



**INTERNATIONAL FEDERATION  
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**Agenda Item**  
**4**

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**DATE:** February 6, 2009  
**MEMO TO:** Members of the IPSASB  
**FROM:** Annette Davis  
**SUBJECT:** Entity Combinations from Exchange Transactions

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**OBJECTIVE OF THIS SESSION**

To **approve** ED 41, “IPSAS xx, “Entity Combinations from Exchange Transactions”.

**AGENDA MATERIAL**

- 4.1 ED 41, “Entity Combinations from Exchange Transactions”: Marked-up copy reflecting changes to IFRS 3 “Business Combinations”.
- 4.2 Memo to confirm previous preliminary decisions taken by the Board regarding entity combinations from non-exchange transactions.

**BACKGROUND**

- 1. At the Moscow meeting in June 2008, the Board formed a preliminary view that the entity combinations project should result in two standards:
  - a. Entity combinations arising from exchange transactions and not under common control; and
  - b. Entity combinations arising from non-exchange transactions under common control and not under common control.
- 2. Staff was directed to develop an Exposure Draft based upon IFRS 3 “Business Combinations” for component 1(a) above, i.e. entity combinations arising from exchange transactions and where the entities were not under common control. The Board considered that combinations arising from exchange transactions and under common control did not occur and thus has not been included in this project.
- 3. The Board also expressed a preliminary view that the definitions in IFRS 3 such as business, business combination, goodwill, etc., need to be amended to take into consideration the concept of service potential arising from the non-cash-generating activities and assets found in non-GBE public sector entities.
- 4. Furthermore, the Board also expressed initial support for the Canadian Public Sector Accounting Board’s (PSAB) approach whereby acquisitions involving an

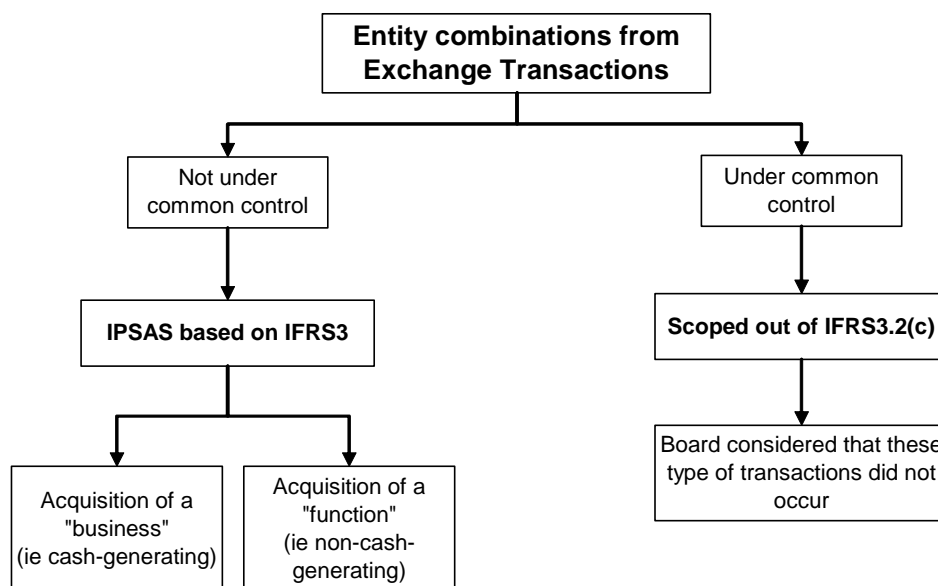
entity where the underlying assets predominately encompass service potential, i.e. a non-GBE entity, any purchase premium/goodwill calculated after fair valuing the acquired identifiable assets and liabilities should be immediately expensed.

5. An extract of the minutes from the June 2008 meeting is in Appendix 2.

## **OVERVIEW**

6. The draft ED 41 “Entity Combinations from Exchange Transactions” is limited to an entity combination which arises from an exchange transaction and occurs when an acquirer receives entities, businesses or functions from another entity and gives, directly in exchange, approximately equal value in the form of cash or other consideration. The draft ED also restricts its scope to entity combinations where the entities to the combination are not controlled by the same ultimate controlling entity.
7. However, the public sector also undertakes entity combinations arising from non-exchange transactions. An entity combination involving entities, businesses or functions arising from a non-exchange transaction is an entity combination in which an acquirer receives value from another entity without directly giving approximately equal value in exchange, i.e. the consideration does not approximate the fair value of the resources received. This issue is addressed in Agenda Paper 4.2.
8. In order to understand which types of combinations are within the scope of the draft ED “Entity Combinations from Exchange Transactions”, the Staff set out below a diagram.

**Diagram: Overview of Entity Combinations from Exchange Transactions**



9. The draft ED “Entity Combinations from Exchange Transactions” is based on IFRS 3 “Business Combinations” and includes the following adaptations.
  - a. The phrase “entity combination” has been used instead of “business combination” to reflect that public sector entities may be businesses or may be entities which undertake non-cash-generating activities.
  - b. A new definition “function” has been included to encompass entities or an integrated set of activities which is non-cash-generating so that non-cash-generating activities are clearly distinguishable from businesses which are cash-generating activities. The draft Appendix B Application Guidance includes an explanation of a function which is based on the South African Accounting Standards Board’s (ASB) Discussion Paper 4 “Transfers of Functions”.
  - c. The definition of goodwill has been expanded to “purchase premium/goodwill” to reflect that, in a for-profit entity, goodwill is an asset. In a public sector entity, whether or not a purchase premium is an asset will depend upon the type of entity acquired. Where a public sector entity acquires a business, any purchase premium is considered to be an asset and is therefore capitalised as goodwill. Where a public sector entity acquires a function, any purchase premium is considered to be a cost of acquisition and is therefore expensed in the period of acquisition. This treatment is based upon the Canadian Public Sector Accounting Board’s (PSAB) standard PS 2510 “Additional Areas of Consolidation”. It is consistent with the Board’s preliminary view that on the acquisition of a non-GBE entity, any purchase premium/goodwill calculated after fair valuing the acquired identifiable assets and liabilities should be immediately expensed.
  - d. A new definition “ownership interests” has been included to reflect that a controlling entity may own an entity through a deed or by statute.
10. Appendix 1 contains a table which summarizes the scope of ED 41.

#### **PROPOSED AMENDMENTS TO IPSAS 26 IMPAIRMENT OF CASH-GENERATING ASSETS**

11. IPSAS 26 “Impairment of Cash-Generating Assets” does not include “goodwill” in its scope. This Standard is adapted from IAS 36 “Impairment of Assets”, which contains extensive requirements and guidance on the impairment of goodwill. The IPSASB concluded that goodwill should not be within the scope of this Standard whilst the Board did not have a Standard dealing with entity combinations. Consequently, the paragraphs previously excluded need to be considered. Appendix C “Amendments to other IPSASs” of Agenda Paper 4.1 contains the relevant paragraphs, which are marked up for appropriate terminology changes.

## **INTANGIBLE ASSETS**

12. The Board is concurrently completing its Standard on intangible assets, which includes guidance relating to measuring the fair value of an intangible asset acquired in an entity combination from an exchange transaction. The relevant paragraphs from Agenda Paper 3.1 have been included in Appendix 3 for ease of reference.

**APPENDIX 1: OVERVIEW OF SCOPE OF ED 41 ENTITY COMBINATIONS  
FROM EXCHANGE TRANSACTIONS**

Acquirer	Type of transaction	Common control	Type of acquiree	Apply	Comments
GBE				Apply IFRS 3 “Business Combinations”	
Public Sector controlling entity, other than GBE	Exchange	Not under common control	Business	Apply paragraphs 42-46 on recognizing and measuring purchase premium/goodwill or a gain from a bargain purchase	Example B1 Accounting treatment same as IFRS 3
			Function	Apply paragraphs 47-50 on recognizing and measuring purchase premium/goodwill or a gain from a bargain purchase	Example B2 Public sector specific – accounting treatment adapted from IFRS 3
		Under common control		Scoped out of ED 41, paragraph 3(d)	Do not occur, paragraphs B4-B7
	Non-exchange	Not under common control		Scoped out of ED 41, paragraph 3(a) Where a combination has both exchange and non-exchange elements, apply the appropriate accounting treatment for the non-exchange component of the combination by using the hierarchy in IPSAS 3 (paragraph 7)	Example B3  Board to address non-exchange entity combinations in a separate standard
		Under common control		Scoped out of ED 41, paragraph 3(a) Where a combination has both exchange and non-exchange elements, apply the appropriate accounting treatment for the non-exchange component of the combination by using the hierarchy in IPSAS 3 (paragraph 7)	

## **APPENDIX 2: EXTRACT FROM JUNE 2008 MEETING MINUTES**

### **5. ENTITY COMBINATIONS**

Staff provided a brief background noting that in Accra the Board had agreed the need for this project to commence in 2008 with the general view that IFRS 3 could be convergent for the public sector.

Staff gratefully acknowledged the support provided by the staff of the South African member in the preparation of the papers as well as those Board members who were able to provide, since the Accra meeting, examples of entity combinations in their jurisdictions.

Members began by discussing the view that, overall, for those restructurings which fall outside of IFRS 3 (particularly where under common control), public sector restructurings should occur with no re-measurement of the underlying assets and liabilities impacted i.e., carrying values should be used.

Even if the restructuring occurred between entities where the existence of common control was transitory in nature (eg: forced amalgamation of municipalities by a higher level of government), it was noted that such restructurings should also apply carrying values. In such circumstances there was arguably a common control which existed beyond that of a transitory nature – notably the collective common control of the general citizenry by the higher level of government.

To use a value other than carrying value would have the potential to compromise comparability between the current and future periods, consistency, accountability and impose a cost to perform the re-measurement which would not at least equal the benefits.

The broad application of carrying values to public sector restructurings outside of IFRS 3 was generally supported by numerous members. An additional comment was made that from, for example, the perspective of amalgamating/annexing of municipalities, to re-measure assets and liabilities would subsequently impact costs of services to citizens despite the substance of the restructured entities remaining the same.

Members considered that despite general agreement with the opening discussion, it was still necessary to have a fulsome discussion on the underlying issues.

#### Grouping of Restructurings

Staff noted that in keeping with the scope of IFRS 3, it was being proposed to have the project consider four categories of restructurings divided into two groups:

- Group 1 – Entity Combinations – public sector version of IFRS 3 covering restructurings:
- not under common control – exchange transactions; and

Group 2 – Transfer of Functions – separate IPSAS project covering restructurings:

- not under common control – non-exchange transaction;
- under common control – exchange transaction; and
- under common control – non-exchange transaction.

Comment was made as to the need for a project for any of the group 2 restructurings as the resulting accounting should all be at carrying value. The lack of complexity did not warrant a specific project.

Others considered that the absence of international guidance for at least common control restructurings, which were very prevalent in the public sector, necessitated the need for a public sector project. The IPSASB generally shared this view though there was discussion as to how the four categories should be grouped. Some considered that the groupings could be more user-friendly.

A suggestion was made to organize according to whether or not the restructuring was an exchange or non-exchange arrangement i.e.,

Group 1 – within a public sector version of IFRS 3:

- Exchange - not under common control; and
- Exchange - under common control; and

Group 2 – separate IPSAS project;

- Non-exchange - not under common control; and
- Non-exchange - under common control.

Some support was expressed for this approach though it was noted that IFRS 3 currently scopes out business combinations under common control. An alternative suggestion to improve user friendliness was to re-consider the proposed headings for the groups, in particular, ‘transfer of functions’. Some considered that transfer of functions was not broad enough to encompass the various restructurings which could occur in that grouping.

Overall, the Board:

- agreed progressing the project using the groupings provided by staff (this position was subsequently reconsidered by the Board); and
- directed staff to reconsider the labels for group 1 and particularly group 2 to ensure they better encompass the broad suite of restructurings that could occur within each.

Staff then moved discussion to consider public sector specific issues associated with each of group 1 and group 2 restructurings.

Issues - Group 1      • not under common control - exchange

*Non-GBE-Type Acquisitions*

Staff noted the issue related to the acquisition of an entity whose under-lying assets predominately encompass service potential (eg: non-GBEs) vs economic potential (eg: GBEs). The recognition of goodwill/purchase premium for non-GBE-type entities was inconsistent with the existing definition of goodwill in IFRS 3 (which focuses on economic potential). Staff noted that the different treatment of goodwill based on the under-lying assets of the acquired entity formed the basis of existing guidance of the Canadian public sector accounting standards board.

In response to a question, staff clarified that any potential goodwill calculated would be based upon acquired assets which had been re-measured to fair value as at the acquisition date and therefore that re-measurement should encompass future service potential.

Given the clarification, members expressed concern at the inappropriateness of allocating costs to future periods for service potential. It was noted that some time in the future, there was the option for the recipient entity to re-measure its assets if it was felt that their full service potential was not correctly reflected in the existing carrying value.

As such, the Board expressed the preliminary view:

- supporting the Canadian approach that where the acquisition involved an entity where the under-lying assets predominately encompass service potential, any purchase premium/goodwill calculated after fair valuing the acquired identifiable assets and liabilities, should be immediately expensed;
- supporting staff's intention to review the definitions within IFRS 3 (eg: business, business combination) to take into consideration the service provision aspects of public sector entities.

Issues - Group 2      • not under common control – non-exchange  
                                 • under common control – exchange  
                                 • under common control – non-exchange

In relation to group 2 restructurings, staff noted that the focus of the issues discussion would be on recognition, measurement and disclosures with brief discussion about terminology/definitions and presentation of the guidance within the IPSASB Handbook.

*Recognition*

Staff focused discussion on contribution by and distributions to owners and revenue and expense.

Staff led the IPSASB through existing guidance in IPSASs 1, *Presentation of Financial Statements* and 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* as well as the work of some national standard setters to assist in determining the most appropriate approach for recognition.



- Restructurings under common control – exchange and non-exchange: staff discussion focused on the key tenet that ultimately the controlling body is restructuring within itself. Supported by further rationale, staff advised that their preliminary view was that for such restructurings, recognition should be treated as a contribution/distribution by/to owner
- Restructurings not under common control - non-exchange: staff focused on the key tenet that the control of the body requiring or imposing the restructuring is often transitory in nature. As such, ultimately the controlling body is not restructuring within itself. Given this, the staff preliminary view was that such restructurings should more likely be recognized as revenue and expense.

The Board re-considered an earlier expressed view that even when control is transitory, often in those situations, it could be considered that common control in substance actually exists over the entities being re-restructured. However, in one jurisdiction a constitutional challenge was raised in the courts over the ability of an upper-level of government to combine two municipalities - and the municipalities won. The outcome of the case provided evidence that the nature of the relationship between the parties perhaps was not as simple as what might have been thought.

In considering these views, the Board overall was comfortable with staff's preliminary views on recognition:

- under common control – exchange – contribution by and distributions to owners;
- under common control – non-exchange – contribution by and distributions to owners; and
- not under common control – non-exchange – more likely revenue and expense.

### *Measurement*

Staff noted that there was much existing guidance on measurement developed by standard setters which focuses essentially on the acquisition approach ie: measuring acquired assets and liabilities at fair value with guidance on the treatment of goodwill.

- Restructurings under common control – exchange and non-exchange: as with recognition, staff discussion focused on the key tenet that no acquisition has occurred of an entity external to the government reporting entity - ultimately the controlling body is restructuring within itself. As such, the application of re-measurement principles did not appear appropriate. Re-measurement could result in the creation of artificial gains/losses and impose costs for both the revaluation and subsequent consolidation adjustment for the group reporting entity.

As such, staff provided the preliminary view that for restructurings under common control, carrying value for the assets and liabilities impacted by the restructuring provides a better reflection of the substance of the transaction.

Board members were comfortable with staff's preliminary view to progress the project using carrying value as the measurement basis for restructurings under common control – exchange and non-exchange.

- Restructurings not under common control – non-exchange: staff noted that much existing guidance indicated fair value as the appropriate measurement basis, most notably IPSAS 23 which requires an asset acquired through a non-exchange transaction to initially be measured at fair value.

Staff noted that the application of a fair value measurement (an arms-length valuation basis) to a non-acquisition restructuring which will often not be an arms-length arrangement (eg: forced restructuring of municipalities), appeared inconsistent.

As such, staff revised its preliminary view so that for restructurings not under common control - non-exchange, that carrying value provides a better reflection of the substance of the transaction.

A member noted that in guidance they are developing, fair value was the measurement basis being proposed in these circumstances for the recipient with cost being the basis for the transferor. A key reason supporting this proposal was the existing guidance of standard setters where the combination occurs not under common control – further, the requirements on IPSAS 23 were relevant.

In response it was raised that re-measurement in these circumstances seemed questionable – and further that it could be that carrying value and fair value would often be very similar. An additional comment was made that carrying values were most appropriate noting that the recipient entity does have the choice to perform a complete revaluation after the restructuring has concluded. A suggestion was made if there was a possibility to allow, only when a restructuring occurs, a one-off revaluation to be applied by the recipient which does not place them on a revaluation model.

While the Board was finding a preference for the use of carrying values, there was the question of how to reconcile with the fair value basis in IPSAS 23. Staff noted the inconsistency agreeing the need to reconcile the two. Further, staff highlighted that in reconciling with IPSAS 23, reconciling with IPSASs 12, *Inventories*, 16 *Investment Property* and 17, *Property, Plant and Equipment* would also need to be addressed.

A suggestion put forward was to possibly distinguish between IPSAS 23 and the restructuring by viewing one as a combination and the other as an acquisition. A further suggestion was to somehow amend or further refine the application of IPSAS 23 to a very particular unique circumstance. Staff agreed to further consider all these suggestions.

Therefore, subject to staff reconciling with IPSAS 23 (and other IPSASs), Board members were comfortable progressing the project using carrying value as the measurement basis for restructurings not under common control – non-exchange.

- Mergers: staff briefly discussed possible issues where there is a merger – notably considering the merits of fresh start accounting.

Staff considered that why there may be merits to fresh start accounting, the reality was arguably that for mergers in the public sector, the substance of the combining entities would continue to exist though within a new legal structure. Further, from a pragmatic perspective, pooling of interest was considered a very well established and understood approach. However with fresh start, the broad concepts tended to be well understood with agreement on its detailed application appearing to be less commonly understood.

As such, staff provided the preliminary view that in merger situations, carrying values (pooling of interest) should be the measurement basis.

The Board was informed of a jurisdiction where there was the potential for fresh start accounting possibly being a more appropriate basis for the some 2700 entities which were merging into one combined entity. The Board acknowledged the uniqueness of this situation and requested staff to take such combinations into consideration – with the possibility of seeking out the experience of members to see if there were any other instances where fresh start accounting could be more appropriate.

It was suggested if fresh start accounting should be provided in the IPSAS guidance as an allowable alternative. The general view of the Board was to minimize alternatives within standards. Further it was considered that generally, the substance of the merged entity has not changed and therefore made it questionable as to the appropriateness of applying fresh start accounting. Further a comment was made that existing literature does not appear to have any detailed guidance on the application of the fresh start approach, and as such, to allow it as an allowable alternative within an IPSAS could further broaden the dimensions of any IPSASB project.

A question was posed about the practicalities of preparing financial statements for the merged entity, in particular, the reporting period applied. It was brought to the Board's attention that in one jurisdiction, such mergers are legislated to only occur at the commencement of the financial year. As such, there was no need to prepare financial statements for a partial period for the merged entity. Given this legislative requirement, 'cut-off' between the old and combining entities was relatively clean. Another noted that in their experience the most usual circumstance was that a set of financial statements are prepared for the newly merged entity from the date of merger until the reporting date – even is this constitutes reporting for part of a period.

Given the discussion the Board was comfortable progressing the project with staff's preliminary view of applying the pooling of interest (carrying value) approach.

