through surplus and deficit.

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 in the controlled entity at fair value through surplus or deficit in accordance with IPSAS 29 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 practical?

(12) Once it is established that fair value is the appropriate measurement basis at the investment entity subsidiary level, this accounting should be "rolled up" to the consolidated financial statements of the ultimate controlling entity. This would reflect the fact that part of the activities of the ultimate controlling entity involves a different business model which is to hold the investments of an investment entity for capital appreciation, investment income or both.

(13) We also believe that it is appropriate and practical that all other non-investment assets and liabilities and revenue and expenses of the controlled investment entity should be consolidated by the controlling entity as normal. This will ensure a consistent valuation and presentation of similar assets and liabilities and revenue and expenses amongst all the controlled entities.

Specific Matter for Comment 6

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

(14) We have no comments on this specific matter.

For further information on this letter, please contact Paul Gisby, Project Manager from the FEE Team, on +32 2 285 40 70 or via e-mail at paul.gisby@fee.be.

Yours sincerely,

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President

Olivier Boutellis-Taft
Chief Executive