International Public Sector Accounting Standards Board
Ms Stephenie Fox
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Dear Ms Fox,

IPSASB Exposure Drafts 48-52 on Interests in Other Entities

PwC welcomes the opportunity to respond to the Exposure Drafts on Interests in Other Entities, which address fundamental questions of public sector accounting and financial reporting:

- 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.

We also support the IPSASB's approach which aligns IPSAS with IFRS where appropriate, and adequately addresses the specific characteristics of the public sector in the standards developed.

Our response summarises the views of firms in the PricewaterhouseCoopers ('PwC') network that commented on the consultation paper. 'PwC' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Our responses to the specific questions in the Exposure Drafts can be found in the Appendices to this letter.

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If you would like to discuss any of these points in more detail, please contact Jan Sturesson ((+46) 10 212 99 39), Jean-Louis Rouvet ((+33) 1 56 57 85 78), Patrice Schumesch ((+32) 2 710 40 28), or myself ((+44) 207 804 2497).

Yours sincerely,

PricewaterhouseCoopers IL

John Hitchins,
PwC Global Chief Accountant

Appendix 1: Response to the question in the IPSASB Exposure Draft 48 on Separate Financial Statements

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?**

   Yes. We agree in general with the proposals for separate financial statements.

   In particular, we agree with the Board's decision to retain the option to use the equity method for investments in other entities for the reasons set out in the basis for conclusions. We also note that the IASB has proposed introducing this option to IFRS and we have supported this proposal.

Appendix 2: Response to the questions in the IPSASB Exposure Draft 49 on Consolidated Financial Statements

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

We agree with the proposed definition of control.

We welcome the statement that determination of the economic entity will need to be made with regard to user needs, the definition of an economic entity and the constitutional arrangements in a jurisdiction. We believe that this is of particular importance to link the preparation of consolidated financial statements to the accountability process applicable in the public sector.

Complementary benefits
We also welcome the use of the term "benefits" in the public sector context, as opposed to the term "returns" used in IFRS. We would however recommend providing additional guidance and/or examples where one entity establishes another entity and receives indirect complementary benefits from the activities of this entity.

Public sector entities commonly set up entities to supply goods and services to third parties that meet their operating objectives. In such circumstances the public sector entity may benefit from these complementary activities as opposed to receiving direct benefits from the other entity. We believe that the standard should clarify under what circumstances benefits from complementary activities would establish an entitlement to receive benefits. Our view is that the public sector entity's entitlement to benefits is established (1) if the supply of goods and services by the other entity is directly consistent with the operating activities of the public sector entity; (2) the goods and services supplied are determined by the public sector entity; and (3) the public sector entity is relieved from an actual or a constructive obligation to provide such supply/public sector entity has a right to receive a service delivery from the other entity.

Definition of power
In the definition of "power" the phrase *"...including the right to direct the financial and operating policies of that entity"* does not seem to add to the first part of the definition and therefore seems to be superfluous - giving examples of what relevant activities might include is not the purpose of a definition. In fact, the inclusion of these words may mean to some that there is something special about these activities and, as a result, may be considered in different ways to other relevant activities. We recommend that examples of what constitutes power are added to the guidance material and removed from the proposed definition.

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.**

   We agree that a controlling entity should consolidate all controlled entities. Consolidated financial statements are more transparent and useful if they comprehensively include information on all entities controlled by the controlling entity.

   Our comments on the (potential) exceptions in this ED are noted in our response to questions 3 to 5 below.

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 'Consolidated and Separate Financial Statements' for temporarily controlled entities. We believe it is important that the financial statements (and consolidated financial statements) of a reporting entity show all the assets it controls and the obligations it has incurred, regardless of the time period those assets or liabilities are held, or the reasons those items arose. The same can be said of the revenues, expenses and cash flows of the reporting entity.

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?**

   We agree with the overall concept of this requirement. If the investment controlled by the public sector entity is held for capital appreciation, investment income or both, and is managed on a fair value basis, we agree that measuring it at fair value through surplus or deficit provides more useful and relevant information because of the nature of the investment.

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?

   We believe that the proposed treatment is consistent with the proposed requirement to account for investments that are held for capital appreciation, investment income or both, and that are managed on a fair value basis, at fair value through surplus or deficit.

   We also agree that all other (non-investment) assets and liabilities, and revenue and expenses of the controlled investment entity should be consolidated following the normal consolidation rules.

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 no specific comments on this topic.

   We support harmonisation between IPSAS and Government Finance Statistics where relevant and welcome the recent publication by the IPSASB of the policy paper setting out the process for considering Government Finance Statistics reporting guidelines during the development of IPSASs.

7. **Other comments on ED 49**

   Mixed groups

   Public sector entities that prepare their financial statements under IPSAS may control and thus consolidate financial statements of other entities that prepare their own financial statements using a different accounting framework (so called ‘mixed groups’). This is for example the case when a government controls and consolidates a government business enterprise which prepares its financial statements under IFRS.

   On consolidation the principle is to apply “uniform accounting policies for like transactions and events in similar circumstances”. This requirement means that, during the consolidation process, the amounts reported in the financial statements of a member of the economic entity need to be adjusted where that member uses accounting policies that differ from the accounting policies applied in the consolidated financial statements for like transactions and events in similar circumstances.

This principle is sound but may involve practical implementation issues for entities in the consolidation scope that are reporting using another accounting framework (e.g. IFRS) and raises questions on what circumstances should give rise to such adjustments.