#### *Disclosures*

Staff gave the Board a brief overview of possible themes for disclosures. Overall the Board considered the disclosures reasonable. There was discussion that those relating to matters such as rationale or planned objectives from the restructuring or explanations as

to why the chosen method of restructuring (eg:merger) was used, were better reflected in, for example, management commentary.

As such the Board was comfortable progressing the project with staff's suggestions for disclosures except those relating to planned objectives or explanations as to why the chosen method of restructuring was used.

*Presentation within the IPSASB Handbook*

While cosmetic in nature staff presented (if only for the Board's re-affirmation) the preliminary view that final guidance on the project should be broken into two separate IPSASs. The Board was comfortable with this preliminary view.

Finally, staff gave a broad outline of planned timeframes of next steps for the project:

- November 2008: a preliminary draft of a public sectorized version of IFRS 3;
- February 2009: draft exposure draft of IFRS 3 and a draft discussion paper for the group 2 restructurings (non-exchange only).

*Grouping of Restructurings - Reconsidered*

In providing a staff summary of preliminary views agreed by the Board, there was a reconsideration of the need for the project to consider those restructurings under common control – exchange. There was concern as to the reality of occurrence of such restructurings. Instead, some believed that out of the group 2 restructurings, the project should only focus on non-exchange restructurings. In doing so, the Board could aim for a quick completion of an ED based on IFRS 3 for exchange transactions not under common control and focus energies into a project which deals with the more problematic non-exchange restructurings which are more commonplace in the public sector.

Opposition to the suggested scope out of restructurings under common control – exchange was not noted, and as such staff agreed to scope the group 2 restructurings to non-exchange restructurings only.

Staff were cautioned against characterizing numerous types of restructurings as being public sector specific. While the reality might be, for example, that common control restructurings are more frequent in the public sector, that did not make them a public sector specific occurrence. Such restructurings and related issues could occur in the private sector. Staff agreed and noted the point for future reference.

Summary of Board Decisions

- *Grouping of Restructurings -*
  - Group 1:
    - not under common control – exchange; and
  - Group 2:
    - under common control – non-exchange; and
    - not under common control – non-exchange; and
  - staff to reconsider the labels for group 1 and particularly group 2 to ensure they better encompass the broad suite of restructurings that could occur within each; and
  - staff to be cautious against characterizing numerous types of restructurings as being public sector specific; and
- *Issues - Group 1*
  - Non-GBE-Type Acquisitions:
    - where the acquisition involves an entity whose under-lying assets predominately encompass service potential, any purchase premium/goodwill calculated after fair valuing the acquired identifiable assets and liabilities, should be immediately expensed; and
    - review the definitions within IFRS 3 (eg: business, business combination) to take into consideration the service provision aspects of public sector entities; and
- *Issues – Group 2*
  - Recognition:
    - under common control – non-exchange – contribution by and distributions to owners; and
    - not under common control – non-exchange – more likely revenue and expense; and
  - Measurement:
    - All group 2 restructurings to be at carrying value; and
    - seek examples where fresh start accounting may be appropriate; and
  - Disclosures - progress with staff's suggestions except those relating to planned objectives or explanations for the chosen method of restructuring; and
- *Presentation within the IPSASB Handbook* – the Board re-affirmed that final guidance from the project should be broken into two separate IPSASs.

### APPENDIX 3: EXTRACT FROM DRAFT ED 40 INTANGIBLE ASSETS

#### Scope

3. This Standard shall be applied in accounting for intangible assets, except:
- (a) Intangible assets that are within the scope of another Standard;
  - (b) Financial assets, as defined in [IPSAS XX, “Financial Instruments: Presentation,”](#)
  - (c) The recognition and measurement of exploration and evaluation assets (see [the relevant international or national accounting standard dealing with exploration for and evaluation of mineral resources](#));
  - (d) Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources; and
  - (e) Intangible assets acquired in an entity combination from a non-exchange transaction.

...

#### Acquisition as part of an entity combination from an exchange transaction

##### *Measuring the Fair Value of an Intangible Asset Acquired in an Entity Combination from an Exchange Transaction*

40. If an intangible asset acquired in an entity combination from an exchange transaction is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities, uncertainty enters into the measurement of the asset's fair value. If an intangible asset acquired in an entity combination from an exchange transaction has a finite useful life, there is a rebuttable presumption that its fair value can be measured reliably.
41. An intangible asset acquired in an entity combination from an exchange transaction might be separable, but only together with a related tangible or intangible asset. For example, a magazine's publishing title might not be able to be sold separately from a related subscriber database, or a trademark for natural spring water might relate to a particular spring and could not be sold separately from the spring. In such cases, the acquirer recognizes the group of assets as a single asset separately from purchase premium/goodwill if the individual fair values of the assets in the group are not reliably measurable.

42. Similarly, the terms ‘brand’ and ‘brand name’ are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. The acquirer recognizes as a single asset a group of complementary intangible assets comprising a brand if the individual fair values of the complementary assets are not reliably measurable. If the individual fair values of the complementary assets are reliably measurable, an acquirer may recognize them as a single asset provided the individual assets have similar useful lives.
43. Quoted market prices in an active market provide the most reliable estimate of the fair value of an intangible asset (see also [paragraph 85](#)). The appropriate market price is usually the current bid price. If current bid prices are unavailable, the price of the most recent similar transaction may provide a basis from which to estimate fair value, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the asset’s fair value is estimated.
44. If no active market exists for an intangible asset, its fair value is the amount that the entity would have paid for the asset, at the acquisition date, in an arm’s length transaction between knowledgeable and willing parties, on the basis of the best information available. In determining this amount, an entity considers the outcome of recent transactions for similar assets.
45. Entities that are regularly involved in the purchase and sale of unique intangible assets may have developed techniques for estimating their fair values indirectly. These techniques may be used for initial measurement of an intangible asset acquired in an entity combination from an exchange transaction if their objective is to estimate fair value and if they reflect current transactions and practices in the industry to which the asset belongs. These techniques include, when appropriate:
  - (a) Applying multiples reflecting current market transactions to indicators that drive the profitability of the asset (such as revenue, market shares and operating profit) or to the royalty stream that could be obtained from licensing the intangible asset to another party in an arm’s length transaction (as in the “relief from royalty” approach); or
  - (b) Discounting estimated future net cash flows from the asset.

**Exposure Draft 41**

April 2009

Comments are requested by August 31, 2009

*Proposed International Public Sector Accounting  
Standard*

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# Entity Combinations from Exchange Transactions



International Federation  
of Accountants



## **REQUEST FOR COMMENTS**

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, *Entity Combinations from Exchange Transactions*, for publication in April 2009. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **August, 31 2009**. All comments will be considered a matter of public record. Comments should be addressed to:

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

Email responses should be sent to: [publicsectorpubs@ifac.org](mailto:publicsectorpubs@ifac.org)

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

## **ACKNOWLEDGMENT**

This Exposure Draft of an International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard IFRS 3, “Business Combinations” published by the International Accounting Standards Board (IASB). Extracts from IFRS 3 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

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### **Objective**

The objective of this Exposure Draft is to propose the accounting treatment for entity combinations from exchange transactions for public sector entities. The Exposure Draft is based upon IFRS 3 “Business Combinations”.

### **Request for Comments**

The IPSASB invites comments on all the proposals in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The IPSASB has identified the following Specific Matters for Comment that it is particularly interested in.

### **Specific Matters for Comment**

The IPSASB would particularly value comments on the following questions:

1. Do you agree that, for entity combinations arising from an exchange transaction, an acquirer should identify an acquiree as either a business or a function (paragraph 13)?
2. Do you agree that, for entity combinations arising from an exchange transaction, any purchase premium recognized on the acquisition of a function be immediately expensed (paragraph 47)?

## IPSAS xx ENTITY COMBINATIONS FROM EXCHANGE TRANSACTIONS

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## **Introduction**

- IN1. The Standard prescribes the accounting treatment for entity combinations arising from exchange transactions for public sector entities. It is adapted to the public sector context from IFRS 3, “Business Combinations”.

### **Objective**

- IN2. The objective of the Standard ~~IFRS~~ is to enhance the relevance, reliability and comparability of the information that an entity provides in its financial statements about an entity business combination from an exchange transaction and its effects. It does that by establishing principles and requirements for how an acquirer:
- (a) Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
  - (b) Recognizes and measures the goodwill or purchase premium acquired in the entity business combination or a gain from a bargain purchase; and
  - (c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the entity business combination.

### **Scope**

- IN3. This Standard is limited to entity combinations arising from exchange transactions and where the entities are not under common control. This type of entity combination occurs when an entity acquires businesses or functions from another entity and gives, directly in exchange, approximately equal value in the form of cash or other consideration.
- IN4. This Standard specifically excludes entity combinations arising from a non-exchange transaction either under common control or not under common control as these types of combination will be addressed by the Board in a separate project.

### **Core principle**

- IN5. An acquirer of a business or a function recognizes the assets acquired and liabilities assumed at their acquisition-date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition.

### **Categories of acquiree**

- IN6. For the purpose of purchase premium or goodwill recognition, the Standard distinguishes between two types of acquiree which are defined in Appendix A:
- (a) A business; or

(b) A function.

IN7. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, such as a public sector controlling entity, members or participants. A function is an integrated set of activities and assets, other than a business and is conducted and managed for the primary objective of providing goods or services for community or social benefit.

### **Applying the acquisition method**

- IN8. An entity business combination from an exchange transaction must be accounted for by applying the acquisition method, unless it is a combination involving entities, ~~or businesses or functions~~ under common control. One of the parties to an entity business combination from an exchange transaction can always be identified as the acquirer, being the entity that obtains control of the other business or function (the acquiree). Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute a business or a function are not entity business combinations.
- IN9. The Standard IFRS establishes principles for recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Any classifications or designations made in recognizing these items must be made in accordance with the terms of the contract or binding arrangement ~~contractual terms~~, economic conditions, acquirer's operating or accounting policies and other factors that exist at the acquisition date.
- IN10. Each identifiable asset and liability is measured at its acquisition-date fair value. Any non-controlling interest in an acquiree is measured at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets.
- IN11. The IFRS provides limited exceptions to these recognition and measurement principles:
- (a) Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors at the inception of the contract (or when the terms have changed) rather than on the basis of the factors that exist at the acquisition date.
  - (b) Only those contingent liabilities assumed in an entity business combination that are a present obligation and can be measured reliably are recognized.
  - (c) Some assets and liabilities are required to be recognized or measured in accordance with other IPSASs IFRSs, rather than at fair value. The assets and liabilities affected are those falling within the scope of ~~IAS 42 Income Taxes~~, IPSAS 25 "Employee Benefits" ~~IAS 19 Employee~~

*~~Benefits, IFRS 2 Share-based Payment and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.~~*

- (d) There are special requirements for measuring a reacquired right.
- (e) Indemnification assets are recognized and measured on a basis that is consistent with the item that is subject to the indemnification, even if that measure is not fair value.

### **Recognition of goodwill or purchase premium**

- IN12. The Standard IFRS requires the acquirer, having recognized the identifiable assets, the liabilities and any non-controlling interests, to identify any difference between:
- (a) The aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in an entity business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and
  - (b) The net identifiable assets acquired.
- IN13. Where an entity acquires a business, the difference will, generally, be recognized as goodwill. If the acquirer has made a gain from a bargain purchase that gain is recognized in surplus or deficit profit or loss. Where an entity acquires a function, purchase premium is recognized immediately as an expense in the period of acquisition.
- IN14. The consideration transferred in an entity business combination (including any contingent consideration) is measured at fair value.
- IN15. In general, an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in an entity business combination after the entity business combination has been completed in accordance with other applicable IPSASs IFRSs. However, the Standard IFRS provides accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets.

### **Disclosure**

- IN16. The Standard IFRS requires the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of entity business combinations from exchange transactions that occurred during the current reporting period or after the reporting date but before the financial statements are authorized for issue. After an entity business combination, the acquirer must disclose any adjustments recognized in the current reporting period that relate to entity business combinations that occurred in the current or previous reporting periods.

Objective	
<p>1 The objective of this <u>Standard IFRS</u> is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about an <u>entity business combination arising from an exchange transaction</u> and its effects. To accomplish that, this <u>Standard IFRS</u> establishes principles and requirements for how the <u>acquirer</u>:</p> <ul style="list-style-type: none"> <li>(a) Recognizes and measures in its financial statements the <i>identifiable</i> assets acquired, the liabilities assumed and any <i>non-controlling interest</i> in the <i>acquiree</i>;</li> <li>(b) Recognizes and measures the <u><i>purchase premium or goodwill</i></u> acquired in <u>an entity the business</u> combination or a gain from a bargain purchase; and</li> <li>(c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of <u>an entity the business</u> combination.</li> </ul>	<p>IFRS 3.1 Amended to reflect IPSAS terminology. Added “arising from an exchange transaction” after “entity combination” as the scope of this [draft] Standard has been amended (see paragraph <u>32</u> below).</p>
<p><u>2</u> <u>An entity combination arising from an exchange transaction occurs when an entity acquires businesses or functions from another entity and gives, directly in exchange, approximately equal value in the form of cash or other consideration.</u></p>	<p>New: To explain when an entity combination arising from an exchange transaction occurs.</p>
Scope	
<p><u>32</u> <u>An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this <del>This Standard IFRS</del> to a transaction or other event that meets the definition of an <u>entity business combination arising from an exchange transaction</u>. This <u>Standard IFRS</u> does not apply to:</u></p> <ul style="list-style-type: none"> <li>(a) <u>An entity combination arising from a non-exchange transaction (paragraph B1 provides related application guidance).</u></li> <li>(<del>a</del>b) The formation of a joint venture.</li> <li>(<del>b</del>c) The acquisition of an asset or a group of assets that does not constitute a business <u>or a function</u>. In such cases the acquirer shall identify and recognize the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, <i>intangible assets</i> in [draft] IPSAS XX <del>IAS 38</del> “Intangible Assets” and liabilities assumed. The cost of the <u>economic entity group</u> shall be allocated to the individual identifiable assets and</li> </ul>	<p>IFRS 3.2 Amended to add standard wording in IPSAS regarding the application of IPSAS by public sector entities that apply accrual accounting.</p> <p>Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.</p> <p>Added “arising from an exchange transaction” after “entity combination” to restrict the scope of this Standard to exchange transactions only.</p> <p>Added (a) to explicitly exclude entity combinations arising from non-exchange transactions as this issue will be addressed by a separate IPSASB project.</p>



	liabilities on the basis of their relative <i>fair values</i> at the date of purchase. Such a transaction or event does not give rise to <u>purchase premium or goodwill</u> .  (ed) A combination of entities, <u>businesses or functions</u> under common control arising from an exchange transaction (paragraphs <del>B1–B4</del> <u>B4–B7</u> provide related application guidance).	
4	<u>This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).</u>	New: Added paragraph to include standard wording in IPSAS regarding the application of this Standard to GBEs.
5	<u>The “Preface to International Public Sector Accounting Standards” issued by the IPSASB explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. GBEs are profit-oriented entities and accordingly are required to comply with IFRSs.</u>	New: Added paragraph to explain that GBEs apply IFRSs.
6	<u>This Standard does not apply to entity combinations arising from non-exchange transactions either under common control or not under common control. The Board proposes to address this issue in a separate standard.</u>	New: Added paragraph to explain that an entity combination arising from a non-exchange transaction will be addressed by the Board in a separate Standard.
7	<u>Where the transaction or event creating an entity combination has an exchange component and a non-exchange component, the acquirer recognizes the exchange component of the combination according to the principles and requirements of this Standard. The appropriate accounting treatment for the non-exchange component of the combination is determined by using the hierarchy in IPSAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors”. In determining whether an entity combination has identifiable exchange and non-exchange components, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components of an entity combination, the entity should determine whether or not, in substance, the combination is that of an exchange or non-exchange entity combination.</u>	New: Based on IPSAS 23.41. Last sentence based on South African ASB Discussion Paper 4 “Transfers of Functions”, paragraph 5.100.
<b>Identifying an <u>entity</u> business combination</b>		Amended to reflect IPSAS terminology.
<del>83</del>	<b>An entity shall determine whether a transaction or other event is an <u>entity</u> <del>business</del> combination by applying the definition in this <u>Standard</u> <del>IFRS</del>, which requires that the assets acquired and liabilities assumed constitute a <u>business or a function</u>. If the assets acquired are not a <u>business or a function</u>, the reporting entity shall account for the transaction or other event as an asset acquisition. Paragraphs <del>B8–B17</del> <u>B5–B12</u> provide guidance on identifying an <u>entity</u> <del>business</del></b>	IFRS 3.3 Amended to reflect IPSAS terminology.

	<b>combination and the definition of a business <u>or a function</u>.</b>	
	<b>The acquisition method</b>	
94	<b>An entity shall account for each <u>entity business combination arising from an exchange transaction</u> by applying the acquisition method.</b>	IFRS 3.4 Amended to reflect IPSAS terminology.
105	Applying the acquisition method requires: (a) Identifying the acquirer; (b) <u>Identifying the type of acquiree as either a business or a function;</u> (c) Determining the <i>acquisition date</i> ; (d) Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and (e) Recognizing and measuring <u>premium purchase or goodwill</u> or a gain from a bargain purchase.	IFRS 3.5 Amended to reflect IPSAS terminology.
	<b>Identifying the acquirer</b>	
116	<b>For each <u>entity business combination arising from an exchange transaction</u>, one of the combining entities shall be identified as the acquirer.</b>	IFRS 3.6 Amended to reflect IPSAS terminology.
127	The guidance in <u>IPSAS 6 “Consolidated and Separate Financial Statements”</u> <del>IAS 27 Consolidated and Separate Financial Statements</del> shall be used to identify the acquirer—the entity that obtains <i>control</i> of the acquiree. If an <u>entity business combination arising from an exchange transaction</u> has occurred but applying the guidance in <u>IPSAS 6</u> <del>IAS 27</del> does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs <u>B19–B23</u> <del>B14–B18</del> shall be considered in making that determination.	IFRS 3.7 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.
	<b>Identifying the type of acquiree</b>	
13	<b><u>For each entity combination arising from an exchange transaction, the acquirer shall identify whether the acquiree is a business or a function.</u></b>	New: To differentiate between a business and a function so that a different accounting treatment can be specified later in the standard.
14	<u>For the purpose of recognizing purchase premium or goodwill, this Standard classifies entity combinations into the following two categories defined in Appendix A:</u> (a) <u>A business; or</u> (b) <u>A function.</u>	New: To explain why it is necessary to distinguish between a business and a function.

