

17 March 2014

Ms Stephenie Fox
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International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA
Submitted to: www.ifac.org

Dear Stephenie

Interest in Other Entities Exposure Drafts

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the following 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*.

EDs 48-52 were issued for comment in New Zealand and, as a result, you may also receive comments directly from New Zealand constituents.

We are pleased that the IPSASB has undertaken to update a number of key IPSASs and are generally supportive of the proposals in the EDs. Most of our comments relate to the proposals in ED 49, particularly with respect to the definition of benefits and the application of the proposals to entities with pre-determined activities. In our experience the identification of benefits and assessments of control in relation to entities that have pre-determined activities are the most difficult aspects of assessing whether control exists. We therefore propose including additional guidance to more explicitly deal with situations where entities have congruent activities and where entities operate on auto-pilot.

Our responses to the Specific Matters for Comment are set out in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact Vanessa Sealy-Fisher (vanessa.sealy-fisher@xrb.govt.nz) or myself.

In addition to commenting on the specific matters for comment we have provided some additional suggestions to clarify requirements or to provide more guidance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kimberley Crook', written in a cursive style.

Kimberley Crook

Deputy Chair – New Zealand Accounting Standards Board

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APPENDIX

Response to 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?

We support this proposal. We acknowledge the reasons given by the IPSASB for proposing to continue to permit the use of the equity method in separate financial statements.

We also note that the IASB has proposed to restore, in IAS 27 *Separate Financial Statements*, the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

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?

We support the proposed definition of control.

However, we propose some changes to the definitions of “benefits” and “power”, both of which are key aspects of the definition of control. We also propose providing more guidance in respect of entities operating on auto-pilot.

Definition of “benefits”

We note that the IPSASB has chosen to use the term “benefits” rather than the term “returns” which was used in IFRS 10. We support the use of the term benefits on the grounds that returns could be narrowly construed as relating to financial returns.

We recommend amending the definition of benefits to refer to the advantages that an entity *seeks to obtain*. Our reason for recommending this change is that the actual impact of having an interest in another entity may be better or worse than anticipated. Entities obtain interests in other entities because they hope to obtain benefits (both financial and non-financial) from the arrangement. Although the ED does explain that an entity may also be exposed to risks, we are concerned that some readers could read the definition of benefits in the ED as requiring that there be a net positive impact. For the same reason we also recommend that paragraph 26 distinguish between expectations and actual outcomes. We suggest that it contrasts expectations which are generally of a positive nature (having regard to both financial and non-financial benefits), with actual outcomes which may be positive or negative (having regard to both financial and non-financial benefits).

The proposed changes to the definition of benefits are shown as marked up text below.

Benefits are the advantages an entity obtains or seeks to obtain from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity’s involvement with another entity ~~Benefits~~ can have positive or negative aspects.

26. An entity is exposed, or has rights, to variable benefits from its involvement with an entity being assessed for control when the benefits that it seeks from its involvement have the potential to vary as a result of the other entity’s performance. Entities become involved with other entities with the expectation of positive financial or non-financial benefits over time. However, in a particular reporting period, the actual impact of an entity’s ~~The entity’s benefits from its~~ involvement with the entity being assessed for control can be only positive, only negative or a mix of both positive and negative.

We note that only the first sentence in the definition of benefits is essential. Although the additional explanation in the remainder of the definition is also addressed elsewhere in the ED, we can appreciate that the IPSASB wanted to highlight key ideas for readers and, on balance, we support the fuller definition.

Definition of “power”

We recommend removing the reference to directing financial and operating policies from the definition of power (as shown below) because:

- (a) it is adequately discussed in paragraph 19 (shown below); and
- (b) it could be read as implying that, in order to have power, an entity must have the ability to direct the financial and operating policies of the other entity (and we do not think the IPSASB intended this).

Power 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.~~

Paragraph 19

19. An entity has power over another entity when the entity has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the nature or amount of the benefits from its involvement with the other entity. The right to direct the financial and operating policies of another entity indicates that an entity has the ability to direct the relevant activities of another entity.