In order to prevent differences in interpretation, we believe that the standard would benefit from added guidance on when consolidation adjustments to conform the accounting policies of the controlling entity in a mixed group situation would be required. For example, we believe that consolidation adjustments are not required when the transactions entered into by the entity using an accounting framework other than IPSAS relate to different circumstances. As an example, the controlling entity and one of its controlled commercial entities may have assets whose physical nature is similar but that are used for a different purpose in different types of activity. In such case, differences in the application of the accounting policies are justified by the different environments in which the entities operate.

Golden share

AG37 describes what a golden share is, but fails to provide any guidance as to the consequences of its existence. We believe that the paragraph should go on to say that the rights attaching to the golden share should be considered as part of the overall assessment of power. In some cases golden shares provide the holder only with protective rights, in others the rights are substantive.

Use of flowcharts

Flowchart 2 'Assessing Control of Another Entity Financial reporting Purposes' on page 66 is not clear and does not address all circumstances that should be considered in determining whether control exists (e.g. the purpose and design of the other entity). In addition, having answered no to the first question, the flowchart leads to a box that asks an inappropriate question. It also does not explain the consequences of answering that question.

We believe that this flowchart can be misleading and should be deleted.

Use of examples

52 examples are given in the Illustrative Examples section. We understand that this high volume of examples aims to provide good guidance on how the control and other consolidation concepts should be interpreted in a public sector context. While we welcome this, we believe that where examples are used, the relationship between the fact pattern and the conclusions should be clear in order to limit the risk of misinterpretation. For example:

- Example 12 illustrates the operation of a golden share. In our view, the fact pattern and the analysis should be further developed to explain how the conclusion is reached.

- Example 26: we believe that additional guidance should be given about circumstances where powers are substantive and how this should be considered in the context of entities which the government has established (either by legislation or otherwise). In this example, there is no discussion about how substantive the powers of the board in fact are, it just leaps to the conclusion that the entity is not controlled by the government.

- Example 27: there is no indication in the fact pattern that the shared service company is under joint control (which requires the unanimous agreement of the participants), yet that is the conclusion reached. We agree that none of the participants seem to control. However, we do not believe that the fact pattern supports a conclusion of joint control, nor do we believe it is necessary or desirable to reach such a conclusion in an example illustrating the determination of whether control exists.

- Example 38: we are unsure what the term "delegated control from the Minister" means. Does it mean that the Minister has no control, or does it mean that the Health Department has control but because the Minister controls the Health Department he also controls the statutory body? Delegated control is not a term used in the standard and therefore we believe that further explanation is needed.

Other reporting entities to which certain provisions of the standard may apply

Financial statements can be produced that meet the needs of certain users in terms of accountability and decision-making purposes but the scope is different from the scope of consolidation which includes the controlling entity and all of its controlled entities. For example, whole-of-government accounts can be produced that combine the accounts of all entities of all government levels, even if no control relationship exists between some of these combined entities (e.g. when the central government has no control on local government entities).

While preparation of such accounts clearly falls outside the scope of the proposed standard, certain provisions included in it (for example regarding the elimination of intra-reporting entity transactions and the use of uniform accounting policies) may apply and the IPSASB might consider developing some guidance in relation to the preparation of such accounts.

Appendix 3: Response to the questions in the IPSASB Exposure Draft 50 on Investments in Associates and Joint Ventures

1. **Do you generally agree with the proposals in the Exposure Draft? If not, please provide reasons.**

   We are in overall agreement with the proposals in the ED.

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 the accounting treatment proposed in the standard and which applies to entities in which a quantifiable ownership interest is held.

   We however believe that the IPSASB should provide guidance on how to treat entities on which the public sector entity exercises significant influence, without however holding a quantifiable ownership interest in it. As it stands, one interpretation of the current standards is that these investments are captured by IPSAS 29 *Financial Instrument: Recognition and Measurement* as IPSAS 29 does not apply to interests in associates and joint ventures that are <u>accounted for</u> under IPSAS 7 or 8. If this is the intention, we recommend that there be a direct cross reference to IPSAS 29. In any case, we recommend that guidance is provided on the appropriate treatment.

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 for investments in joint ventures.

4. **Other comments**

   Paragraph26 (b) of ED 50 proposes to measure the investments retained in a former associate or joint venture at fair value only if published price quotations are available. The proposal continues that if no published price quotations are available, the investment is measured at its carrying amount at the date when it ceases to be an associate or a joint venture.

   We note that the proposed requirement is inconsistent with IAS 28 to measure the remaining investments at fair value and IPSAS 29 that requires a financial instrument to be measured at fair value on initial recognition. We recommend that the requirements are aligned with IAS 28 and IPSAS 29 unless no published price quotations are available and fair value cannot otherwise be measured reliably. We also recommend that the reasons to depart from fair value be added to the Basis of Conclusions so the users understand them.

Appendix 4: Response to the questions in the IPSASB Exposure Draft 51 on Joint Arrangements

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, which is based on whether the public sector entity has rights to assets and obligations to liabilities, or rights to net assets of the joint arrangement.

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

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

Appendix 5: Response to the questions in the IPSASB Exposure Draft 52 on Disclosure of Interests in Other Entities

1. **Do you agree with 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 in the ED and have not identified any additional disclosures that would be useful for users of financial statements.

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 the proposal but believe that it would be useful to include some guidance and/or illustrative examples that help identify entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity.

   We do not have other specific comments.