15	<p><u>A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, such as a public sector controlling entity, members or participants. A business generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. A business has the objective of generating a commercial return even though it may not meet that objective during a particular reporting period. Assets held by a business are cash-generating assets. Given the primary objective of generating a commercial return, a business may also be a GBE.</u></p>	<p>New: To explain that a business is cash-generating.</p> <p>First sentence is a part of the definition of a business, the second and third sentences are adapted from IPSAS 21.16 and the fourth sentence is from IPSAS 21.21.</p>
16	<p><u>A function is an integrated set of activities and assets, other than a business. A function is conducted and managed for the primary objective of providing goods or services for community or social benefit. Assets held by a function are non-cash-generating assets. However, a function may generate a return during a particular reporting period. Given the primary objective of providing goods or services for community or social benefit, a function will be a non-GBE.</u></p>	<p>New: To explain that a function is non-cash-generating.</p> <p>First sentence is a part of the definition of a function, the second sentence is adapted from IPSAS 21.21 and the third sentence is adapted from IPSAS 21.16.</p>
17	<p><u>A public sector economic entity will usually establish functions through a restructuring of existing public sector resources. In the rare circumstances when a government acquires a function, the acquisition is normally made for policy reasons. An acquisition means that a public sector entity has acquired control of a function and the public sector entity, as the acquirer, pays cash or other consideration to the seller either for shares representing voting control or for net assets.</u></p>	<p>New: Based on PS 2510.11 to explain why a public sector entity may acquire a function.</p>
<p><b>Determining the acquisition date</b></p>		
188	<p><b>The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.</b></p>	<p>IFRS 3.8 No amendment.</p>
199	<p>The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.</p>	<p>IFRS 3.9 No amendment.</p>

<b>Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree</b>	
<b>Recognition principle</b>	
<del>2010</del> As of the acquisition date, the acquirer shall recognize, separately from <u>purchase premium or goodwill</u> , the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs <del>2111</del> and <del>2212</del> .	IFRS 3.10 Amended to reflect IPSAS terminology.
<i>Recognition conditions</i>	
<del>2111</del> To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in IPSAS 1 “Presentation of Financial Statements” <del>the Framework for the Preparation and Presentation of Financial Statements</del> at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree’s employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognize those costs as part of applying the acquisition method. Instead, the acquirer recognizes those costs in its post-combination financial statements in accordance with other <u>IPSASs</u> <del>IFRSs</del> .	IFRS 3.11 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.
<del>2212</del> In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree (or its former owners) exchanged in the <u>entity business</u> combination transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs <del>65–67</del> <del>51–53</del> to determine which assets acquired or liabilities assumed are part of the exchange for the acquiree and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable <u>IPSASs</u> <del>IFRSs</del> .	IFRS 3.12 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.
<del>2313</del> The acquirer’s application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquiree had not previously recognized as assets and liabilities in its financial	IFRS 3.13 No amendment.

	statements. For example, the acquirer recognizes the acquired identifiable intangible assets, such as a brand name, a patent or <del>a lists of customers or users of a service relationship</del> , that the acquiree did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.	
<del>24</del> 44	Paragraphs <del>B24–B36</del> <del>B28–B40</del> provide guidance on recognizing operating leases and intangible assets. Paragraphs <del>32–39</del> <del>22–28</del> specify the types of identifiable assets and liabilities that include items for which this <del>Standard</del> <del>IFRS</del> provides limited exceptions to the recognition principle and conditions.	IFRS 3.14 Amended referencing to IPSAS instead of IFRS.
	<i>Classifying or designating identifiable assets acquired and liabilities assumed in an <u>entity</u> <del>business</del> combination</i>	Amended to reflect IPSAS terminology.
<del>25</del> 45	<b>At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other <u>IPSASs</u> <del>IFRSs</del> subsequently. The acquirer shall make those classifications or designations on the basis of the <u>terms of the contract or binding arrangement</u> <del>contractual terms</del>, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.</b>	IFRS 3.15 Amended to reflect IPSAS terminology.
<del>26</del> 46	In some situations, <u>IPSASs</u> <del>IFRSs</del> provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to: <ul style="list-style-type: none"> <li>(a) Classification of particular financial assets and liabilities as a financial asset or liability at fair value through <u>surplus or deficit</u> <del>profit or loss</del>, or as a financial asset available for sale or held to maturity, in accordance with <u>[draft] IPSAS XX “Financial Instruments: Recognition and Measurement”</u> <del>IAS 39 <i>Financial Instruments: Recognition and Measurement</i></del>;</li> <li>(b) Designation of a derivative instrument as a hedging instrument in accordance with <u>[draft] IPSAS XX</u> <del>IAS 39</del>; and</li> <li>(c) Assessment of whether an embedded derivative should be separated from the host contract in accordance with <u>[draft] IPSAS XX</u> <del>IAS 39</del> (which is a matter of ‘classification’ as this <del>Standard</del> <del>IFRS</del> uses that term).</li> </ul>	IFRS 3.16 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.

<p><del>27</del><sup>17</sup> This <del>Standard</del> <del>IFRS</del> provides two exceptions to the principle in paragraph <del>25</del><sup>4</sup>:</p> <p>(a) Classification of a lease contract as either an operating lease or a finance lease in accordance with <del>IPSAS 13 “Leases”</del> <del>IAS 17 Leases</del>; and</p> <p>(b) Classification of a contract as an insurance contract <del>in accordance with IFRS 4 Insurance Contracts</del>.</p> <p>The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).</p>	<p>IFRS 3.17 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.</p> <p>Amended (b) as the IPSASB does not have an equivalent standard to IFRS 4 and have not added in standard wording referring to an international or national accounting standard dealing with insurance contracts in line with the amendment to the scope of ED “Financial Instruments: Presentation”. The scope of that ED was amended “based on comment received ... as the IFRS 4 definition and scope of insurance contracts are inappropriate for the range of insurance contracts issued in the public sector”.</p>
<p><b>Measurement principle</b></p>	
<p><del>28</del><sup>18</sup> <b>The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.</b></p>	<p>IFRS 3.18 No amendment.</p>
<p><del>29</del><sup>19</sup> For each <del>entity</del> <del>business</del> combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.</p>	<p>IFRS 3.19 Amended to reflect IPSAS terminology.</p>
<p><del>30</del><sup>20</sup> Paragraphs <del>B37–B41</del> <del>B41–B45</del> provide guidance on measuring the fair value of particular identifiable assets and a non-controlling interest in an acquiree. Paragraphs <del>35–41</del> <del>24–31</del> specify the types of identifiable assets and liabilities that include items for which this IFRS provides limited exceptions to the measurement principle.</p>	<p>IFRS 3.20 No amendment.</p>
<p><b>Exceptions to the recognition or measurement principles</b></p>	
<p><del>31</del><sup>21</sup> This <del>Standard</del> <del>IFRS</del> provides limited exceptions to its recognition and measurement principles. Paragraphs <del>32–41</del> <del>22–31</del> specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs <del>32–41</del> <del>22–31</del>, which will result in some items being:</p> <p>(a) <del>R</del>ecognized either by applying recognition conditions in addition to those in paragraphs <del>21</del><sup>11</sup> and <del>22</del><sup>12</sup> or by applying the requirements of other <del>IPSASs</del> <del>IFRSs</del>, with results that differ from applying the recognition principle and conditions.</p>	<p>IFRS 3.21 Amended to reflect IPSAS terminology.</p>

(b) <del>M</del> measured at an amount other than their acquisition-date fair values.	
<i>Exception to the recognition principle</i>	
<b>Contingent liabilities</b>	
<p><del>3222</del> <u>IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets”</u> <del>IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”</del> defines a contingent liability as:</p> <p>(a) <del>A</del> <u>a</u> possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or</p> <p>(b) <del>A</del> <u>a</u>-present obligation that arises from past events but is not recognized because:</p> <p>(i) <del>I</del> <u>It</u> is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or</p> <p>(ii) <del>T</del> <u>the</u> amount of the obligation cannot be measured with sufficient reliability.</p>	<p>IFRS 3.22 Amended referencing and formatting to IPSAS instead of IFRS. The IPSASB definition of contingent liability is the same as that used by the IASB.</p>
<p><del>3323</del> The requirements in <u>IPSAS 19</u> <del>IAS 37</del> do not apply in determining which contingent liabilities to recognize as of the acquisition date. Instead, the acquirer shall recognize as of the acquisition date a contingent liability assumed in <u>an entity business</u> combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to <u>IPSAS 19</u> <del>IAS 37</del>, the acquirer recognizes a contingent liability assumed in <u>an entity business</u> combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Paragraph <u>7056</u> provides guidance on the subsequent accounting for contingent liabilities.</p>	<p>IFRS 3.23 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.</p> <p>Note that the scope of IPSAS 19.1(a) excludes provisions and contingent liabilities arising from social benefits from non-exchange transactions.</p>
<p><u>34</u> <u>The scope of IPSAS 19 excludes provisions and contingent liabilities arising from social benefits from non-exchange transactions. The requirements in paragraph 28 do not apply in determining whether to recognize a contingent liability arising from social benefits from non-exchange transactions.</u></p>	<p>New: IPAS 19.1(a) is the relevant paragraph. Added to exclude the recognition of a contingent liability arising from social benefits from non-exchange transactions.</p>

<i>Exceptions to both the recognition and measurement principles</i>	
<b>Income taxes</b>	The measurement of income taxes in IAS 12 is not consistent with the recognition principles in IFRS 3 thus the IASB needed to include this section in IFRS 3.
<del>35</del> <sup>24</sup> Where the acquiree is liable for income taxes, <del>t</del> The acquirer shall recognize and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in an <u>entity business</u> combination in accordance with <u>the relevant international or national accounting standard dealing with income taxes</u> <del>IAS 12</del> <i>Income Taxes</i> .	IFRS 3.24 This paragraph has been kept as, in some jurisdictions GBEs are liable for income taxes.  Amended to reflect that accounting for income taxes will only be relevant where the acquiree is liable for income taxes.  Also amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.
<del>36</del> <sup>25</sup> Where the acquiree is liable for income taxes, <del>t</del> The acquirer shall account for the potential tax effects of temporary differences and carry forwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition in accordance with <u>the relevant international or national accounting standard dealing with income taxes</u> <del>IAS 12</del> .	IFRS 3.25 Amended for the same reasoning as for new paragraph <del>34</del> <sup>24</sup> above.
<b>Employee benefits</b>	
<del>37</del> <sup>26</sup> The acquirer shall recognize and measure a liability (or asset, if any) related to the acquiree's employee benefit arrangements in accordance with <u>IPSAS 25 "Employee Benefits"</u> <del>IAS 19</del> <i>Employee Benefits</i> .	IFRS 3.26 Amended referencing to IPSAS instead of IFRS.
<b>Indemnification assets</b>	
<del>38</del> <sup>27</sup> The seller in an <u>entity business</u> combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognize an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognized at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognize the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the	IFRS 3.27 No amendment.



	effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph <u>B37</u> <del>B41</del> provides related application guidance).	
<del>3928</del>	In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognized at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset shall be recognized and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectibility of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph <del>7157</del> provides guidance on the subsequent accounting for an indemnification asset.	IFRS 3.28 No amendment.
	<i>Exceptions to the measurement principle</i>	
	<b>Reacquired rights</b>	
<del>4029</del>	The acquirer shall measure the value of a reacquired right recognized as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value. Paragraphs <u>B31</u> <del>B35</del> and <u>B32</u> <del>B36</del> provide related application guidance.	IFRS 3.29 No amendment.
	<b><del>Share-based payment awards</del></b>	This section has been deleted as Staff considers that an acquirer (applying this Standard) will not replace the acquiree's share-based payment award with another share-based payment award because public sector entities do not award share-based payment.
<del>30</del>	<del>The acquirer shall measure a liability or an equity instrument related to the replacement of an acquiree's share-based payment awards with share-based payment awards of the acquirer in accordance with the method in IFRS 2 <i>Share-based Payment</i>. (This IFRS refers to the result of that method as the 'market-based measure' of the award.)</del>	
	<b>Assets held for sale</b>	
<del>4131</del>	The acquirer shall measure an acquired non-current	IFRS 3.31 Amended referencing to IPSAS

<p>asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations <del>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</del> at fair value less costs to sell in accordance with paragraphs 15-18 of that IFRS.</p>	<p>instead of IFRS.</p>
<p><b>Recognizing and measuring goodwill or a gain from a bargain purchase when the acquiree is a business</b></p>	<p>Amended to reflect IPSAS terminology.</p>
<p><b><u>4232</u></b> The acquirer shall recognize goodwill <u>on the acquisition of a business</u> as of the acquisition date measured as the excess of (a) over (b) below:</p> <p>(a) The aggregate of:</p> <p>(i) The consideration transferred measured in accordance with this <u>Standard</u> <del>IFRS</del>, which generally requires acquisition-date fair value (see paragraph <del>5137</del>);</p> <p>(ii) The amount of any non-controlling interest in the acquiree measured in accordance with this <u>Standard</u> <del>IFRS</del>; and</p> <p>(iii) In an <u>entity</u> <del>business</del> combination achieved in stages (see paragraphs <del>5541</del> and <del>5642</del>), the acquisition-date fair value of the acquirer's previously held <i>equity interest</i> in the acquiree.</p> <p>(b) The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this <u>Standard</u> <del>IFRS</del>.</p>	<p>IFRS 3.32 Amended to reflect IPSAS terminology.</p>
<p><b><u>4333</u></b> In an <u>entity</u> <del>business</del> combination in which the acquirer and the acquiree (or its former owners) exchange only equity <u>and/or ownership</u> interests, the acquisition-date fair value of the acquiree's equity <u>and/or ownership</u> interests may be more reliably measurable than the acquisition-date fair value of the acquirer's equity <u>and/or ownership</u> interests. If so, the acquirer shall determine the amount of goodwill by using the acquisition-date fair value of the acquiree's equity <u>and/or ownership</u> interests instead of the acquisition-date fair value of the equity <u>and/or ownership</u> interests transferred. To determine the amount of <u>purchase premium</u> or goodwill in an <u>entity</u> <del>business</del> combination in which no consideration is</p>	<p>IFRS 3.33 Amended to reflect IPSAS terminology.</p>

	transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquiree determined using a valuation technique in place of the acquisition-date fair value of the consideration transferred (paragraph <del>4232</del> (a)(i)). Paragraphs <del>B42–B45</del> <del>B46–B49</del> provide related application guidance.	
	<b>Bargain purchases</b>	
<del>44</del> 34	Occasionally, an acquirer will make a bargain purchase, which is an <u>entity</u> <del>business</del> combination in which the amount in paragraph <del>4232</del> (b) exceeds the aggregate of the amounts specified in paragraph <del>4232</del> (a). If that excess remains after applying the requirements in paragraph <del>4636</del> , the acquirer shall recognize the resulting gain in <u>surplus</u> <del>or deficit</del> <del>profit or loss</del> on the acquisition date. The gain shall be attributed to the acquirer.	IFRS 3.34 Amended to reflect IPSAS terminology.
<del>45</del> 35	A bargain purchase might happen, for example, in an <u>entity</u> <del>business</del> combination that is a forced sale in which the seller is acting under compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs <del>32–41</del> <del>22–31</del> may also result in recognizing a gain (or change the amount of a recognized gain) on a bargain purchase.	IFRS 3.35 Amended to reflect IPSAS terminology.
<del>46</del> 36	<p>Before recognizing a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts this <u>Standard</u> <del>IFRS</del> requires to be recognized at the acquisition date for all of the following:</p> <ul style="list-style-type: none"> <li>(a) The identifiable assets acquired and liabilities assumed;</li> <li>(b) The non-controlling interest in the acquiree, if any;</li> <li>(c) For an <u>entity</u> <del>business</del> combination achieved in stages, the acquirer's previously held equity <u>or ownership</u> interest in the acquiree; and</li> <li>(d) The consideration transferred.</li> </ul> <p>The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.</p>	IFRS 3.36 Amended to reflect IPSAS terminology.

<p><b><u>Recognizing and measuring purchase premium or a gain from a bargain purchase when the acquiree is a function</u></b></p>	<p>New: To specify a separate accounting treatment of purchase premium for the acquisition of a function.</p> <p>Based on existing paragraphs in IFRS 3 relating to goodwill.</p>
<p><u>47</u>     <b><u>The acquirer shall recognize, as an expense in the period of acquisition, purchase premium on the acquisition of a function as of the acquisition date measured as the excess of (a) over (b) in paragraph 42<del>32</del> above.</u></b></p>	<p>New: Added to include the Board's preliminary view at the Moscow meeting that any purchase premium arising from an acquisition where the entity's underlying assets predominately encompass service potential, should be immediately expensed.</p> <p>Based on existing paragraph in IFRS 3 relating to goodwill.</p>
<p><u>48</u>     <u>A purchase premium arising on acquisition of a function is charged to expenses in the period of acquisition because the future net cash flows associated with a function, by definition, are unlikely to indicate that the purchase premium has been paid for anything but policy reasons. A function receives funding from other public sector entities in order to pursue its activities and meet its debt requirements. Consequently, it is unlikely that the portion of the purchase cost related to the purchase premium could be tied to projected future surpluses from revenues received from sources external to the public sector economic entity and so should be a cost of the period of acquisition.</u></p>	<p>New: Based on PS 2510.24 to explain why a purchase premium arising on the acquisition of a function is immediately expensed.</p>
<p><u>49</u>     <u>Paragraph 43<del>33</del> above, also applies to the acquisition of a function.</u></p>	<p>New: Reference to IFRS 3.33 so that it also applies to the acquisition of a function.</p>
<p><u>50</u>     <u>Paragraphs 44–46 <del>34–36</del> above, relating to bargain purchase, also apply to the acquisition of a function.</u></p>	<p>New: Reference to IFRS 3.34-36 so that it also applies to the acquisition of a function.</p>
<p><b>Consideration transferred</b></p>	
<p><u>51<del>37</del></u>     The consideration transferred in an entity business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests <u>or other types of ownership interests</u> issued by the acquirer. <del>(However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with paragraph 30 rather than at fair value.)</del> Examples of potential forms of consideration include cash, other assets, a business, <u>function</u> or a <u>controlled entity subsidiary</u> of the acquirer, <i>contingent consideration</i>, ordinary or preference equity</p>	<p>IFRS 3.37 Amended to reflect IPSAS terminology.</p> <p>Sentence deleted for the same reason as paragraph 30 above.</p>

	instruments, options, warrants, <del>and</del> member interests of <i>mutual entities</i> <u>and ownership interests</u> .	
<del>5238</del>	The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets, <del>or a business or a function</del> of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognize the resulting gains or losses, if any, in <u>surplus or deficit</u> <del>profit or loss</del> . However, sometimes the transferred assets or liabilities remain within the combined entity after the business combination (for example, because the assets or liabilities were transferred to the acquiree rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognize a gain or loss in <u>surplus or deficit</u> <del>profit or loss</del> on assets or liabilities it controls both before and after the <u>entity</u> <del>business</del> combination.	IFRS 3.38 Amended to reflect IPSAS terminology.
	<i>Contingent consideration</i>	
<del>5339</del>	The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see paragraph <del>5137</del> ). The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.	IFRS 3.39 No amendment.
<del>5440</del>	The acquirer shall classify an obligation to pay contingent consideration as a liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph <del>244</del> of [draft] IPSAS XX “Financial Instruments: Presentation” <del>IAS 32 – Financial Instruments: Presentation</del> , or other applicable <del>IPSASs</del> <del>IFRSs</del> . The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph <del>7258</del> provides guidance on the subsequent accounting for contingent consideration.	IFRS 3.40 Amended referencing to IPSAS instead of IFRS.