We suggest that all references to power over financial and operating policies through the document be reviewed to make sure that they consistently express the idea that power to direct financial and operating policies is an indicator of power, not a requirement for power.

Autopilots

We are requesting additional guidance on autopilot arrangements because we consider this is a reasonably common scenario in the public sector. We have a number of entities in New Zealand, including charitable trusts, which are established with the specific purpose of providing services that would otherwise have to be provided by a central or local government. Sometimes they are regarded as a way of obtaining community involvement, both in terms of finding out what services the community needs, and in involving communities in the delivery of services. Once these entities are established, typically they operate in the manner determined at inception, with little on-going substantive decision-making, and they may not require ongoing funding from the central or local government. In such cases it is essential to pay close attention to the objects and purpose of the entity being assessed for control. These may be far more important than the ongoing arrangements. Indeed, there may be little evidence of control on a day to day basis.

We are concerned that the guidance in ED 49 might not lead to assessments of control in all circumstances where it would be appropriate. We consider that there should be more emphasis in the guidance on the fact that entities can be established with predetermined activities and the possibility that such arrangements might mean that power has already been exercised at the time an entity was established.

Paragraph 23 of the ED states that “An entity with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised.” The paragraph also refers to evidence of powers being exercised on an ongoing basis. We consider that it would be appropriate

to acknowledge that rights might (i) already have been exercised; (ii) be exercised on an ongoing basis; or (iii) be yet to be exercised.

Paragraph AG53 does discuss purpose and design, but we consider that more emphasis should be given to the possibility that the ability to determine the purpose and design of an entity may give rise to control and that it is necessary to consider more than decision-making rights.

Our suggestions in relation to paragraphs 23 and AG53 are shown as marked up text below.

23. An entity with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the entity has been directing the relevant activities of the entity being assessed for control can help determine whether the entity has power, but such evidence is not, in itself, conclusive in determining whether the entity has power over the entity being assessed for control. In the case of an entity established with predetermined activities, the right to direct the relevant activities may have been exercised at the time that the entity was established.

AG53. In assessing the purpose and design of another entity (see paragraphs AG5–AG8), an entity shall consider the involvement and decisions made at the inception of the other entity as part of its design and evaluate whether the transaction terms and features of the involvement provide the entity with rights that are sufficient to give it power. Being involved in the design of another entity alone is not sufficient to give an entity control of that other entity. However, involvement in the design of the other entity may indicate that the entity had the opportunity to obtain rights that are sufficient to give it power over the other entity and hence the ability to determine the purpose and design of an entity may give rise to power. In the case of an entity established with most (or all) of its relevant activities predetermined at inception, assessing the impact of having the ability to determine the purpose and design of an entity may be more relevant to the control assessment than any on-going decision-making rights.

If more discussion of autopilot arrangements is included in the document, the paragraphs dealing with the link between power and benefits will need to be revised. An expanded discussion of benefits (as suggested below) should assist the discussion of the link between power and benefits.

Issues in applying IFRS 10 guidance to autopilot arrangements

In addition to our comments above about autopilot arrangements in the public sector, we are aware that issues have also been raised regarding the application of the guidance in IFRS 10 to certain structured entities. The European Financial Reporting Advisory Group (EFRAG) has published a document entitled *Supplementary study – Consolidation of Special Purpose Entities (SPEs) under IFRS 10* which focused on how the requirements of IFRS 10 would affect the consolidation of special purpose entities (SPEs) as described in SIC-12 *Consolidation – Special Purpose Entities*. Participants indicated that they expected the change in the scope of consolidation of SPEs to be relatively small compared to the total population of SPEs and total assets of SPEs, with the overall impact being a small net increase in the total number of SPEs being consolidated.

