27 February 2014

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Email: stepheniefox@ifac.org

Dear Stephenie

Exposure Draft ED 49 Consolidated Financial Statements

Thank you for the opportunity to comment on the above Exposure Draft (ED). CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the proposals and our comments follow.

CPA Australia and the Institute represent over 210,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We were pleased to read that the International Public Sector Accounting Standards Board (IPSASB) has reaffirmed its policy of converging the International Public Sector Accounting Standards (IPSAS), to the extent appropriate, with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB). Therefore, it is our expectation that IPSASB will only modify IFRS when there are unique public sector issues that would warrant such modifications. This approach promotes the goal of global standard setting and provides national standards setters such as Australia with financial reporting standards that can be used to support their reporting frameworks for both 'non-profit' entities and 'for profit' entities.

We generally support the proposals in the ED. However, we do not support the proposal that a controlling entity that is not itself an investment entity does not consolidate controlled investment entities. Our rationale is based on consistency with IFRS 10, as well as our concern about the proposed exemption presenting possible structuring opportunities.

The Appendix to this letter contains our response to the question for comment. If you require further information on any of our views, please contact Mark Shying, CPA Australia at mark.shying@cpaaustralia.com or Kerry Hicks, the Institute at kerry.hicks@charteredaccountants.com.au.

Yours sincerely

Alex Malley	**Lee White**
Chief Executive	**Chief Executive Officer**
CPA Australia Ltd	**Institute of Chartered Accountants Australia**

Appendix

Specific Matter for Comment 1:

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

Yes, we agree with the proposed definition of control. However, within the definition of control is the term 'power', and we have concerns with the proposed definition of power, as it has been amended from IFRS 10 *Consolidated Financial Statements*. The amended words in the definition are highlighted below in bold:
"consists of existing rights that give the current ability to direct the relevant activities of another entity, **including the right to direct the financial and operating policies of that entity**."
We do not consider that a significant public sector issue has been identified that would require the modification. Therefore, we propose the removal of the additional words in the definition.

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.

Yes, we agree that a controlling entity should consolidate all controlled entities except in the limited circumstances contained in paragraph 5 of ED 49. However, we do not agree with the proposal to extend the exception to the controlling entity of an investment entity that is not itself an investment entity (see our comments to Specific Matter for Comment 5 below).

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).

Yes, we agree with the proposal to withdraw the exemption for temporarily controlled entities in IPSAS 6, as this will achieve the same outcome as applying IFRS 10; and we are not aware of any unique public sector issues that would warrant divergence.

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, we agree with the proposed accounting requirements that would apply to a controlling entity that meets the definition of an investment entity.

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?

No, we do not agree with the proposed approach as it is not consistent with the IFRS 10 requirements. A parent of an investment entity should consolidate all entities that it controls unless the parent itself is an investment entity.

Given the IPSASB policy of converging IPSAS with IFRS to the extent possible, it is our expectation that the reason for this modification would be unique public sector issues. However, no such issues are presented in the proposals. On reading the Basis for Conclusions to ED 49 it is apparent that for the IPSASB the structuring opportunities that worried the IASB are of less concern in the public sector context. We remain concerned that these requirements would present structuring opportunities in government accounts and hence we do not support the inclusion of these proposals in the final standard.

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?

We support the approach taken and we have not identified other opportunities for alignment.