<p><b>Additional guidance for applying the acquisition method to particular types of <u>entity</u> business combinations</b></p>	<p>Amended to reflect IPSAS terminology.</p>
<p><b><u>An entity</u> business combination achieved in stages</b></p>	<p>Amended to reflect IPSAS terminology.</p>
<p><del>5541</del> An acquirer sometimes obtains control of an acquiree in which it held an equity <u>or ownership</u> interest immediately before the acquisition date. For example, on 31 December 20X1, Entity A holds a 35 per cent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 per cent interest in Entity B, which gives it control of Entity B. This <del>Standard</del> <del>IFRS</del> refers to such a transaction as an <u>entity business</u> combination achieved in stages, sometimes also referred to as a step acquisition.</p>	<p>IFRS 3.41 Amended to reflect IPSAS terminology.</p>
<p><del>5642</del> In an <u>entity business</u> combination achieved in stages, the acquirer shall remeasure its previously held equity <u>and/or ownership</u> interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in <u>surplus or deficit</u> <del>profit or loss</del>. In prior reporting periods, the acquirer may have recognized changes in the value of its equity <u>and/or ownership</u> interest in the acquiree <u>directly in net assets/equity</u> <del>other comprehensive income</del> (for example, because the investment was classified as available for sale). If so, the amount that was recognized <u>directly in net assets/equity</u> <del>other comprehensive income</del> shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity <u>and/or ownership</u> interest.</p>	<p>IFRS 3.42 Amended to reflect IPSAS terminology.</p>
<p><b><u>An entity business</u> combination <u>from an exchange transaction</u> achieved without the transfer of consideration</b></p>	<p>Amended to reflect IPSAS terminology.</p>
<p><del>5743</del> An acquirer sometimes obtains control of an acquiree without transferring consideration. The acquisition method of accounting for an <u>entity business</u> combination applies to those combinations. Such circumstances include:</p> <ul style="list-style-type: none"> <li>(a) The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.</li> <li>(b) Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.</li> </ul>	<p>IFRS 3.43 Amended to reflect IPSAS terminology.</p> <p><b>Staff considers that both (a) and (b) could occur in a public sector entity which holds shares in a GBE and therefore has kept this paragraph. However, Staff is unsure as to whether the situation in (c) could arise in a public sector entity and would like comments from Members and TAs as to whether this situation could arise.</b></p>

(c) The acquirer and acquiree agree to combine their businesses <u>or functions</u> by contract alone. The acquirer transfers no consideration in exchange for control of an acquiree and holds no equity <u>or ownership</u> interests in the acquiree, either on the acquisition date or previously. Examples of <u>entity business</u> combinations achieved by contract alone include bringing two businesses <u>or functions</u> together in a stapling arrangement or forming a dual listed corporation.	
5844 In an <u>entity business</u> combination achieved by contract alone, the acquirer shall attribute to the owners of the acquiree the amount of the acquiree's net assets recognized in accordance with this <u>Standard</u> <del>IFRS</del> . In other words, the equity <u>or ownership</u> interests in the acquiree held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the equity interests in the acquiree are attributed to the non-controlling interest.	IFRS 3.44 Amended to reflect IPSAS terminology.  See comments for paragraph <u>5743</u> above for explanation.
<b>Measurement period</b>	
5945 If the initial accounting for an <u>entity business</u> combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.	IFRS 3.45 No amendment.
6046 The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for an <u>entity business</u> combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the	IFRS 3.46 Amended to reflect IPSAS terminology.

	<p>following as of the acquisition date in accordance with the requirements of this <u>Standard</u> <del>IFRS</del>:</p> <ul style="list-style-type: none"> <li>(a) The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;</li> <li>(b) The consideration transferred for the acquiree (or the other amount used in measuring <u>purchase premium or goodwill</u>);</li> <li>(c) In an <u>entity business</u> combination achieved in stages, the equity <u>or ownership</u> interest in the acquiree previously held by the acquirer; and</li> <li>(d) The resulting <u>purchase premium or goodwill</u> or gain on a bargain purchase.</li> </ul>	
<u>6147</u>	<p>The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognized or whether that information results from events that occurred after the acquisition date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value determined at that date is likely to indicate an error in the provisional amount.</p>	IFRS 3.47 No amendment.
<u>6248</u>	<p>The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in <u>purchase premium or goodwill</u>. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquiree's facilities, part or all of which are covered by the acquiree's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to <u>purchase premium or goodwill</u> resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to <u>purchase premium or goodwill</u> resulting from a change to the provisional amount recognized for the claim receivable from the insurer.</p>	IFRS 3.48 Amended to reflect IPSAS terminology.
<u>6349</u>	<p>During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if</p>	IFRS 3.49 Amended to reflect IPSAS



	the accounting for the <u>entity business</u> combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other <u>revenue income</u> effects recognized in completing the initial accounting.	terminology.
<del>64</del> 50	After the measurement period ends, the acquirer shall revise the accounting for an <u>entity business</u> combination only to correct an error in accordance with <u>IPSAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors”</u> <del>IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</del>	IFRS 3.50 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.
	<b>Determining what is part of the <u>entity business</u> combination transaction</b>	Amended to reflect IPSAS terminology.
<del>65</del> 51	The acquirer and the acquiree may have a pre-existing relationship or other arrangement before negotiations for the <u>entity business</u> combination began, or they may enter into an arrangement during the negotiations that is separate from the <u>entity business</u> combination. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the <u>entity business</u> combination, ie amounts that are not part of the exchange for the acquiree. The acquirer shall recognize as part of applying the acquisition method only the consideration transferred for the acquiree and the assets acquired and liabilities assumed in the exchange for the acquiree. Separate transactions shall be accounted for in accordance with the relevant <u>IPSASs</u> <del>IFRSs</del> .	IFRS 3.51 Amended to reflect IPSAS terminology.
<del>66</del> 52	A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquiree (or its former owners) before the combination, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:  (a) A transaction that in effect settles pre-existing relationships between the acquirer and acquiree;  (b) A transaction that remunerates employees or former owners of the acquiree for future services; and  (c) A transaction that reimburses the acquiree or its former owners for paying the	IFRS 3.52 No amendment.

<p>acquirer's acquisition-related costs.</p> <p>Paragraphs <del>B46–B51</del> <del>B50–B62</del> provide related application guidance.</p>	
<p><b>Acquisition-related costs</b></p>	
<p><del>6753</del> Acquisition-related costs are costs the acquirer incurs to effect an <u>entity business</u> combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with <u>[draft] IPSAS XX</u> <del>IAS 32</del> and <u>[draft] IPSAS XX</u> <del>IAS 39</del>.</p>	<p>IFRS 3.53 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.</p>
<p><b>Subsequent measurement and accounting</b></p>	
<p><del>6854</del> In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in an <u>entity business</u> combination in accordance with other applicable <u>IPSASs</u> <del>IFRSs</del> for those items, depending on their nature. However, this <u>Standard</u> <del>IFRS</del> provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in an <u>entity business</u> combination:</p> <ul style="list-style-type: none"> <li>(a) <b>Reacquired rights;</b></li> <li>(b) <b>Contingent liabilities recognized as of the acquisition date;</b></li> <li>(c) <b>Indemnification assets; and</b></li> <li>(d) <b>Contingent consideration.</b></li> </ul> <p>Paragraph <del>B52</del> <del>B63</del> provides related application guidance.</p>	<p>IFRS 3.54 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.</p>
<p><b>Reacquired rights</b></p>	
<p><del>6955</del> A reacquired right recognized as an intangible asset shall be amortized over the remaining contractual period of the contract in which the right was granted. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.</p>	<p>IFRS 3.55 No amendment.</p>

<p><b>Contingent liabilities</b></p>	
<p><del>70</del><sup>56</sup> After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in <u>an entity business combination</u> at the higher of:</p> <ul style="list-style-type: none"> <li>(a) The amount that would be recognized in accordance with <u>IPSAS 19</u> <del>IAS 37</del>; and</li> <li>(b) The amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with <u>IPSAS 9</u> <del>“Revenue from Exchange Transactions”</del> <u>IAS 18 Revenue</u>.</li> </ul> <p>This requirement does not apply to contracts accounted for in accordance with <u>[draft] IPSAS XX</u> <del>IAS 39</del>.</p>	<p>IFRS 3.56 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.</p>
<p><b>Indemnification assets</b></p>	
<p><del>71</del><sup>57</sup> At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognized at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management’s assessment of the collectibility of the indemnification asset. The acquirer shall derecognize the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.</p>	<p>IFRS 3.57 No amendment.</p>
<p><b>Contingent consideration</b></p>	
<p><del>72</del><sup>58</sup> Some changes in the fair value of contingent consideration that the acquirer recognizes after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs <del>59–63</del> <u>45–49</u>. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:</p> <ul style="list-style-type: none"> <li>(a) Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted</li> </ul>	<p>IFRS 3.58 Amended referencing to IPSAS instead of IFRS and to reflect IPSAS terminology.</p>

<p>for within equity.</p> <p>(b) Contingent consideration classified as an asset or a liability that:</p> <p>(i) Is a financial instrument and is within the scope of <u>[draft] IPSAS XX IAS 39</u> shall be measured at fair value, with any resulting gain or loss recognized either in <u>surplus or deficit profit or loss</u> or <u>directly in net assets/equity the comprehensive income</u> in accordance with that Standard <u>IFRS</u>.</p> <p>(ii) Is not within the scope of <u>[draft] IPSAS XX IAS 39</u> shall be accounted for in accordance with <u>IPSAS 19 IAS 37</u> or other <u>IPSASs IFRSs</u> as appropriate.</p>	
<p><b>Disclosures</b></p>	
<p><b><u>7359</u> The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an <u>entity business</u> combination that occurs either:</b></p> <p>(a) <b>During the current reporting period; or</b></p> <p>(b) <b>After the end of the reporting period but before the financial statements are authorized for issue.</b></p>	<p>IFRS 3.59 Amended to reflect IPSAS terminology.</p>
<p><u>7460</u> To meet the objective in paragraph <u>7359</u>, the acquirer shall disclose the information specified in paragraphs <u>B53–B55 B64 –B66</u>.</p>	<p>IFRS 3.60 No amendment.</p>
<p><b><u>7561</u> The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to <u>entity business</u> combinations that occurred in the period or previous reporting periods.</b></p>	<p>IFRS 3.61 Amended to reflect IPSAS terminology.</p>
<p><u>7662</u> To meet the objective in paragraph <u>7561</u>, the acquirer shall disclose the information specified in paragraph <u>B56 B67</u>.</p>	<p>IFRS 3.62 No amendment.</p>
<p><u>7763</u> If the specific disclosures required by this and other <u>IPSASs IFRSs</u> do not meet the objectives set out in paragraphs <u>7359</u> and <u>7561</u>, the acquirer shall disclose whatever additional information is necessary to meet those objectives.</p>	<p>IFRS 3.63 Amended to reflect IPSAS terminology.</p>
<p><b>Effective Date and Transition</b></p>	

<b>Effective date</b>	
<p>7864 This Standard <del>IFRS</del> shall be applied prospectively to <del>entity business</del> combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after <u>Month, day Year</u> 1 July 2009. Earlier application is permitted. <del>However, this IFRS shall be applied only at the beginning of an annual reporting period that begins on or after 30 June 2007. If an entity applies this Standard IFRS before Month, day Year 1 July 2009, it shall disclose that fact and apply IAS 27 (as amended in 2008) at the same time.</del></p>	<p>IFRS 3.64 Amended to reflect IPSAS terminology.</p> <p>Deleted sentence regarding prohibition on applying it to periods earlier than 30 June 2007 as that relates to the fact that the IASB had a previous standard on business combinations and has issued the ED of IFRS 3 revised in 2005.</p> <p>The equivalent to IAS 27, ie IPSAS 6 is not part of this project and so is not being updated in conjunction with the issue of this [draft] Standard.</p>
<b>Transition</b>	
<p>7965 Assets and liabilities that arose from <del>entity business</del> combinations whose acquisition dates preceded the application of this <del>Standard IFRS</del> shall not be adjusted upon application of this <del>Standard IFRS</del>.</p>	<p>IFRS 3.65 Amended to reflect IPSAS terminology.</p>
<p>66 <del>An entity, such as a mutual entity, that has not yet applied IFRS 3 and had one or more business combinations that were accounted for using the purchase method shall apply the transition provisions in paragraphs B68 and B69.</del></p>	<p>IFRS 3.66 Deleted as not relevant because the IPSASB does not have an existing entity combinations standard.</p>
<b>Income taxes</b>	
<p>67 <del>For business combinations in which the acquisition date was before this IFRS is applied, the acquirer shall apply the requirements of paragraph 68 of IAS 12, as amended by this IFRS, prospectively. That is to say, the acquirer shall not adjust the accounting for prior business combinations for previously recognized changes in recognized deferred tax assets. However, from the date when this IFRS is applied, the acquirer shall recognize, as an adjustment to profit or loss (or, if IAS 12 requires, outside profit or loss), changes in recognized deferred tax assets.</del></p>	<p>IFRS 3.67 Deleted as not relevant because the IPSASB does not have a standard on income taxes and this paragraph deals with the application of amendments to IAS 12 resulting from the issue of IFRS 3 to previous business combinations.</p>
<b>Withdrawal of IFRS 3 (2004)</b>	
<p>68 <del>This IFRS supersedes IFRS 3 <i>Business Combinations</i> (as issued in 2004).</del></p>	<p>IFRS 3.68 Deleted as not relevant because the IPSASB does not have a previous standard on entity combinations.</p>

## Appendix A

### Defined terms

<i>This appendix is an integral part of the <del>IFRS</del> Standard.</i>		Amended referencing to IPSAS instead of IFRS.
<b>acquiree</b>	The business, <del>or businesses,</del> <u>function or functions</u> that the <b>acquirer</b> obtains control of in an <b>entity business combination</b> .	Amendment to reflect proposed changes to other definitions.
<b>acquirer</b>	The entity that obtains control of the <b>acquiree</b> .	
<b>acquisition date</b>	The date on which the <b>acquirer</b> obtains control of the <b>acquiree</b> .	
<b>business</b>	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, <u>such as a public sector controlling entity,</u> members or participants.	Amendment proposed so that the definition of business can be easily distinguished, using IPSASB wording, from functions (see new definition) which are non-cash-generating. Example of a public sector controlling entity added to be explicit as to whom the term “other owners” refers.
<b>contingent consideration</b>	Usually, an obligation of the <b>acquirer</b> to transfer additional assets or <b>equity interests</b> to the former owners of an <b>acquiree</b> as part of the exchange for <b>control</b> of the <b>acquiree</b> if specified future events occur or conditions are met. However, contingent consideration also may give the <b>acquirer</b> the right to the return of previously transferred consideration if specified conditions are met.	
<b><del>entity business combination</del></b>	A transaction or other event in which an <b>acquirer</b> obtains control of one or more <b>businesses or functions</b> . <del>Transactions sometimes referred to as ‘true mergers’ or ‘mergers of equals’ are also business combinations as that term is used in this IFRS.</del>	Replacement of “business” with “entity” is to reflect that public sector entities have a wider range of combinations. Addition of “functions” to distinguish between businesses which are cash-generating and functions which are non-cash-generating. Proposed deletion of second sentence as this issue will be addressed in the public sector specific project on entity combinations.
<b>equity interests</b>	For the purposes of this <u>Standard</u> <del>IFRS</del> , <i>equity interests</i> is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of <b>mutual entities</b> .	Amended referencing to IPSAS instead of IFRS.
<b><u>function</u></b>	<u>An integrated set of activities and assets, other than a business. A function is conducted and managed for the primary objective of providing goods or services for community or social</u>	New definition proposed so that non-cash-generating activities and assets can be easily distinguished from businesses which are profit-oriented.

	<u>benefit.</u>	The term “function” is taken from the South African ASB DP 4 and adapted to use the terminology from the New Zealand definition of a business for public benefit entities (which include public sector entities).
<b>goodwill</b>	An asset representing the future economic benefits <u>or service potential</u> arising from other assets acquired <u>when the acquiree is a business in an <del>entity</del> business combination</u> that are not individually identified and separately recognized.	Amended to reflect IPSAS terminology and to distinguish between goodwill arising on the acquisition of a business, rather than purchase premium arising on the acquisition of a function.
<b>identifiable</b>	An asset is <i>identifiable</i> if it either: (a) Is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) Arises from contractual <u>rights (including rights arising from binding arrangements)</u> or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.	Same definition, as amended, in the IPSASB draft ED 40 “Intangible Assets”.
<b>intangible asset</b>	An <b>identifiable</b> non-monetary asset without physical substance.	Same definition used in the IPSASB draft ED 40 “Intangible Assets”.
<b>mutual entity</b>	An entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its <b>owners</b> , members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.	
<b>non-controlling interest</b>	The equity in a <u>controlled entity</u> <del>subsidiary</del> not attributable, directly or indirectly, to a <u>controlling entity</u> <del>parent</del> .	Amended to reflect IPSAS terminology.
<b>owners</b>	For the purposes of this <u>Standard</u> <del>IFRS</del> , <i>owners</i> is used broadly to include holders of <b>equity interests</b> of investor-owned entities; <del>and</del> owners or members of, or participants in, <b>mutual entities</b> ; <u>or ownership interests established by other mechanisms such as deed or statute.</u>	Amended referencing to IPSAS instead of IFRS. Proposed additional wording to recognize that a new definition has been included for ownership interests.
<b>ownership interests</b>	For the purposes of this <u>Standard</u> , <i>ownership interests</i> is used broadly to include <u>interests established by mechanisms other than equity interests, such as deed or statute.</u>	New definition proposed to recognize that public sector entities may not have formal equity instruments giving rise to equity interests.

<b><u>purchase premium</u></b>	<u>An amount representing the difference between the consideration transferred and the other assets acquired when the acquiree is a function in an <b>entity combination</b> that are not individually identified and separately recognized.</u>	New definition proposed to recognize that any premium paid on the purchase of a function is not an asset and so has to be a separate definition to goodwill.
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**Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.**

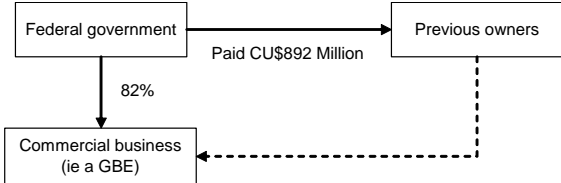
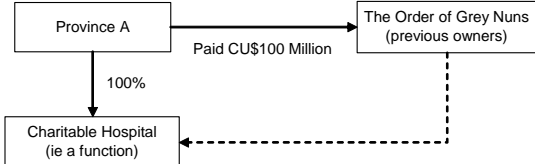
**Existing IPSAS definitions** [included for ease of reference]

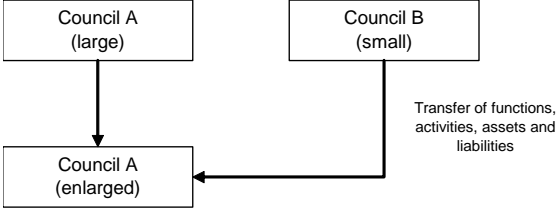
<b>assets</b>	Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.	
<b>cash-generating assets</b>	Assets held with the primary objective of generating a commercial return.	
<b>control</b>	The power to govern the financial and operating policies of <u>another</u> entity so as to obtain benefits from its activities.	Amendments to align with IASB wording.
<b>exchange transactions</b>	Transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.	
<b>fair value</b>	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	
<b>minority interest</b>	That portion of the net surplus or deficit and of net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly through controlled entities, by the controlling entity.	This definition (in IPSAS 6.7 and the glossary) will be replaced by the new non-controlling interest definition as set out above.
<b>non-cash-generating assets</b>	Assets other than cash-generating assets.	
<b>non-exchange transactions</b>	Transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.	