Although some changes in the entities that would, or would not be, consolidated is an expected outcome of changing the accounting requirements, we are concerned that some entities on autopilot might be inappropriately deconsolidated as a result of applying the requirements in IFRS 10. The EFRAG study noted that participants might not have power over certain vehicles when

there are no ongoing decisions over the relevant activities or such ongoing decisions are made by third parties (as this would mean that the participants cannot significantly affect the returns, as defined by IFRS 10, of the SPEs). The EFRAG study noted that this would be the case of SPEs that run on autopilot, since all decisions are determined at inception and detailed in the legal agreements, or SPEs where the counterparty can only direct the relevant activities (for example, if the counterparty could select a special servicer which could not be removed by participants).

Expand the discussion of benefits

We consider that it would be helpful if the ED provided more discussion of benefits. For example:

(a) Paragraph 27 refers to “congruent activities”. Paragraph 29(b) also gives an example of non-financial benefits, being the value to an entity of another entity undertaking activities that assist the entity in achieving its objectives. It would be helpful for the standard to provide more detailed discussion of congruent activities and the fact that the existence of congruent activities might relieve an entity from an obligation to provide services. Suggestions are shown below as marked up text.

27. The entity’s benefits from its involvement with the entity being assessed for control can be only financial, only non-financial or both financial and non-financial. Financial benefits include returns on investment such as dividends or similar distributions and are sometimes referred to as returns. Non-financial benefits include advantages arising from scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the entity. Non- financial benefits can occur when the activities of another entity are congruent with, (that is, they are in agreement with), the objectives of the entity and support the entity in achieving its objectives. For example, an entity may obtain benefits when another entity with congruent activities provides services that the first entity would have otherwise been obliged to provide. Congruent activities may be undertaken voluntarily or the entity may have the power to direct the other entity to undertake those activities. Non-financial benefits can also occur when two entities have complementary objectives (that is, the objectives of one entity add to, and make more complete, the objectives of the other entity).

29. Examples of non-financial benefits include:

- (a) The ability to benefit from the specialized knowledge of another entity;
- (b) The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives, including providing services that the entity would otherwise have been obliged to provide;
- (c) Improved outcomes;
- (d) More efficient delivery of outcomes;
- (e) More efficient or effective production and delivery of goods and services;
- (f) Having an asset and related services available earlier than otherwise would be the case; and
- (g) Having a higher level of service quality than would otherwise be the case.

- (b) There could be clearer acknowledgement in the standard that an entity may obtain benefits from services being provided to a third party.
- (c) Benefits may be direct or indirect. Paragraph 27 refers to benefits received directly by service recipients of the entity. We consider that it would be helpful for the standard to acknowledge that benefits are often indirect and to give examples of indirect benefits.
- (d) Paragraph 27 refers to a residual interest in an entity's assets and liabilities as an example of benefits. Additional discussion of this possible benefit would be helpful.

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.

Overall support

We strongly support the proposal that a controlling entity should consolidate all controlled entities (except in the specific circumstances outlined in the ED). It is appropriate that general purpose financial statements have a whole of government focus rather than a focus on the reporting entity for budgetary reporting or statistical reporting. Consolidation of controlled entities is consistent with a focus on the whole of government.

Importance of transparent reporting

In our opinion consolidation of all controlled entities results in more transparent reporting of an entity's interests in other entities. A recent IMF paper¹ discussed the importance of fiscal transparency and stated "Fiscal transparency helps ensure that governments' economic decisions are informed by a shared and accurate assessment of the current fiscal position, the costs and benefits of any policy changes and the potential risks to the fiscal outlook." Consolidation provides more comprehensive information on the current fiscal position and contributes to a more informed assessment of fiscal risks.

Public sector entities should be accountable to stakeholders for their decisions to commit resources to investments in other entities and to expose the reporting entity to the risks and benefits that may arise from such investments, regardless of the circumstances in which such investments occur. Consolidated financial statements provide information that assists in assessments of accountability. We consider that application of the concepts of control and consolidation of controlled entities ensured that the New Zealand Government provided a comprehensive picture of the effect of supporting financial institutions during the global financial crisis.