## Appendix B

### Application guidance

<p><i>This appendix is an integral part of the <u>Standard</u> <del>IFRS</del>.</i></p>	<p>Amended to reflect IPSAS terminology.</p>
<p><b><u>Scope (application of paragraph 3)</u></b></p>	<p>New: Added to explain the application of paragraph 32.</p>
<p><b>B1</b>     <u>This Standard applies to a transaction or other event that meets the definition of an entity combination arising from an exchange transaction. For example, a Federal government acquires a business which is capable of being conducted and managed for the purpose of providing a return. The Federal government acquires an 82% shareholding directly in exchange for consideration transferred of CU\$892 Million, as set out below.</u></p>  <pre> graph TD     FG[Federal government] -- "Paid CU\$892 Million" --&gt; PO[Previous owners]     FG -- "82%" --&gt; CB[Commercial business (ie a GBE)]     PO -.-&gt; CB     </pre>	<p>New: Example of an entity combination for a business arising from an exchange transaction.</p>
<p><b>B2</b>     <u>Another example to which this Standard applies is Province A acquires a charitable hospital which is owned and run by the Order of Grey Nuns, for providing hospital services to the disadvantaged in the community. Province A acquires all of the hospital's activities, assets and liabilities directly in exchange for consideration transferred of CU\$100 Million, as set out below.</u></p>  <pre> graph TD     PA[Province A] -- "Paid CU\$100 Million" --&gt; TONGN[The Order of Grey Nuns (previous owners)]     PA -- "100%" --&gt; CH[Charitable Hospital (ie a function)]     TONGN -.-&gt; CH     </pre>	<p>New: Example of an entity combination for a function arising from an exchange transaction.</p>
<p><b><u>Entity combinations arising from a non-exchange transaction (application of paragraph 3(a))</u></b></p>	<p>New: Added to explain the application of paragraph 32(a).</p>
<p><b>B3</b>     <u>This Standard does not apply to an entity combination arising from a non-exchange transaction either under common control or not under common control. An entity combination involving entities, businesses or functions arising from a non-exchange transaction is an entity combination in which an acquirer receives value from another entity without directly giving approximately equal value in exchange, ie the consideration does not approximate the fair value of the resources received. An example of an entity combination from a non-exchange transaction and not under common</u></p>	<p>New: Based upon IPSAS 23.10 and added an example.</p>

<p>control is where a Federal government creates legislation which mandates that a small local government entity, Council B must transfer all its functions, activities, assets and liabilities, without consideration, to an existing local government entity, Council A, as set out below.</p>  <pre> graph TD     CA[Council A (large)]     CB[Council B (small)]     CAE[Council A (enlarged)]     CB -- "Transfer of functions, activities, assets and liabilities" --&gt; CAE     </pre>	
<p><b><u>Entity–Business combinations of entities under common control arising from exchange transactions (application of paragraph 3(d)2(e))</u></b></p>	<p>Amended to reflect IPSAS terminology.</p>
<p><b><u>B4B1</u></b> This <del>Standard IFRS</del> does not apply to a <del>business</del> combination of entities, <del>or businesses or functions</del> under common control <u>arising from an exchange transaction</u>. An <del>entity business</del> combination involving entities, <del>or businesses or functions</del> under common control is an <del>entity business</del> combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the <del>entity business</del> combination, and that control is not transitory.</p>	<p>IFRS 3.B1 Amended to reflect IPSAS terminology.</p>
<p><b><u>B5B2</u></b> A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities. Therefore, an <del>entity business</del> combination is outside the scope of this <del>Standard IFRS</del> when the same group of individuals has, as a result of contractual arrangements, ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory.</p>	<p>IFRS 3.B2 Amended to reflect IPSAS terminology.</p>
<p><b><u>B6B3</u></b> An entity may be controlled by an individual or by a group of individuals acting together under a contractual arrangement, and that individual or group of individuals may not be subject to the financial reporting requirements of <del>IPSASs IFRSs</del>. Therefore, it is not necessary for combining entities to be included as part of the same consolidated financial statements for an <del>entity business</del> combination to be regarded as one involving entities under common control.</p>	<p>IFRS 3.B3 Amended to reflect IPSAS terminology.</p>
<p><b><u>B7B4</u></b> The extent of non-controlling interests in each of the combining entities before and after an <del>entity the business</del> combination is not relevant to determining whether the combination involves entities under common control. Similarly, the fact that one of the combining entities is a <del>controlled entity subsidiary</del> that has been excluded from the consolidated financial statements is not relevant to determining whether a combination involves entities under</p>	<p>IFRS 3.B4 Amended to reflect IPSAS terminology.</p>

common control.	
<b>Identifying <u>an entity</u>–<del>business</del> combination (application of paragraph <u>83</u>)</b>	Amended to reflect IPSAS terminology.
<p><del>B8B5</del> This <del>Standard IFRS</del> defines <u>an entity</u> <del>business</del> combination as a transaction or other event in which an acquirer obtains control of one or more businesses <u>or functions</u>. An acquirer might obtain control of an acquiree in a variety of ways, for example:</p> <ul style="list-style-type: none"> <li>(a) By transferring cash, cash equivalents or other assets (including net assets that constitute a business);</li> <li>(b) By incurring liabilities;</li> <li>(c) By issuing equity interests;</li> <li>(d) By providing more than one type of consideration; or</li> <li>(e) Without transferring consideration, including by contract alone (see paragraph <del>57</del><u>43</u>).</li> </ul>	<p>IFRS 3.B5 Amended to reflect IPSAS terminology.</p> <p>See the explanation on paragraph 57 for further details regarding (e).</p>
<p><del>B9B6</del> <u>An entity</u> <del>business</del> combination may be structured in a variety of ways for legal, taxation, <u>statutory</u> or other reasons, which include but are not limited to:</p> <ul style="list-style-type: none"> <li>(a) One or more businesses <u>or functions</u> become <u>controlled entities</u> <del>subsidiaries</del> of an acquirer or the net assets of one or more businesses <u>or functions</u> are legally merged into the acquirer;</li> <li>(b) One combining entity transfers its net assets, or its owners transfer their equity interests <u>or ownership interests</u>, to another combining entity or its owners;</li> <li>(c) All of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests <u>or ownership interests</u>, to a newly formed entity (sometimes referred to as a roll-up or put-together transaction); or</li> <li>(d) A group of former owners of one of the combining entities obtains control of the combined entity.</li> </ul>	<p>IFRS 3.B6 Amended to reflect IPSAS terminology.</p>
<b>Definition of a business (application of paragraph 83)</b>	
<p><del>B10B7</del> A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business. The three elements of a business are defined as follows:</p> <ul style="list-style-type: none"> <li>(a) <b>Input:</b> Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights</li> </ul>	<p>IFRS 3.B7 Amended to reflect IPSAS terminology.</p>

<p>to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights and employees.</p> <p>(b) <b>Process:</b> Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but an organized workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)</p> <p>(c) <b>Output:</b> The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, <u>such as a public sector controlling entity, members or participants.</u></p>	
<p><del>B11B8</del> To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs, which together are or will be used to create outputs. However, a business need not include all of the inputs or processes that the seller used in operating that business if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes.</p>	<p>IFRS 3.B8 No amendment.</p>
<p><del>B12B9</del> The nature of the elements of a business varies by industry and by the structure of an entity's operations (activities), including the entity's stage of development. Established businesses often have many different types of inputs, processes and outputs, whereas new businesses often have few inputs and processes and sometimes only a single output (product). Nearly all businesses also have liabilities, but a business need not have liabilities.</p>	<p>IFRS 3.B9 No amendment.</p>
<p><del>B13B10</del> An integrated set of activities and assets in the development stage might not have outputs. If not, the acquirer should consider other factors to determine whether the set is a business. Those factors include, but are not limited to, whether the set:</p> <p>(a) Has begun planned principal activities;</p> <p>(b) Has employees, intellectual property and other inputs and processes that could be applied to those inputs;</p> <p>(c) Is pursuing a plan to produce outputs; and</p> <p>(d) Will be able to obtain access to customers that will purchase the outputs.</p>	<p>IFRS 3.B10 No amendment.</p>

<p>Not all of those factors need to be present for a particular integrated set of activities and assets in the development stage to qualify as a business.</p>	
<p><del>B14B11</del> Determining whether a particular set of assets and activities is a business should be based on whether the integrated set is capable of being conducted and managed as a business by a market participant. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a business or whether the acquirer intends to operate the set as a business.</p>	<p>IFRS 3.B11 No amendment.</p>
<p><del>B15B12</del> In the absence of evidence to the contrary, a particular set of assets and activities in which goodwill is present shall be presumed to be a business. However, a business need not have goodwill.</p>	<p>IFRS 3.B12 No amendment.</p>
<p><b><u>Definition of a function (application of paragraph 8)</u></b></p>	<p>New section to explain the new definition “function”.</p>
<p><del>B16</del> A function is an integrated set of activities and assets that is conducted and managed for the primary objective of providing goods or services for community or social benefit. A function consists of inputs, processes to be applied to those inputs, and resulting outputs that may be used to:</p> <ul style="list-style-type: none"> <li>(a) Deliver goods and services;</li> <li>(b) Reduce costs or improve efficiencies in the way in which resources are used; or</li> <li>(c) In some circumstances, to generate revenue or provide a return to owners.</li> </ul>	<p>New: Explanation of “function” definition, adapted from the South African ASB DP 4, paragraph 4.71.</p>
<p><del>B17</del> A function encompasses a wider range of outcomes than a business, as entity combinations in the public sector may be undertaken for a variety of reasons, including:</p> <ul style="list-style-type: none"> <li>(a) To deliver goods and services (whether for full or only part compensation). An example of this is the establishment of municipal entities by municipalities to provide essential services such as electricity, water supply, and rubbish removal in return for fees charged to users; and</li> <li>(b) To reduce costs or improve the way in which resources are used. Entities may be rationalised in order to save on costs, maximise efficiencies, or as a means of improving service delivery. For example, the transfer of certain functions from the national and various provincial departments of social development to a newly formed agency in a bid to improve service delivery.</li> </ul>	<p>New: Explanation of “function” definition, adapted from the South African ASB DP 4, paragraph 4.70.</p>
<p><b><u>Identifying the acquirer (application of paragraphs 116 and 127)</u></b></p>	
<p><del>B18B13</del> The guidance in IPSAS 6 “Consolidated and Separate Financial Statements” <del>IAS 27 Consolidated and Separate Financial Statements</del> shall be used to identify the acquirer—the entity that obtains control of the acquiree. If an entity</p>	<p>IFRS 3.B13 Amended referencing to IPSAS instead of IFRS.</p>

<p><del>business</del> combination has occurred but applying the guidance in <u>IPSAS 6</u> <del>IAS-27</del> does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs <u>B19–B23</u> <del>B14–B18</del> shall be considered in making that determination.</p>	
<p><del>B19</del><u>B14</u> In an <u>entity</u> <del>business</del> combination effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities.</p>	<p>IFRS 3.B14 Amended to reflect IPSAS terminology.</p>
<p><del>B20</del><u>B15</u> In an <u>entity</u> <del>business</del> combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. <del>However, in some business combinations, commonly called ‘reverse acquisitions’, the issuing entity is the acquiree. Paragraphs B19–B27 provide guidance on accounting for reverse acquisitions.</del> Other pertinent facts and circumstances shall also be considered in identifying the acquirer in an <u>entity</u> <del>business</del> combination effected by exchanging equity interests, including:</p> <ul style="list-style-type: none"> <li>(a) <i>The relative voting rights in the combined entity after the <u>entity</u> <del>business</del> combination</i>—The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity. In determining which group of owners retains or receives the largest portion of the voting rights, an entity shall consider the existence of any unusual or special voting arrangements and options, warrants or convertible securities.</li> <li>(b) <i>The existence of a large minority voting interest in the combined entity if no other owner or organized group of owners has a significant voting interest</i>—The acquirer is usually the combining entity whose single owner or organized group of owners holds the largest minority voting interest in the combined entity.</li> <li>(c) <i>The composition of the governing body of the combined entity</i>—The acquirer is usually the combining entity whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.</li> <li>(d) <i>The composition of the senior management of the combined entity</i>—The acquirer is usually the combining entity whose (former) management dominates the management of the combined entity.</li> <li>(e) <i>The terms of the exchange of equity interests</i>—The acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities.</li> </ul>	<p>IFRS 3.B15 Amended to reflect IPSAS terminology.</p> <p>Sentence deleted as it refers to reverse acquisitions and that section has been deleted. See that section for the reason.</p>
<p><del>B21</del><u>B16</u> The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or <u>surplus</u></p>	<p>IFRS 3.B16 Amended to reflect IPSAS terminology.</p>

	profit) is significantly greater than that of the other combining entity or entities.
B22B17	In an entity business combination involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the combination, as well as the relative size of the combining entities.
B23B18	A new entity formed to effect an entity business combination is not necessarily the acquirer. If a new entity is formed to issue equity interests to effect an entity business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer by applying the guidance in paragraphs B18–B22 B13–B17. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.
<b>Reverse acquisitions</b>	This section has been deleted because Staff considers that the usual drivers for a reverse acquisition, such as a back door listing, do not exist for public sector entities.
B19	<p>A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes on the basis of the guidance in paragraphs B13–B18. The entity whose equity interests are acquired (the legal acquiree) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition. For example, reverse acquisitions sometimes occur when a private operating entity wants to become a public entity but does not want to register its equity shares. To accomplish that, the private entity will arrange for a public entity to acquire its equity interests in exchange for the equity interests of the public entity. In this example, the public entity is the <b>legal acquirer</b> because it issued its equity interests, and the private entity is the <b>legal acquiree</b> because its equity interests were acquired. However, application of the guidance in paragraphs B13–B18 results in identifying:</p> <ul style="list-style-type: none"> <li>(a) — The public entity as the <b>acquiree</b> for accounting purposes (the accounting acquiree); and</li> <li>(b) — The private entity as the <b>acquirer</b> for accounting purposes (the accounting acquirer).</li> </ul> <p>The accounting acquiree must meet the definition of a business for the transaction to be accounted for as a reverse acquisition, and all of the recognition and measurement principles in this IFRS, including the requirement to recognize goodwill, apply.</p>
	<b>Measuring the consideration transferred</b>
B20	In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquiree. Instead, the accounting acquiree usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the

	<p>acquisition date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquiree is based on the number of equity interests the legal subsidiary would have had to issue to give the owners of the legal parent the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquiree.</p>	
	<p><b>Preparation and presentation of consolidated financial statements</b></p>	
B21	<p>Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (accounting acquiree) but described in the notes as a continuation of the financial statements of the legal subsidiary (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree. That adjustment is required to reflect the capital of the legal parent (the accounting acquiree). Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal parent (accounting acquiree).</p>	
B22	<p>Because the consolidated financial statements represent the continuation of the financial statements of the legal subsidiary except for its capital structure, the consolidated financial statements reflect:</p> <ul style="list-style-type: none"> <li>(a) The assets and liabilities of the legal subsidiary (the accounting acquirer) recognized and measured at their pre combination carrying amounts.</li> <li>(b) The assets and liabilities of the legal parent (the accounting acquiree) recognized and measured in accordance with this IFRS.</li> <li>(c) The retained earnings and other equity balances of the legal subsidiary (accounting acquirer) before the business combination.</li> <li>(d) The amount recognized as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the combination to the fair value of the legal parent (accounting acquiree) determined in accordance with this IFRS. However, the equity structure (ie the number and type of equity interests issued) reflects the equity structure of the legal parent (the accounting acquiree), including the equity interests the legal parent issued to effect the combination. Accordingly, the equity structure of the legal subsidiary (the accounting acquirer) is restated using the exchange ratio established in the acquisition agreement to reflect the number of</li> </ul>	



	<p><del>shares of the legal parent (the accounting acquiree) issued in the reverse acquisition.</del></p> <p><del>(c) The non controlling interest's proportionate share of the legal subsidiary's (accounting acquirer's) pre combination carrying amounts of retained earnings and other equity interests as discussed in paragraphs B23 and B24.</del></p>	
	<b>Non-controlling interest</b>	
B23	<p><del>In a reverse acquisition, some of the owners of the legal acquiree (the accounting acquirer) might not exchange their equity interests for equity interests of the legal parent (the accounting acquiree). Those owners are treated as a non-controlling interest in the consolidated financial statements after the reverse acquisition. That is because the owners of the legal acquiree that do not exchange their equity interests for equity interests of the legal acquirer have an interest in only the results and net assets of the legal acquiree not in the results and net assets of the combined entity. Conversely, even though the legal acquirer is the acquiree for accounting purposes, the owners of the legal acquirer have an interest in the results and net assets of the combined entity.</del></p>	
B24	<p><del>The assets and liabilities of the legal acquiree are measured and recognized in the consolidated financial statements at their pre combination carrying amounts (see paragraph B22(a)). Therefore, in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre combination carrying amounts of the legal acquiree's net assets even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date.</del></p>	
	<b>Earnings per share</b>	
B25	<p><del>As noted in paragraph B22(d), the equity structure in the consolidated financial statements following a reverse acquisition reflects the equity structure of the legal acquirer (the accounting acquiree), including the equity interests issued by the legal acquirer to effect the business combination.</del></p>	
B26	<p><del>In calculating the weighted average number of ordinary shares outstanding (the denominator of the earnings per share calculation) during the period in which the reverse acquisition occurs:</del></p> <p><del>(a) The number of ordinary shares outstanding from the beginning of that period to the acquisition date shall be computed on the basis of the weighted average number of ordinary shares of the legal acquiree (accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement; and</del></p> <p><del>(b) The number of ordinary shares outstanding from</del></p>	

	the acquisition date to the end of that period shall be the actual number of ordinary shares of the legal acquirer (the accounting acquiree) outstanding during that period.	
B27	<p>The basic earnings per share for each comparative period before the acquisition date presented in the consolidated financial statements following a reverse acquisition shall be calculated by dividing:</p> <p>(a) The profit or loss of the legal acquiree attributable to ordinary shareholders in each of those periods by</p> <p>(b) The legal acquiree's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition agreement.</p>	
<b>Recognizing particular assets acquired and liabilities assumed (application of paragraphs 20–23 10–13)</b>		
<b>Operating leases</b>		
<del>B24</del> B28	The acquirer shall recognize no assets or liabilities related to an operating lease in which the acquiree is the lessee except as required by paragraphs <del>B25</del> B29 and <del>B26</del> B30.	IFRS 3.B28 No amendment.
<del>B25</del> B29	The acquirer shall determine whether the terms of each operating lease in which the acquiree is the lessee are favorable or unfavorable. The acquirer shall recognize an intangible asset if the terms of an operating lease are favorable relative to market terms and a liability if the terms are unfavorable relative to market terms. Paragraph <del>B38</del> B42 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquiree is the lessor.	IFRS 3.B29 No amendment.
<del>B26</del> B30	An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits that qualify as identifiable intangible assets, for example, as a customer relationship. In that situation, the acquirer shall recognize the associated identifiable intangible asset(s) in accordance with paragraph <del>B27</del> B34.	IFRS 3.B30 No amendment.
<b>Intangible assets</b>		
<del>B27</del> B31	The acquirer shall recognize, separately from purchase premium or goodwill, the identifiable intangible assets acquired in an entity business combination. An intangible	IFRS 3.B31 Amended to reflect IPSAS terminology.

<p>asset is identifiable if it meets either the separability criterion or the contractual-legal-<u>binding</u> criterion.</p>	
<p><del>B28</del><b>B32</b> An intangible asset that meets the contractual-legal-<u>binding</u> criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations. For example:</p> <p>(a) An acquiree leases a manufacturing facility under an operating lease that has terms that are favorable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favorable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the contractual-legal-<u>binding</u> criterion for recognition separately from <u>purchase premium or goodwill</u>, even though the acquirer cannot sell or otherwise transfer the lease contract.</p> <p>(b) An acquiree owns and operates a nuclear power plant. The license to operate that power plant is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognize the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.</p> <p>(c) An acquiree owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related license agreement meet the contractual-legal-<u>binding</u> criterion for recognition separately from <u>purchase premium or goodwill</u> even if selling or exchanging the patent and the related license agreement separately from one another would not be practical.</p>	<p>IFRS 3.B32 Amended to reflect IPSAS terminology.</p>
<p><del>B29</del><b>B33</b> The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquiree and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract <u>or binding arrangement</u>, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, <u>customer, user</u> and subscriber lists are frequently licensed and thus meet the</p>	<p>IFRS 3.B33 Amended to reflect IPSAS terminology.</p>

<p>separability criterion. Even if an acquirer believes its customer lists have characteristics different from other customer lists, the fact that customer lists are frequently licensed generally means that the acquired customer list meets the separability criterion. However, a customer list acquired in an <u>entity business</u> combination would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its customers.</p>	
<p><del>B30</del><del>B34</del> An intangible asset that is not individually separable from the acquirer or combined entity meets the separability criterion if it is separable in combination with a related contract <u>or binding arrangement</u>, identifiable asset or liability. For example:</p> <p>(a) Market participants exchange deposit liabilities and related depositor relationship intangible assets in observable exchange transactions. Therefore, the acquirer should recognize the depositor relationship intangible asset separately from <u>purchase premium or goodwill</u>.</p> <p>(b) An acquirer owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquirer or combined entity and sold if the related trademark is sold, it meets the separability criterion.</p>	<p>IFRS 3.B34 Amended to reflect IPSAS terminology.</p>
<p><del>B31</del><del>B35</del> As part of an <u>entity business</u> combination, an acquirer may reacquire a right that it had previously granted to the acquirer to use one or more of the acquirer's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's trade name under a franchise agreement or a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognizes separately from <u>purchase premium or goodwill</u>. Paragraph <del>4029</del> provides guidance on measuring a reacquired right and paragraph <del>6955</del> provides guidance on the subsequent accounting for a reacquired right.</p>	<p>IFRS 3.B35 Amended to reflect IPSAS terminology.</p>
<p><del>B32</del><del>B36</del> If the terms of the contract <u>or binding arrangement</u> giving rise to a reacquired right are favorable or unfavorable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognize a settlement gain or loss. Paragraph <del>B48B52</del> provides guidance for measuring that settlement gain or loss.</p>	<p>IFRS 3.B36 No amendment.</p>
<p><del>B33</del><del>B37</del> The acquirer subsumes into <u>purchase premium or goodwill</u> the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an</p>	<p>IFRS 3.B37 Amended to reflect IPSAS terminology.</p>

<p>assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired business from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialized) knowledge and experience that employees of an acquiree bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognized separately from <u>purchase premium or goodwill</u>, any value attributed to it is subsumed into <u>purchase premium or goodwill</u>.</p>	
<p><del>B34</del><del>B38</del> The acquirer also subsumes into <u>purchase premium or goodwill</u> any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential contracts the acquiree is negotiating with prospective new customers at the acquisition date. Because those potential contracts <u>or binding arrangements</u> are not themselves assets at the acquisition date, the acquirer does not recognize them separately from <u>purchase premium or goodwill</u>. The acquirer should not subsequently reclassify the value of those contracts <u>or binding arrangements</u> from <u>purchase premium or goodwill</u> for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognizable intangible asset existed at the acquisition date.</p>	<p>IFRS 3.B38 Amended to reflect IPSAS terminology.</p>
<p><del>B35</del><del>B39</del> After initial recognition, an acquirer accounts for intangible assets acquired in an <u>entity business</u> combination in accordance with the provisions of <u>[draft] IPSAS XX “Intangible Assets” IAS 38 Intangible Assets</u>. However, as described in paragraph 43 of <u>[draft] IPSAS XX IAS 38</u>, the accounting for some acquired intangible assets after initial recognition is prescribed by other <u>IPSASs IFRSs</u>.</p>	<p>IFRS 3.B39 Amended to reflect IPSASs instead of IFRSs and to reflect IPSAS terminology.</p>
<p><del>B36</del><del>B40</del> The identifiability criteria determine whether an intangible asset is recognized separately from <u>purchase premium or goodwill</u>. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in estimating the fair value of an intangible asset. For example, the acquirer would take into account assumptions that market participants would consider, such as expectations of future contract <u>or binding arrangement</u> renewals, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 4029, which establishes an exception to the fair value measurement principle for reacquired rights recognized in an <u>entity business</u> combination.) Paragraphs 4136 and 4237 of <u>[draft] IPSAS XX IAS 38</u> provide guidance for determining whether intangible assets should be combined into a single unit of account with other intangible or tangible assets.</p>	<p>IFRS 3.B40 Amended to reflect IPSAS terminology.</p>
<p><del>B37</del><del>B41</del> The acquirer shall not recognize a separate valuation allowance as of the acquisition date for assets acquired in an <u>entity business</u> combination that are measured at their</p>	<p>IFRS 3.B41 Amended to reflect IPSAS terminology.</p>

<p>acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this <u>Standard</u> <del>IFRS</del> requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values, the acquirer does not recognize a separate valuation allowance for the contractual <u>or binding arrangement</u> cash flows that are deemed to be uncollectible at that date.</p>	
<p><del>B38</del><b>B42</b> In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the acquirer shall take into account the terms of the lease. In other words, the acquirer does not recognize a separate asset or liability if the terms of an operating lease are either favorable or unfavorable when compared with market terms as paragraph <del>B25</del><b>B29</b> requires for leases in which the acquiree is the lessee.</p>	<p>IFRS 3.B42 No amendment.</p>
<p><del>B39</del><b>B43</b> For competitive or other reasons, the acquirer may intend not to use an acquired asset, for example, a research and development intangible asset, or it may intend to use the asset in a way that is different from the way in which other market participants would use it. Nevertheless, the acquirer shall measure the asset at fair value determined in accordance with its use by other market participants.</p>	<p>IFRS 3.B43 No amendment.</p>
<p><del>B40</del><b>B44</b> This <u>Standard</u> <del>IFRS</del> allows the acquirer to measure a non-controlling interest in the acquiree at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of active market prices for the equity shares not held by the acquirer. In other situations, however, an active market price for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other valuation techniques.</p>	<p>IFRS 3.B44 Amended to reflect IPSAS terminology.</p>
<p><del>B41</del><b>B45</b> The fair values of the acquirer's interest in the acquiree and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquiree or, conversely, the inclusion of a discount for lack of control (also referred to as a minority discount) in the per-share fair value of the non-controlling interest.</p>	<p>IFRS 3.B45 No amendment.</p>
<p><b>Measuring <u>premium purchase/goodwill</u> or a gain from a bargain purchase</b></p>	
<p><b>Measuring the acquisition-date fair value of the acquirer's interest in the acquiree using valuation techniques (application of paragraph <u>4333</u>)</b></p>	
<p><del>B42</del><b>B46</b> In an <u>entity business</u> combination achieved without the</p>	<p>IFRS 3.B46 Amended to reflect IPSAS</p>

<p>transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquiree for the acquisition-date fair value of the consideration transferred to measure <u>purchase premium or goodwill</u> or a gain on a bargain purchase (see paragraphs <del>42–44</del><del>32–34</del>). The acquirer should measure the acquisition-date fair value of its interest in the acquiree using one or more valuation techniques that are appropriate in the circumstances and for which sufficient data are available. If more than one valuation technique is used, the acquirer should evaluate the results of the techniques, considering the relevance and reliability of the inputs used and the extent of the available data.</p>	<p>terminology.</p>
<p><b>Special considerations in applying the acquisition method to combinations of mutual entities (application of paragraph <u>4333</u>)</b></p>	
<p><del>B43</del><del>B47</del> When two mutual entities combine, the fair value of the equity or member interests in the acquiree (or the fair value of the acquiree) may be more reliably measurable than the fair value of the member interests transferred by the acquirer. In that situation, paragraph <del>4333</del> requires the acquirer to determine the amount of <u>purchase premium or goodwill</u> by using the acquisition-date fair value of the acquiree's equity <u>or other</u> interests instead of the acquisition-date fair value of the acquirer's equity <u>or other</u> interests transferred as consideration. In addition, the acquirer in a combination of mutual entities shall recognize the acquiree's net assets as a direct addition to capital or <u>net assets/equity</u> in its statement of financial position, not as an addition to <u>accumulated surplus or deficit</u> <del>retained earnings</del>, which is consistent with the way in which other types of entities apply the acquisition method.</p>	<p>IFRS 3.B47 Amended to reflect IPSAS terminology.</p>
<p><del>B44</del><del>B48</del> Although they are similar in many ways to other businesses <u>or functions</u>, mutual entities have distinct characteristics that arise primarily because their members are both customers and owners. Members of mutual entities generally expect to receive benefits for their membership, often in the form of reduced fees charged for goods and services or patronage dividends. The portion of patronage dividends allocated to each member is often based on the amount of business the member did with the mutual entity during the year.</p>	<p>IFRS 3.B48 Amended to reflect IPSAS terminology.</p>
<p><del>B45</del><del>B49</del> A fair value measurement of a mutual entity should include the assumptions that market participants would make about future member benefits as well as any other relevant assumptions market participants would make about the mutual entity. For example, an estimated cash flow model may be used to determine the fair value of a mutual entity. The cash flows used as inputs to the model should be based on the expected cash flows of the mutual entity, which are likely to reflect reductions for member benefits, such as</p>	<p>IFRS 3.B49 No amendment.</p>

reduced fees charged for goods and services.	
<b>Determining what is part of the <u>entity</u> combination transaction (application of paragraphs <u>6551</u> and <u>6652</u>)</b>	
<p><del>B46</del><del>B50</del> The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquiree or whether the transaction is separate from the <u>entity business</u> combination:</p> <p>(a) <b>The reasons for the transaction</b>—Understanding the reasons why the parties to the combination (the acquirer and the acquiree and their owners, directors, <u>governing body</u> and managers—and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquiree or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquiree. Accordingly, the acquirer would account for that portion separately from the <u>entity business</u> combination.</p> <p>(b) <b>Who initiated the transaction</b>—Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits to the acquirer or combined entity with little or no benefit received by the acquiree or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquiree or its former owners is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the <u>entity business</u> combination transaction.</p> <p>(c) <b>The timing of the transaction</b>—The timing of the transaction may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction between the acquirer and the acquiree that takes place during the negotiations of the terms of an <u>entity business</u> combination may have been entered into in contemplation of the <u>entity business</u> combination to provide future economic benefits to the acquirer or the combined entity. If so, the acquiree or its former owners before the <u>entity business</u> combination are likely to receive little or no</p>	IFRS 3.B50 Amended to reflect IPSAS terminology.



benefit from the transaction except for benefits they receive as part of the combined entity.	
<p><b>Effective settlement of a pre-existing relationship between the acquirer and acquiree in an <u>entity business</u> combination (application of paragraph <u>6652(a)</u>)</b></p>	
<p><del>B47B51</del> The acquirer and acquiree may have a relationship that existed before they contemplated the <u>entity business</u> combination, referred to here as a ‘pre-existing relationship’. A pre-existing relationship between the acquirer and acquiree may be contractual (for example, vendor and customer or licensor and licensee) or non-contractual (for example, plaintiff and defendant).</p>	<p>IFRS 3.B51 Amended to reflect IPSAS terminology.</p>
<p><del>B48B52</del> If the <u>entity business</u> combination in effect settles a pre-existing relationship, the acquirer recognizes a gain or loss, measured as follows:</p> <ul style="list-style-type: none"> <li>(a) For a pre-existing non-contractual relationship (such as a lawsuit), fair value.</li> <li>(b) For a pre-existing contractual relationship, the lesser of (i) and (ii): <ul style="list-style-type: none"> <li>(i) The amount by which the contract is favorable or unfavorable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavorable contract is a contract that is unfavorable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits <u>or service potential</u> expected to be received under it.)</li> <li>(ii) The amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavorable.</li> </ul> </li> </ul> <p>If (ii) is less than (i), the difference is included as part of the business combination accounting.</p> <p>The amount of gain or loss recognized may depend in part on whether the acquirer had previously recognized a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.</p>	<p>IFRS 3.B52 Amended to reflect IPSAS terminology.</p>
<p><del>B49B53</del> A pre-existing relationship may be a contract that the acquirer recognizes as a reacquired right. If the contract</p>	<p>IFRS 3.B53 Amended to reflect IPSAS terminology.</p>

<p>includes terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer recognizes, separately from the <u>entity business</u> combination, a gain or loss for the effective settlement of the contract, measured in accordance with paragraph <u>B48B52</u>.</p>	
<p><b>Arrangements for contingent payments to employees or <u>former owners selling shareholders</u> (application of paragraph <u>6652(b)</u>)</b></p>	<p>Deleted “selling shareholders” and replaced with “former owners” as it encompasses a wider type of ownership and is also consistent with the wording used in paragraph <u>6652(b)</u>.</p>
<p><u>B50B54</u> Whether arrangements for contingent payments to employees or <u>former owners selling shareholders</u> are contingent consideration in the <u>entity business</u> combination or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.</p>	<p>IFRS 3.B54 Adapted for the same reason as given for the title of this section. Amended to reflect IPSAS terminology.</p>
<p><u>B51B55</u> If it is not clear whether an arrangement for payments to employees or <u>former owners selling shareholders</u> is part of the exchange for the acquiree or is a transaction separate from the <u>entity business</u> combination, the acquirer should consider the following indicators:</p> <ul style="list-style-type: none"> <li>(a) <i>Continuing employment</i>—The terms of continuing employment by the <u>former owners selling shareholders</u> who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.</li> <li>(b) <i>Duration of continuing employment</i>—If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.</li> <li>(c) <i>Level of remuneration</i>—Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than remuneration.</li> </ul>	<p>IFRS 3.B55 Adapted for the same reason as given for the title of this section. Amended to reflect IPSAS terminology.</p>

	<p>(d) <i>Incremental payments to employees</i>—If <u>former owners selling shareholders</u> who do not become employees receive lower contingent payments on a per-share basis than the <u>former owners selling shareholders</u> who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the <u>former owners selling shareholders</u> who become employees is remuneration.</p> <p>(e) <i>Number of shares owned or other types of ownership interest</i>—The relative number of shares owned <u>or other types of ownership interest held</u> by the <u>former owners selling shareholders</u> who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the <u>former owners selling shareholders</u> who owned substantially all of the shares <u>or other types of ownership interest</u> in the acquiree continue as key employees, that fact may indicate that the arrangement is, in substance, a profit-sharing arrangement intended to provide remuneration for post-combination services. Alternatively, if <u>former owners selling shareholders</u> who continue as key employees owned only a small number of shares of the acquiree <u>or other type of ownership interest in the acquiree</u> and all <u>former owners selling shareholders</u> receive the same amount of contingent consideration on a per-share <u>or other pro-rate</u> basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to <u>former owners selling shareholders</u> who continue as key employees, such as family members, should also be considered.</p> <p>(f) <i>Linkage to the valuation</i>—If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquiree and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration. Alternatively, if the contingent payment formula is consistent with prior profit-sharing arrangements, that fact may suggest that the substance of the arrangement is to provide remuneration.</p> <p>(g) <i>Formula for determining consideration</i>—The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of earnings, that might suggest that the obligation is contingent consideration in the <u>entity business</u> combination and that the formula is intended to establish or verify the fair value of the acquiree. In contrast, a contingent payment that is a</p>	
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<p>specified percentage of <u>surplus earnings</u> might suggest that the obligation to employees is a profit-sharing arrangement to remunerate employees for services rendered.</p> <p>(h) <i>Other agreements and issues</i>—The terms of other arrangements with <u>former owners selling shareholders</u> (such as agreements not to compete, executory contracts, consulting contracts and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquiree. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant <u>former owner selling shareholders</u>. If the lease payments specified in the lease contract are significantly below market, some or all of the contingent payments to the lessor (the <u>former owner selling shareholder</u>) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognize separately in its post-combination financial statements. In contrast, if the lease contract specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the <u>former owner selling shareholder</u> may be contingent consideration in the <u>entity business</u> combination.</p>	
<p><b><del>Acquirer share-based payment awards exchanged for awards held by the acquiree's employees (application of paragraph 52(b))</del></b></p>	<p>This section has been deleted to be consistent with the deletion of paragraph 30 in the Standard, as Staff considers that an acquirer (applying this Standard) will not replace the acquiree's share-based payment award with another share-based payment award because public sector entities do not award share-based payment.</p>
<p><del>B56—An acquirer may exchange its share-based payment awards (replacement awards) for awards held by employees of the acquiree. Exchanges of share options or other share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards in accordance with IFRS 2 <i>Share-based Payment</i>. If the acquirer is obliged to replace the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this requirement, the acquirer is obliged to replace the acquiree's awards if replacement is required by:</del></p> <p><del>(a) — the terms of the acquisition agreement;</del></p>	

	<p>(b) — the terms of the acquiree's awards; or</p> <p>(c) — applicable laws or regulations.</p> <p>In some situations, acquiree awards may expire as a consequence of a business combination. If the acquirer replaces those awards even though it is not obliged to do so, all of the market based measure of the replacement awards shall be recognized as remuneration cost in the post-combination financial statements. That is to say, none of the market based measure of those awards shall be included in measuring the consideration transferred in the business combination.</p>	
B57	<p>To determine the portion of a replacement award that is part of the consideration transferred for the acquiree and the portion that is remuneration for post-combination service, the acquirer shall measure both the replacement awards granted by the acquirer and the acquiree awards as of the acquisition date in accordance with IFRS 2. The portion of the market based measure of the replacement award that is part of the consideration transferred in exchange for the acquiree equals the portion of the acquiree award that is attributable to pre-combination service.</p>	
B58	<p>The portion of the replacement award attributable to pre-combination service is the market based measure of the acquiree award multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The vesting period is the period during which all the specified vesting conditions are to be satisfied. Vesting conditions are defined in IFRS 2.</p>	
B59	<p>The portion of a non-vested replacement award attributable to post-combination service, and therefore recognized as remuneration cost in the post-combination financial statements, equals the total market based measure of the replacement award less the amount attributed to pre-combination service. Therefore, the acquirer attributes any excess of the market based measure of the replacement award over the market based measure of the acquiree award to post-combination service and recognizes that excess as remuneration cost in the post-combination financial statements. The acquirer shall attribute a portion of a replacement award to post-combination service if it requires post-combination service, regardless of whether employees had rendered all of the service required for their acquiree awards to vest before the acquisition date.</p>	
B60	<p>The portion of a non-vested replacement award attributable to pre-combination service, as well as the portion attributable to post-combination service, shall reflect the best available estimate of the number of replacement awards expected to vest. For example, if the market based measure of the portion of a replacement award attributed to pre-combination service is CU100 and the acquirer expects that only 95 per cent of the award will vest, the amount included in consideration transferred in the business combination is</p>	

<p><del>CU95. Changes in the estimated number of replacement awards expected to vest are reflected in remuneration cost for the periods in which the changes or forfeitures occur—not as adjustments to the consideration transferred in the business combination. Similarly, the effects of other events, such as modifications or the ultimate outcome of awards with performance conditions, that occur after the acquisition date are accounted for in accordance with IFRS 2 in determining remuneration cost for the period in which an event occurs.</del></p>	
<p><del>B61 The same requirements for determining the portions of a replacement award attributable to pre-combination and post-combination service apply regardless of whether a replacement award is classified as a liability or as an equity instrument in accordance with the provisions of IFRS 2. All changes in the market-based measure of awards classified as liabilities after the acquisition date and the related income tax effects are recognized in the acquirer's post-combination financial statements in the period(s) in which the changes occur.</del></p>	
<p><del>B62 The income tax effects of replacement awards of share-based payments shall be recognized in accordance with the provisions of IAS 12 <i>Income Taxes</i>.</del></p>	
<p><b>Other IPSASs IFRSs that provide guidance on subsequent measurement and accounting (application of paragraphs 6854)</b></p>	
<p><del>B52B63</del> Examples of other IPSASs <del>IFRSs</del> that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an <u>entity business</u> combination include:</p> <ul style="list-style-type: none"> <li>(a) <del>[draft] IPSAS XX</del> IAS 38 prescribes the accounting for identifiable intangible assets acquired in an <u>entity business</u> combination <u>where the acquisition is for a business</u>. The acquirer measures goodwill at the amount recognized at the acquisition date less any accumulated impairment losses. IPSAS 26 "Impairment of Cash-Generating Assets" <del>IAS 36 <i>Impairment of Assets</i></del> prescribes the accounting for impairment losses.</li> <li><del>(b) IFRS 4 <i>Insurance Contracts</i> provides guidance on the subsequent accounting for an insurance contract acquired in a business combination.</del></li> <li><del>(c) IAS 12 prescribes the subsequent accounting for deferred tax assets (including unrecognized deferred tax assets) and liabilities acquired in a business combination.</del></li> <li><del>(d) IFRS 2 provides guidance on subsequent measurement and accounting for the portion of replacement share-based payment awards issued by an acquirer that is attributable to employees'</del></li> </ul>	<p>IFRS 3.B63 Amended to reflect IPSASs instead of IFRSs and to reflect IPSAS terminology.</p> <p>Points (b), (c) and (d) are deleted as the IPSASB does not have standards for insurance contracts, income taxes and share-based payments.</p> <p>See Appendix 3 of Agenda Paper 4.0 for the paragraphs relating to IPSAS 26.</p>