We note that the ED allows for possibility that an entity could control another entity, despite not having a present ownership interest. We consider that this is appropriate and have had a recent case

¹ International Monetary Fund, *Fiscal Transparency, Accountability, and Risk*, August 2012

in New Zealand whereby it was agreed that the Government controlled an insurance company by virtue of potential voting rights and other factors, despite the lack of a present ownership interest.

Fundamental principles

The usefulness of consolidated financial information is heavily dependent on financial information being prepared in a consistent manner. Control and consolidation of controlled entities are fundamental principles underpinning financial reporting.

Other users and other information

We acknowledge that there are users with an interest in budget sector financial statements and statistical reports that might find other forms of reporting more useful than financial statements that consolidate all controlled entities. However, we do not consider that meeting these needs is the objective of general purpose financial statements. It may be possible to provide information that meets these other user needs through segment reporting, or by providing reconciliations between the information reported in the general purpose financial statements and other reports.

We accept that in some circumstances other information may also be useful. For example, some users might have a specific interest in information on the cost or fair value of a group of investments. However, this information may be available elsewhere and does not detract from the benefits of having consolidated financial statements. General purpose financial statements are intended to meet the common information needs of users collectively and cannot be expected to meet all the information needs of specific users. Conversely information prepared to satisfy the information needs of specific users is unlikely to meet the common information needs of users of general purpose financial statements.

Where subgroups of users have an interest in certain information we consider that this can be accommodated by providing supplementary information. For example, certain users' desire for consolidated budget sector information could be met by presenting that information in conjunction with consolidated whole of government information.

Comments on the exceptions in the Exposure Draft are noted in our response to SMCs 3 to 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).

We support the proposal to withdraw the exemption in IPSAS 6 (December 2006) for temporarily controlled entities. This exemption was withdrawn from New Zealand's accounting standards some time ago. Our comments on Question 2, regarding the importance of consistent application of accounting policies are also relevant here.

We note that, at this stage, the IPSASB has decided not to develop a standard based on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. New Zealand's PBE Standards include a standard based on IFRS 5 and in the case of investments held for sale, the presentation and disclosure requirements of IFRS 5 would be applicable. We consider that these requirements provide appropriate information on investments held for sale.

We note that despite a government's intention to dispose of an interest in an entity within a certain timeframe, this is often not feasible and the actual disposal may take a number of years. We consider that such interests in other entities should be accounted for in the same manner as all other interests, as they are ultimately still controlled.

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?

Our response to this question reflects our circumstances. The NZASB is a domestic standard setter with responsibility for setting standards for both for-profit entities and public benefit entities. Our larger for-profit entities apply New Zealand equivalents to IFRSs and larger public benefit entities will apply standards based on IPSASs (from 1 July 2014). Having regard to our prior experience in using one set of standards for both for-profit and public sector entities, and the existence of groups that comprise entities from both sectors, the NZASB seeks to avoid unnecessary differences between these suites of standards.

We have reservations about the implications of creating exceptions to consolidation of controlled entities. We had a number of concerns regarding the IASB's investment entity proposals and outlined those concerns in our comment letter to the IASB. These concerns included the following:

- (a) insufficient discussion of the concepts on which the proposals were based, including an explanation as to why meeting users' needs in this instance would require non-consolidation of controlled assets and liabilities;
- (b) the implications of moving from transaction-based standards to industry-based standards; and
- (c) the absence of an analysis of options that might meet both the principle of consolidation and provide fair value information about investments held by investment entities.

Despite our concerns about the IASB's proposals, we acknowledge that the IASB followed appropriate due process in developing its requirements for investment entities. In particular, the IASB had regard to feedback from some of its constituents who were of the view that certain types of entities are managed on a fair value basis and that users prefer to receive fair value information in respect of those entities.

The fact that the IASB has issued the investment entity amendments has changed the international accounting environment. The existence of the investment entity requirements in IFRS 10 has influenced the views of constituents that are familiar with IFRSs and the views of those standard setters that have an objective of international harmonisation.