<p><del>future services.</del></p> <p>(be) <del>IPSAS 6 IAS 27 (as amended in 2008)</del> provides guidance on accounting for changes in a <del>controlling entity's parent's</del> ownership interest in a <del>controlled entity subsidiary</del> after control is obtained.</p>	
<p><b>Disclosures (application of paragraphs <u>7359</u> and <u>7561</u>)</b></p>	
<p><del>B53</del><del>B64</del> To meet the objective in paragraph <u>7359</u>, the acquirer shall disclose the following information for each <del>entity business</del> combination that occurs during the reporting period:</p> <ul style="list-style-type: none"> <li>(a) The name and a description of the acquiree.</li> <li>(b) The acquisition date.</li> <li>(c) The percentage of voting equity interests <u>or other interests</u> acquired.</li> <li>(d) The primary reasons for the <del>entity business</del> combination and a description of how the acquirer obtained control of the acquiree.</li> <li>(e) A qualitative description of the factors that make up the <u>purchase premium or goodwill</u> recognized, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.</li> <li>(f) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as: <ul style="list-style-type: none"> <li>(i) Cash;</li> <li>(ii) Other tangible or intangible assets, including a <u>business, function</u> or <u>controlled entity subsidiary</u> of the acquirer;</li> <li>(iii) Liabilities incurred, for example, a liability for contingent consideration; and</li> <li>(iv) Equity <u>or other</u> interests of the acquirer, including the number of instruments or interests issued or issuable and the method of determining the fair value of those instruments or interests.</li> </ul> </li> <li>(g) For contingent consideration arrangements and indemnification assets: <ul style="list-style-type: none"> <li>(i) The amount recognized as of the acquisition date;</li> <li>(ii) A description of the arrangement and the basis for determining the amount of the payment; and</li> <li>(iii) An estimate of the range of outcomes</li> </ul> </li> </ul>	<p>IFRS 3.B64 Amended to reflect IPSASs instead of IFRSs and to reflect IPSAS terminology.</p>

	<p>(undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.</p>	
(h)	<p>For acquired receivables:</p> <ul style="list-style-type: none"> <li>(i) The fair value of the receivables;</li> <li>(ii) The gross contractual <u>and non-contractual</u> amounts receivable; and</li> <li>(iii) The best estimate at the acquisition date of the contractual <u>and non-contractual</u> cash flows not expected to be collected.</li> </ul> <p>The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.</p>	
(i)	<p>The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed.</p>	
(j)	<p>For each contingent liability recognized in accordance with paragraph <del>3323</del>, the information required in paragraph <del>9885</del> of <u>IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets”</u> <del>IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”</del>. If a contingent liability is not recognized because its fair value cannot be measured reliably, the acquirer shall disclose:</p> <ul style="list-style-type: none"> <li>(i) The information required by paragraph <del>10086</del> of <u>IPSAS 19</u> <del>IAS 37</del>; and</li> <li>(ii) The reasons why the liability cannot be measured reliably.</li> </ul>	
(k)	<p>The total amount of <u>purchase premium or</u> goodwill that is expected to be deductible for tax purposes.</p>	
(l)	<p>For transactions that are recognized separately from the acquisition of assets and assumption of liabilities in the business combination in accordance with paragraph <del>6554</del>:</p> <ul style="list-style-type: none"> <li>(i) A description of each transaction;</li> <li>(ii) How the acquirer accounted for each transaction;</li> <li>(iii) The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized; and</li> <li>(iv) If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.</li> </ul>	



(m)	The disclosure of separately recognized transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognized as an expense and the line item or items in the statement of <u>financial performance</u> <del>comprehensive income</del> in which those expenses are recognized. The amount of any issue costs not recognized as an expense and how they were recognized shall also be disclosed.	
(n)	In a bargain purchase (see paragraphs <u>44–46</u> <del>and 5034–36</del> ): <ul style="list-style-type: none"> <li data-bbox="438 577 966 756">(i) The amount of any gain recognized in accordance with paragraph <u>4434</u> <del>or 50</del> and the line item in the statement of <u>financial performance</u> <del>comprehensive income</del> in which the gain is recognized; and</li> <li data-bbox="438 766 966 829">(ii) A description of the reasons why the transaction resulted in a gain.</li> </ul>	
(o)	For each <u>entity business</u> combination in which the acquirer holds less than 100 per cent of the equity <u>or other</u> interests in the acquiree at the acquisition date: <ul style="list-style-type: none"> <li data-bbox="438 966 966 1081">(i) The amount of the non-controlling interest in the acquiree recognized at the acquisition date and the measurement basis for that amount; and</li> <li data-bbox="438 1092 966 1207">(ii) For each non-controlling interest in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value.</li> </ul>	
(p)	In an <u>entity business</u> combination achieved in stages: <ul style="list-style-type: none"> <li data-bbox="438 1291 966 1407">(i) The acquisition-date fair value of the equity <u>or other</u> interest in the acquiree held by the acquirer immediately before the acquisition date; and</li> <li data-bbox="438 1417 966 1690">(ii) The amount of any gain or loss recognized as a result of remeasuring to fair value the equity <u>or other</u> interest in the acquiree held by the acquirer before the <u>entity business</u> combination (see paragraph <u>5642</u>) and the line item in the statement of <u>financial performance</u> <del>comprehensive income</del> in which that gain or loss is recognized.</li> </ul>	
(q)	The following information: <ul style="list-style-type: none"> <li data-bbox="438 1732 966 1881">(i) The amounts of revenue and <u>surplus or deficit</u> <del>profit or loss</del> of the acquiree since the acquisition date included in the consolidated statement of <u>financial performance</u> <del>comprehensive income</del> for</li> </ul>	

<p>the reporting period; and</p> <p>(ii) The revenue and <u>surplus or deficit</u> <del>profit or loss</del> of the combined entity for the current reporting period as though the acquisition date for all <u>entity business</u> combinations that occurred during the year had been as of the beginning of the annual reporting period.</p> <p>If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This <u>Standard</u> <del>IFRS</del> uses the term ‘impracticable’ with the same meaning as in <u>IPSAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors”</u> <del>IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors</del>.</p>	
<p><del>B54B65</del> For individually immaterial <u>entity business</u> combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph <del>B53B64</del>(e)–(q).</p>	<p>IFRS 3.B65 Amended to reflect IPSAS terminology.</p>
<p><del>B55B66</del> If the acquisition date of an <u>entity business</u> combination is after the end of the reporting period but before the financial statements are authorized for issue, the acquirer shall disclose the information required by paragraph <del>B53B64</del> unless the initial accounting for the business combination is incomplete at the time the financial statements are authorized for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.</p>	<p>IFRS 3.B66 Amended to reflect IPSAS terminology.</p>
<p><del>B56B67</del> To meet the objective in paragraph <del>7564</del>, the acquirer shall disclose the following information for each material <u>entity business</u> combination or in the aggregate for individually immaterial <u>entity business</u> combinations that are material collectively:</p> <p>(a) If the initial accounting for an <u>entity business</u> combination is incomplete (see paragraph <del>5945</del>) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognized in the financial statements for the <u>entity business</u> combination thus have been determined only provisionally:</p> <p>(i) The reasons why the initial accounting for the <u>entity business</u> combination is incomplete;</p> <p>(ii) The assets, liabilities, equity <u>or other</u> interests or items of consideration for which the initial accounting is incomplete; and</p> <p>(iii) The nature and amount of any measurement period adjustments recognized during the reporting period</p>	<p>IFRS 3.B67 Amended to reflect IPSASs instead of IFRSs and to reflect IPSAS terminology.</p> <p>Point (d)(iii) deleted as the related paragraph: IFRS 3.67 has been deleted. See that paragraph for explanation.</p> <p>Points (d)(ii) and (d)(<del>iiiiv</del>) have been kept as paragraph <del>4134</del> in the Standard refers to non-current assets and disposal groups.</p> <p><b>Point (d)(<del>iv</del>) can only be included if subsequent amendments are proposed for IPSAS 26.</b></p>

	in accordance with paragraph <del>63</del> 49.	
(b)	For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:	
	(i) Any changes in the recognized amounts, including any differences arising upon settlement;	
	(ii) Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and	
	(iii) The valuation techniques and key model inputs used to measure contingent consideration.	
(c)	For contingent liabilities recognized in an <u>entity</u> <del>business</del> combination, the acquirer shall disclose the information required by paragraphs <del>97</del> 84 and <del>98</del> 85 of <u>IPSAS 19</u> <del>IAS 37</del> for each class of provision.	
(d)	A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:	
	(i) The gross amount and accumulated impairment losses at the beginning of the reporting period.	
	(ii) Additional goodwill recognized during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with <u>the relevant international or national standard dealing with non-current assets held for sale and discontinued operations IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</u> .	
	<del>(iii) Adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with paragraph 67.</del>	
	<del>(iiiiv)</del> Goodwill included in a disposal group classified as held for sale in accordance with <u>the relevant international or national standard dealing with non-current assets held for sale and discontinued operations IFRS 5</u> and goodwill derecognized during the reporting period without having previously been included in a disposal group classified as held for sale.	
	<del>(ivv)</del> Impairment losses recognized during	

	<p>the reporting period in accordance with <u>IPSAS 26</u> <del>IAS 36</del>. (<del>IAS 36</del> requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)</p> <p>(vii) Met exchange rate differences arising during the reporting period in accordance with <u>IPSAS 4 “The Effects of Changes in Foreign Exchange Rates”</u> <del>IAS 21 The Effects of Changes in Foreign Exchange Rates</del>.</p> <p>(viii) Any other changes in the carrying amount during the reporting period.</p> <p>(viii) The gross amount and accumulated impairment losses at the end of the reporting period.</p> <p>(e) the amount and an explanation of any gain or loss recognized in the current reporting period that both:</p> <p>(i) Relates to the identifiable assets acquired or liabilities assumed in <u>an entity business</u> combination that was effected in the current or previous reporting period; and</p> <p>(ii) Is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity’s financial statements.</p>	
<p><b><del>Transitional provisions for business combinations involving only mutual entities or by contract alone (application of paragraph 66)</del></b></p>		<p>This section has been deleted because IFRS 3.66 in the Standard has been deleted. See that paragraph for explanation.</p>
B68	<p><del>Paragraph 64 provides that this IFRS applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Earlier application is permitted. However, an entity shall apply this IFRS only at the beginning of an annual reporting period that begins on or after 30 June 2007. If an entity applies this IFRS before its effective date, the entity shall disclose that fact and shall apply IAS 27 (as amended in 2008) at the same time.</del></p>	IFRS 3.B68
B69	<p><del>The requirement to apply this IFRS prospectively has the following effect for a business combination involving only mutual entities or by contract alone if the acquisition date for that business combination is before the application of this IFRS:</del></p> <p>(a) <del>Classification</del> <del>An entity shall continue to classify the prior business combination in accordance with the entity’s previous accounting policies for such combinations.</del></p> <p>(b) <del>Previously recognized goodwill</del> <del>At the</del></p>	IFRS 3.B69

beginning of the first annual period in which this IFRS is applied, the carrying amount of goodwill arising from the prior business combination shall be its carrying amount at that date in accordance with the entity's previous accounting policies. In determining that amount, the entity shall eliminate the carrying amount of any accumulated amortization of that goodwill and the corresponding decrease in goodwill. No other adjustments shall be made to the carrying amount of goodwill.

- (c) ~~Goodwill previously recognized as a deduction from equity~~ The entity's previous accounting policies may have resulted in goodwill arising from the prior business combination being recognized as a deduction from equity. In that situation the entity shall not recognize that goodwill as an asset at the beginning of the first annual period in which this IFRS is applied. Furthermore, the entity shall not recognize in profit or loss any part of that goodwill when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.
- (d) ~~Subsequent accounting for goodwill~~ From the beginning of the first annual period in which this IFRS is applied, an entity shall discontinue amortizing goodwill arising from the prior business combination and shall test goodwill for impairment in accordance with IAS 36.
- (e) ~~Previously recognized negative goodwill~~ An entity that accounted for the prior business combination by applying the purchase method may have recognized a deferred credit for an excess of its interest in the net fair value of the acquiree's identifiable assets and liabilities over the cost of that interest (sometimes called negative goodwill). If so, the entity shall derecognize the carrying amount of that deferred credit at the beginning of the first annual period in which this IFRS is applied with a corresponding adjustment to the opening balance of retained earnings at that date.

## Appendix C

### Amendments to other ~~IFRSs~~ IPSASs

*The amendments in this appendix shall be applied for annual reporting periods beginning on or after ~~1 July 2009~~ Month, day Year. If an entity applies this ~~IFRS~~ IPSAS for an earlier period, these amendments shall be applied for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.*

#### ~~IAS 16 Property, Plant and Equipment~~ IPSAS 17 “Property, Plant and Equipment”

C1 In ~~IPSAS 17~~ ~~IAS 16~~ paragraph ~~60~~44 is amended as follows:

~~60~~44 An entity allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.

Paragraph ~~107A~~ ~~81C~~ is added as follows:

~~107A~~81C ~~IFRS 3 Business Combinations (as revised in 2008)~~ IPSAS xx amended paragraph ~~60~~44. An entity shall apply that amendment for annual periods beginning on or after ~~1 July 2009~~ Month, day Year. If an entity applies ~~IFRS 3 (revised 2008)~~ IPSAS xx for an earlier period, the amendment shall also be applied for that earlier period.

#### ~~IAS 28 Investments in Associates~~ IPSAS 7 “Investments in Associates”

C2 In ~~IAS 28~~ ~~IPSAS 7~~ paragraph ~~29~~23 is amended as follows:

~~29~~23 An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. ~~Guidance on accounting for any difference (whether positive or negative) between the cost of acquisition and the investor’s share of the fair values of the net identifiable assets of the associate is treated as goodwill (guidance can be found in the relevant international or national accounting standard dealing with business combinations).~~

(a) Goodwill relating to an associate is included in the carrying amount of the investment. Amortization of that goodwill is not permitted.

(b) Any excess of the investor’s share of the net fair value of the associate’s identifiable assets and liabilities over the cost of the investment is included as revenue in the determination of the investor’s share of the associate’s surplus or deficit in the period in which the investment is acquired.

Appropriate adjustments to the investor’s share of the associate’s surpluses or deficits after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date ~~of acquisition~~. Similarly, appropriate adjustments to the investor’s share of the associate’s surpluses or deficits after acquisition are made for impairment losses recognized by the associate, such as for goodwill or property, plant and equipment.

## IPSAS 26 “Impairment of Cash-Generating Assets”

C3 In IPSAS 26 the following headings and paragraphs are inserted, as follows:

### Goodwill

#### *Allocating goodwill to cash-generating units*

**8090A** For the purpose of impairment testing, goodwill acquired in an entity business-combination shall, from the acquisition date, be allocated to each of the acquirer’s cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:

- (a) Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
- (b) Not be larger than an operating segment determined in accordance with ~~IFRS 8 Operating Segments~~ IPSAS 18 “Segment Reporting”.

**8190B** Goodwill recognized in an entity business-combination is an asset representing the future economic benefits or service potential arising from other assets acquired in an entity business-combination that are not individually identified and separately recognized. Goodwill does not generate cash flows independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs ~~83-99-90D-90O~~ to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated.

**8290C** Applying the requirements in paragraph ~~80-90A~~ results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.

**8390D** A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with ~~IAS 21 The Effects of Changes in Foreign Exchange Rates~~ IPSAS 4 “The Effects of Changes in Foreign Exchange Rates” for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by ~~IAS 21~~ IPSAS 4 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.

**8490E** If the initial allocation of goodwill acquired in an entity business-combination cannot be completed before the end of the annual period in which the business entity combination is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.

**8590F** In accordance with [draft] IPSAS XX “Entity Combinations from Exchange Transactions” ~~IFRS 3 Business Combinations~~, if the initial accounting for an entity business-combination can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:

- (a) Accounts for the combination using those provisional values; and
- (b) Recognizes any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognized in the combination before the end of the annual period in which the combination is effected. When this is the case, the entity discloses the information required by paragraph ~~433~~122A.

**8690G** If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:

- (a) Included in the carrying amount of the operation when determining the gain or loss on disposal; and
- (b) Measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.

**8790H** If an entity reorganizes its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.

*Testing cash-generating units with goodwill for impairment*

**8890I** When, as described in paragraph ~~8490B~~, goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss shall be recognized in accordance with paragraph ~~10491~~.

**8990J** If a cash-generating unit described in paragraph ~~88-90I~~ includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use and that asset can be tested for impairment only as part of the cash-generating unit, paragraph ~~10-23~~ requires the unit also to be tested for impairment annually.

**9090K** A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss in accordance with paragraph ~~10491~~.

91-95 [Deleted]

*Timing of impairment tests*

**9690L** The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in an entity business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.

**9790M** If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.

**9890N** At the time of impairment testing a cash-generating unit to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognizes any impairment loss for



that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognizes any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

**99900** The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:

- (a) The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;
- (b) The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and
- (c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.

### Reversing an impairment loss for goodwill

**124111A** An impairment loss recognized for goodwill shall not be reversed in a subsequent period.

**125111B** ~~[draft IPSAS XX “Intangible Assets” IAS 38 Intangible Assets]~~ prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognized for the acquired goodwill.

### Disclosure

**133122A** If, in accordance with paragraph **8490E**, any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.

### Effective Date

**127A** IPSAS xx inserts paragraphs 90A–90O, 111A, 111B, 122A, Appendix C and examples 7 and 8 in the Implementation Guidance. IPSAS xx also amends paragraphs 23, 91 and 123. An entity shall apply the amendment for annual periods beginning on or after Month, day Year. If an entity applies IPSAS xx for an earlier period, the amendment shall also be applied for that earlier period.

### Appendix C

*This appendix is an integral part of the Standard.*

### Impairment testing cash-generating units with goodwill and non-controlling interests

C1 In accordance with ~~IFRS 3 (as revised in 2008)~~IPSAS xx, the acquirer measures and recognizes goodwill on the acquisition of a business as of the acquisition date as the excess of (a) over (b) below:

- (a) The aggregate of:
  - (i) The consideration transferred measured in accordance with IPSAS xxIFRS-3, which generally requires acquisition-date fair value;
  - (ii) The amount of any non-controlling interest in the acquiree measured in accordance with IPSAS xxIFRS-3; and
  - (iii) In a-business-an entity combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- (b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IPSAS xxIFRS-3.

### Allocation of goodwill

- C2 Paragraph 80-90A of this Standard requires goodwill acquired in a-businessan entity combination to be allocated to each of the acquirer's cash-generating units, or groups of cash generating units, expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units, or groups of units. It is possible that some of the synergies resulting from a-businessan entity combination will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

### Testing for impairment

- C3 Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.
- C4 If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a subsidiary-controlled entity at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognized in the parent's-controlling entity's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

### Allocating an impairment loss

- C5 Paragraph 104-91 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.
- C6 If a subsidiarycontrolled entity, or part of a subsidiarycontrolled entity, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the parent-controlling entity and the non-controlling interest on the same basis as that on which profit-or-loss-surplus or deficit is allocated.
- C7 If a subsidiarycontrolled entity, or part of a subsidiarycontrolled entity, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:
  - (a) To the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and
  - (b) To the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro rata on the basis of the carrying amount of each asset in the part.

In those parts that have a non-controlling interest, the impairment loss is allocated between the ~~parent controlling entity~~ and the non-controlling interest on the same basis as that on which ~~profit or loss surplus or deficit~~ is allocated.

C8 If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognized in the ~~parent's controlling entity's~~ consolidated financial statements (see paragraph C4), that impairment is not recognized as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the ~~parent controlling entity~~ is recognized as a goodwill impairment loss.