We consider that there will be few public sector entities that meet the definition of an investment entity. However, where such entities exist, we consider that the nature of those entities and the needs of their users, will be the same in both the private and public sector. Given that an investment entity controlled by a public sector entity might be required to report in accordance with IPSASs or IFRSs we see no justification for establishing different requirements.

We note that many investment entities reporting in accordance with IPSASs will be required to make the disclosures specified in ED 52 paragraph 14 about significant judgements and assumptions made in determining that it is an investment entity (because they do not have the characteristics listed in ED 49 paragraph 57). We consider that such disclosures are appropriate.

Given the matters discussed above, we therefore concur with the IPSASB's proposals for investment entities, insofar as they relate to an investment entity's financial statements.

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?

In our response to SMC 4 we noted that we seek to avoid unnecessary differences between the standards applicable to for-profit entities and those applicable to public benefit entities. These comments are also relevant to this question. Therefore the NZASB would not support a treatment different to that required by IFRS 10, unless the IPSASB were able to identify a strong public sector reason for such a difference. We note that the IASB considered and decided against retaining the investment entity accounting in a non-investment entity parent, for conceptual and practical reasons. (For example, the exception from consolidation was created specifically for investment entities, whereas a non-investment entity parent is not an investment entity.) We are not convinced that the circumstances in the public sector are sufficiently different to warrant a different conclusion. Therefore, we do not support this proposal.

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 have not responded to this question. We do not encounter these issues in the New Zealand context.

Additional Comments on ED 49

We have some additional comments on ED 49 which may be helpful in finalising the standard.

Additional guidance on uniform accounting requirements

In developing PBE IPSAS 6 *Consolidated and Separate Financial Statements*, which is based on IPSAS 6, the NZASB received feedback that constituents wanted guidance on the application of consistent accounting policies in consolidated financial statements. Integral application guidance on this topic has been included in PBE IPSAS 6. We suggest that the IPSASB include guidance on the application of uniform accounting policies to ensure conformity with the economic entity's accounting policies.

Trusts

Given the prevalence of trusts to carry out activities in some jurisdictions, we consider that there could be more discussion of, and references to, trusts. We note that paragraph 59(c) refers to trusts but consider that a discussion of trusts could be usefully incorporated elsewhere.

We have provided an example of a controlled charitable trust that could form the basis of an additional example.

Trust A promotes, supports and undertakes programmes, actions and initiatives to beautify City A. It receives funding from the local government for various services, including graffiti removal, beautification projects and running environmental events. It reports back to the local government on its performance in delivering these services. If the Trust did not exist the local government would be required to find some other way to deliver these services. The Trust also receives assistance through donations and volunteer work by the local community including local businesses, schools, community groups and individuals.

The Trust was originally established by an elected official of the local government.

The governing body of the local government appoints all the trustees (having regard to requirements for balance in gender, location etc). There are between 5 and 12 trustees. The trustees then appoint the officers.

Changes to the Trust deed must be approved by the trustees and the governing body of the local authority.

If the Trust is wound up, surplus assets are to be given or transferred to a similar charitable body in the area. The recipient body must be approved by the local government.

The local government has a mix of rights over the Trust including:

- (a) rights to appoint, reassign or remove members of the Trust's key management personnel who have the ability to direct the relevant activities;
- (b) rights to approve or veto operating and capital budgets relating to the relevant activities of the Trust; and
- (c) rights to veto key changes to the Trust, such as the sale of a major asset or of the Trust as a whole.

Special voting rights attaching to ownership interests (Golden shares)

Paragraph AG37 provides a description of golden shares. However, it does not go on to say that the rights associated with golden shares may give rise to power. We consider it would be helpful to add this statement (as shown below).

AG37. An entity may have the right of decisive vote, thus to veto all other voting rights of another entity. This type of right is sometimes referred to as a “golden share”. Such special voting rights may give rise to power. Usually these rights are documented in the founding documents of the other entity (such as articles of association), and are designed to restrict the level of voting or other rights that may be held by certain parties. They may also give an entity veto powers over any major change in the other entity, such as the sale of a major asset or of the other entity as a whole.

Entitlement

Paragraph AG84 refers to an entity ceasing to be entitled to benefits. We note that there have previously been debates within New Zealand regarding the meaning of “entitlement” when applying financial reporting standards and consider that similar debates could arise in other jurisdictions. We would therefore suggest that paragraph AG84 refer to an entity ceasing “to be able” to receive benefits.

Implementation guidance

Flowchart

We recommend that the flowchart set out following paragraph IG2 (which attempts to summarise the requirements of the standard and the key issues that an entity would need to consider) be omitted. We do not consider that it is possible to summarise a complex standard in such a flowchart and there is a risk that the diagram might be used in isolation from the detailed discussion in the standard.

Examples

We note that ED 49 has been modified to contain a number of public sector examples and support this approach. However, we consider that some examples do not contain sufficient information to support the conclusions given. We recommend that all examples be reviewed to see if they contain sufficient discussion of substantive and protective powers. Some examples could be omitted. Comments on specific examples follow.

Example 8	This example focuses on certain powers only. It does not provide information about the rights of various parties in accordance with the constitution of the entity being assessed for control. Nor does it discuss the ability of the potential controlling entity to make substantive decisions. In particular, we recommend that the conclusion in Example 8B be amended or supported by additional information.
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Other specific examples	<p>Omit or expand Examples 12, 13, 26, 27, 31, 38.</p> <p>Both examples 27 and 31 have a concluding statement that the entities are under joint control. This is inappropriate, because (a) there is no analysis of whether joint control exists; (b) this is not the appropriate standard to address joint control; and (c) the fact pattern does not contain sufficient information to assess joint control. We recommend that if these examples are retained, the references to joint control be omitted.</p> <p>Example 36(a) refers to trustees controlling a trust. Given the nature of the relationship between a trustee and a trust it would be more appropriate to state that the trustees have <i>power</i> over the trust (rather than control).</p>
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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.

We are generally supportive of the proposals in the Exposure Draft.

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?

We agree with this proposal. We acknowledge that there may be situations where there is no quantifiable ownership interest but agree with the IPSASB that the equity method cannot be applied in such circumstances.

If there is an ownership interest, but this is not quantifiable, we consider that disclosure of this fact would be appropriate. We have commented on this in our response to ED 52.

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.

We agree with the proposal to require the use of the equity method to account for investments in joint ventures.

We note that IASB constituents have requested that the IFRIC consider whether additional guidance is required to clarify the application of the equity method to investments in joint ventures that are investment entities. We request that the IPSASB have regard to the recent issues raised by IASB constituents when it finalises the standards based on these EDs.

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?

We agree with the proposed classification. Classification of a joint arrangement based on the rights and obligations of the investor is more appropriate than classification based on whether the arrangement is structured through an entity.

Specific Matter for Comment 2:

Do you agree that joint ventures should be accounted for in consolidated financial statements using the equity method?

We agree that joint ventures should be accounted for in consolidated financial statements using the equity method.

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?

We support the proposed disclosures.

We propose one additional disclosure. If an entity has an ownership interest in another entity, but this interest is not quantifiable, and the entity does not control the other entity, then we consider that disclosure of the existence of such an ownership interest would be appropriate.

We note that paragraph 13 (shown below), permits disclosures regarding the methodology used to determine the existence of control, joint control or significant influence to be satisfied by cross-reference to a report that may be outside the financial statements.

13. The disclosures required by paragraph 12 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

We note that the ability to satisfy disclosure requirements by way of cross reference to other documents may not be permitted in some jurisdictions. We therefore recommend that paragraph 13 acknowledge that this option may be subject to jurisdictional restrictions.

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.

We agree with this proposal. Because this is a new requirement it may take some time before entities are able to provide feedback on implementation difficulties. We would therefore encourage the IPSASB to seek some form of post-implementation feedback on the disclosure requirements in the forthcoming standard based on this ED, to allow for a reassessment of the costs and benefits of the requirements.