~~C9 Illustrative Example 7 illustrates the impairment testing of a non-wholly-owned cash-generating unit with goodwill.~~

## Implementation Guidance

*This guidance accompanies, but is not part of, IPSAS 26. All the examples assume that the entities concerned have no transactions other than those described.*

### **Example 7 – Allocating goodwill when an entity disposes of an operation within that unit**

#### **Background**

An entity sells for CU100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is CU300.

#### **Allocation of goodwill**

*Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25 per cent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.*

### **Example 8 – Allocating goodwill when an entity reorganizes a cash-generating unit**

#### **Background**

Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

#### **Allocation of goodwill**

*Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.*

C4 In IPSAS 26 the following paragraphs are amended, as follows:

## Identifying an Asset that may be Impaired

...

23. Irrespective of whether there is any indication of impairment, an entity shall also

- (a)** Test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that

intangible asset shall be tested for impairment before the end of the current reporting period.

- (b) Test goodwill acquired in an entity combination for impairment annually in accordance with paragraphs 90A–90O.

#### Impairment Loss for a Cash-Generating Unit

91. An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit (group of units)

- (a) First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

- (b) Then, to the other assets of the unit (group of units) on a pro rata on the basis, based on of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized in accordance with paragraph 73.

#### Disclosure of Estimates used to Measure Recoverable Amounts of Cash-Generating Units Containing Goodwill or Intangible Assets with Indefinite Useful Lives

123. An entity shall disclose the information required by (a)–~~(ef)~~ for each cash generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:

- (a) The carrying amount of goodwill allocated to the unit (group of units);

- ~~(ab)~~ The carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units);

- ~~(bc)~~ The basis on which the unit's (group of units') recoverable amount has been determined (i.e., value in use or fair value less costs to sell);

- ~~(ed)~~ If the unit's (group of units') recoverable amount is based on value in use:

- (i) A description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive;

- (ii) A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;

- (iii) The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified;

- (iv) The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any

growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated; and

(v) The discount rate(s) applied to the cash flow projections.

(de) If the unit's recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:

(i) A description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive; and

(ii) A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

(ef) If a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:

(i) The amount by which the unit's (group of units') recoverable amount would exceed its carrying amount;

(ii) The value assigned to the key assumption; and

(iii) The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, IPSAS xx, “Entity Combinations from Exchange Transactions”. This Basis for Conclusions only notes the IPSASB’s reasons for departing from provisions of the related International Financial Reporting Standard.*

## **Background**

- BC1. The International Public Sector Accounting Standards Board (IPSASB)’s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB’s work program. The IPSASB’s policy is to converge accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.
- BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the ‘Comparison with IFRS’ included in each IPSAS.
- BC3. IPSAS xx “Entity Combinations from Exchange Transactions” has been adapted from IFRS 3 “Business Combinations”. The Comparison with IFRS 3 references the 31 December 2008 version of IFRS 3.
- BC4. The phrase “entity combination” has been used instead of “business combination” to reflect that public sector entities may be businesses or may be entities which undertake non-cash-generating activities.

## **Scope**

- BC5. The public sector undertakes a wide range of entity combinations arising from exchange or non-exchange transactions and under common control or not under common control. The Board considered that the most appropriate way to address the wide range of entity combinations was to first consider entity combinations arising from exchange transactions not under common control as such combinations are similar to the type of combinations which arise in the private sector. Therefore, the scope of IPSAS xx is limited to an entity combination which arises from an exchange transaction and the entities to the combination are not controlled by the same ultimate controlling entity.
- BC6. The Board considered whether combinations arising from exchange transactions and under common control occur. They determined that this type of combination

does not occur in practice and therefore, this standard does not address these type of combinations.

- BC7. Entity combinations arising from non-exchange transactions either under common control or not under common control are explicitly scoped out of this Standard as the Board will address these type of entity combinations in a separate Standard.

### **Categories of acquiree**

- BC8. In IFRS 3, an acquirer acquires a business. To differentiate the acquisition of a business from an integrated set of activities which has a primary objective of providing goods and services for community or social benefit, a new definition “function” has been included. This enables a clear distinction to be made regarding the acquisition of an integrated set of activities which is non-cash-generating (a function) or cash-generating (a business). It also enables the recognition of goodwill (for a business) and purchase premium (for a function) to have separate treatment.

### **Recognition of goodwill and purchase premium**

- BC9. The definition of goodwill has been adapted to reflect that it only occurs on the acquisition of a business. Where a public sector entity acquires a business, any goodwill arising is considered to be an asset and is therefore capitalized, consistent with the requirements in IFRS 3.
- BC10. A new definition “purchase premium” has been created to distinguish between goodwill arising on the acquisition of a business and the difference between consideration transferred and the net assets acquired of a function. Any purchase premium arising is considered to be a cost of acquisition because the acquiree’s underlying assets predominately encompass service potential. Therefore, the Board determined that on the acquisition of a non-GBE entity, any purchase premium calculated after fair valuing the acquired identifiable assets and liabilities should be immediately expensed.

### **Exception to the recognition principle**

#### **Contingent liabilities**

- BC11. IFRS 3 requires recognition of any contingent liabilities of the acquiree where it is a present obligation that arises from past events and its fair value can be measured reliably. The scope of IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets” excludes provisions and contingent liabilities arising from social benefits from non-exchange transactions. For the sake of clarity, the Board considered that it was important to include the scope exemption in IPSAS 19 in this Standard, as well.

### **Exceptions to the measurement principle**

**Share-based payment awards**

BC12. IFRS 3 includes guidance on the measurement of share-based payment awards where an acquirer replaces the acquiree's share-based payment award with another award. This section and the related Application Guidance has been deleted as the Board considers that an acquirer (applying this Standard) will not replace the acquiree's share-based payment award with another share-based payment award because public sector entities do not award share-based payment.

**Reverse acquisitions**

BC13. IFRS 3 includes, in its Application Guidance, a section on accounting for a reverse acquisition. The Board considered that the usual drivers for a reverse acquisition, such as a back door listing, do not exist for public sector entities and therefore has deleted this section.



### **Comparison with IFRS 3**

International Public Sector Accounting Standard IPSAS xx, “Entity Combinations from Exchange Transactions” is drawn primarily from International Financial Reporting Standard IFRS 3, “Business Combinations” (revised in 2008). The main differences between IPSAS xx and IFRS 3 are as follows:

- Commentary additional to that in IFRS 3 has been included in various paragraphs of IPSAS xx (as shown in markup) to clarify the applicability of the requirements to accounting by public sector entities.
- IPSAS xx requires identification of the acquiree as either a business, which is capable of being operated for a return (i.e. a cash-generating activity) or a function, which is a non-cash generating activity.
- IPSAS xx requires immediate recognition as an expense, any purchase premium arising on the acquisition of a function.
- IPSAS xx uses different terminology, in certain instances, from IFRS 3. The most significant examples are the use of the terms “Statement of Financial Position”, “Statement of Financial Performance”, “revenue”, “economic entity”, “controlling entity” and “controlled entities” in IPSAS xx. The equivalent terms in IFRS 3 are “Balance Sheet”, “Income Statement”, “income”, “group”, “parent” and “subsidiaries”.
- IPSAS xx does not include guidance on the measurement of share-based payment awards where the acquirer replaces the acquiree’s share-based payment award with another award.
- IPSAS xx does not include guidance on accounting for reverse acquisitions.

## **ENTITY COMBINATIONS FROM NON-EXCHANGE TRANSACTIONS**

### **OBJECTIVE OF THIS SESSION**

The objective of this paper is to **confirm** previous preliminary decisions taken by the Board regarding entity combinations from non-exchange transactions.

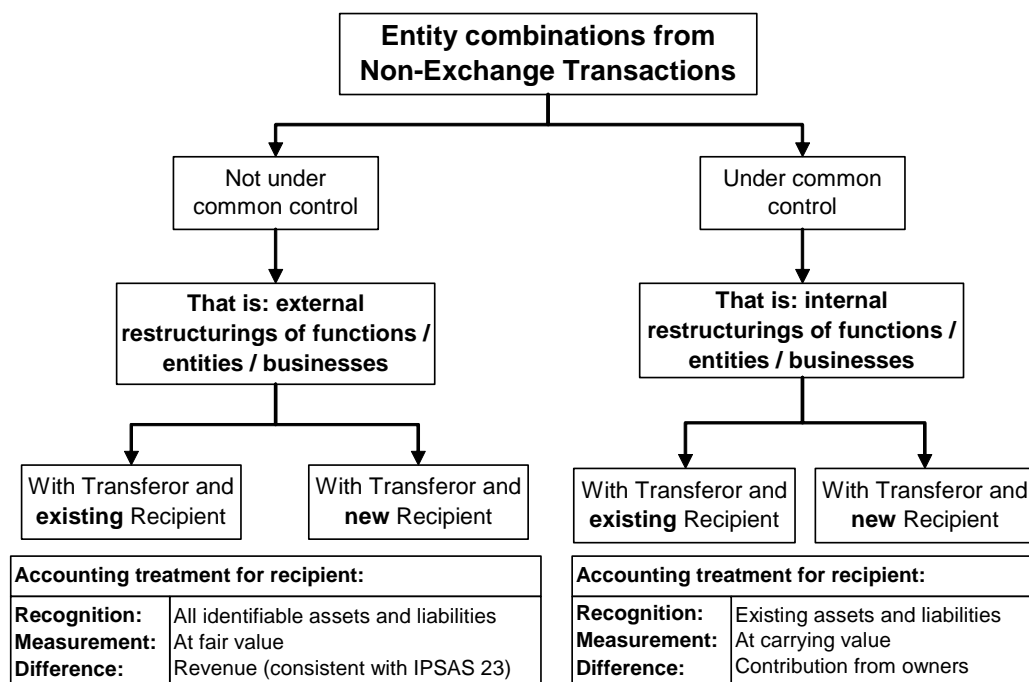
### **BACKGROUND**

1. At the IPSASB meeting in June 2008, the Board expressed the following views regarding entity combinations arising from non-exchange transactions:
  - a. That the initial heading of “transfer of functions” for this grouping of combinations was not broad enough to encompass the various restructurings which could occur in this grouping. Staff was directed to reconsider the title for this grouping of combinations.
  - b. That the measurement basis for these combinations should be at carrying value, irrespective of whether the combination is under common control or not under common control. This view was acknowledged to be inconsistent with other IPSASs, such as IPSAS 23 “Revenue from Non-Exchange Transactions (Taxes and Transfers)”, where initial measurement is at fair value. Staff was asked to try to reconcile this inconsistency.
  - c. That the difference arising from a non-exchange entity combination under common control is a contribution from owners/distribution to owners as the combination is undertaken within the economic entity as a whole.
  - d. That the difference arising from a non-exchange entity combination not under common control is likely to be revenue/expense because the combination is undertaken with an entity outside of the economic entity.
  - e. That fresh start accounting may be appropriate for mergers.
2. An extract of the minutes from the June 2008 meeting is in Agenda Paper 4.0, Appendix 2.

### **OVERALL APPROACH**

3. Based on the discussions and decisions from the IPSASB meeting in June 2008, Staff has developed a diagram illustrating a proposed approach to an entity combination arising from a non-exchange transaction. The right-hand side of the diagram focuses on combinations under common control. Agenda Paper 4.1 is a [draft] ED 41 “Entity Combinations from Exchange Transactions” which has been adapted from IFRS 3 “Business Combinations”. Its scope is limited to entity combinations arising from exchange transactions and where the entities are not under common control. To distinguish whether or not an entity combination is under common control, paragraph B4 of [draft] ED 41 describes an entity

combination under common control as “an entity combination in which all of the combining entities, businesses or functions are ultimately controlled by the same party or parties both before and after the entity combination, and that control is not transitory”. The left-hand side of the diagram focuses on entity combinations not under common control. These types of combinations are discussed separately.



4. ED 41 uses the terminology “acquirer” and “acquiree” to identify the parties to an entity combination from an exchange transaction. The definitions are:

<b>acquiree</b>	The business or businesses, function or functions that the <b>acquirer</b> obtains control of in an <b>entity combination</b> .
<b>acquirer</b>	The entity that obtains control of the <b>acquiree</b> .
<b>entity combination</b>	A transaction or other event in which an <b>acquirer</b> obtains control of one or more <b>businesses or functions</b> .

5. An entity combination from an exchange transaction arises when an acquirer obtains control of businesses or functions from another entity and gives, directly in exchange, approximately equal value in the form of cash or other consideration. Therefore, because there is an exchange of approximately equal value it is appropriate to use the terms “acquirer” and “acquiree”. However, an entity combination involving businesses or functions arising from a non-exchange transaction is an entity combination in which an acquirer receives value from another entity without directly giving approximately equal value in exchange, i.e. the consideration does not approximate the fair value of the resources received. Consequently, Staff has used the terminology “recipient” in place of “acquirer” and “transferor” instead of “acquiree” to identify the parties to an entity combination

arising from a non-exchange transaction. This terminology is consistent with that used in IPSAS 23 “Revenue from Non-Exchange Transactions (Taxes and Transfers)”.

6. If this terminology is accepted, then Staff recommends that the definitions of an acquiree, acquirer and entity combination be amended, as follows.

<b>acquiree</b>	The business or businesses, function or functions that the <b>acquirer/recipient</b> obtains control of in an <b>entity combination</b> .
<b>acquirer/ recipient</b>	The entity that obtains control of the <b>acquiree</b> .
<b>entity combination</b>	A transaction or other event in which an <b>acquirer/recipient</b> obtains control of one or more <b>businesses or functions</b> .

**Does the Board agree that the definitions of an acquiree, acquirer and entity combination be revised, as set out above?**

## IDENTIFYING WHETHER AN ENTITY COMBINATION IS UNDER COMMON CONTROL

7. Paragraph 12 in the “Preface to International Public Sector Accounting Standards” (Preface) states:

The IPSASs are designed to apply to the general purpose financial statements of all public sector entities. Public sector entities include national governments, regional governments (for example, state, provincial, territorial), local governments (for example, city, town) and their component entities (for example, departments, agencies, boards, commissions), unless otherwise stated. The Standards do not apply to GBEs. GBEs apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). IPSASs include a definition of GBEs.

8. Thus, the IPSASB considers that there can be three levels of public sector entities, including national, regional and local governments. Each level of government will have different responsibilities and undertake different activities. From time to time these responsibilities, activities, assets and liabilities are restructured. Whether the entities involved in an entity combination are controlled by the same ultimate controlling entity is dependent upon the structure of the public sector in each jurisdiction.
9. For example, an entity combination under common control may involve several departments at the federal level. An entity combination not under common control may involve a State government mandating that two local government entities transfer all activities, assets and liabilities into a new local government entity.

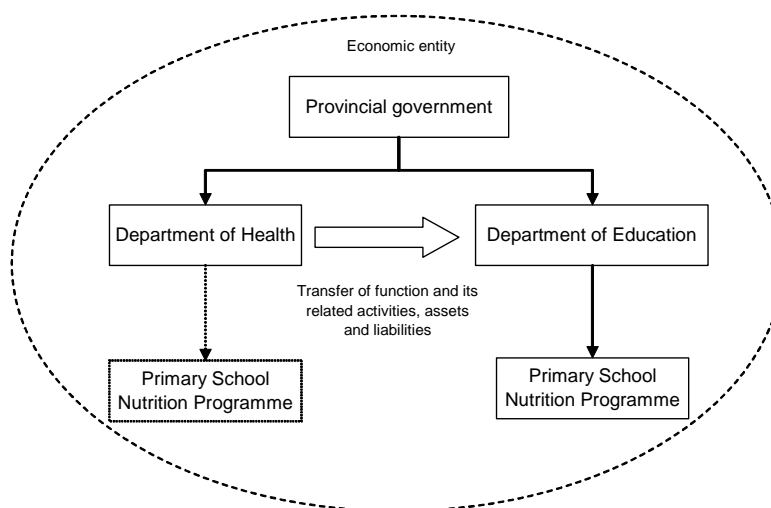
**Does the Board agree that whether an entity combination is under common control or not under common control will depend upon the structure and legislation in place in a particular jurisdiction?**

## ENTITY COMBINATIONS UNDER COMMON CONTROL

10. Staff has characterised entity combinations from non-exchange transactions and under common control as internal restructurings, which occur within the total economic entity and affect individual entities within that entity. Using terminology from ED 41, these types of combinations can involve functions, which are non-cash-generating; entities, which can be either cash-generating or non-cash generating; and businesses, which are cash-generating. Because the public sector primarily undertakes activities for community or social benefit, rather than for a commercial return, most combinations will involve functions and entities.
11. This project was approved initially in 2007 and, at that stage, Board Members, Technical Advisors and Observers were asked to provide examples of types of entity combinations from non-exchange transactions that take place in the public sector. Staff has used the examples provided to try to identify issues to be discussed and to apply the preliminary decisions of the Board in June 2008 to those combinations.

### Example 1 Internal restructure of a function

12. A Provincial government restructures by transferring its Primary School Nutrition Program from the Department of Health to the Department of Education for no consideration. Because the ultimate controlling entity is the Provincial government, this is a combination under common control. It is a non-exchange transaction as there is no transfer of consideration. The Department of Health is the transferor and the Department of Education is the recipient.



13. At the June 2008 meeting, the Board held the preliminary view that the measurement basis for an entity combination arising from a non-exchange transaction under common control should be the carrying amount of the assets and liabilities recognised by the transferor. The rationale is that no combination has taken place external to the economic entity and thus any requirement for re-measurement does not appear appropriate.

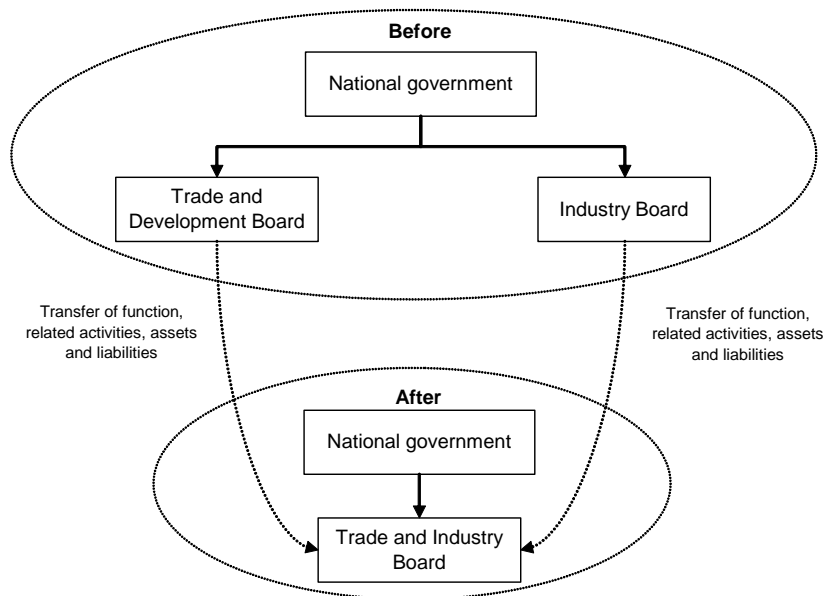
14. The Board also held the preliminary view that the difference arising on this type of combination is a contribution from owners/distribution to owners as it is the ultimate controlling entity, in this example, a Provincial government, that determines the restructuring.
15. Staff considers that the only issue arising from this example is whether any unrecognised assets or liabilities, such as an internally-generated intangible asset, e.g. software, should be recognised by the recipient entity. On consideration, recognition of unrecognised assets or liabilities would not seem to be necessary because the combination takes place within the same economic entity, i.e. under common control.

Recognition:	Existing assets and liabilities
Measurement:	At carrying amount
Difference arising:	Contribution from owners

**Does the Board agree that the accounting treatment for the recipient in Example 1, set out in summary form above, is appropriate?**

#### **Example 2 Internal restructure of an entity**

16. A National (i.e. federal) government restructures by closing down the Trade and Development Board and the Industry Board, both of which are independent government entities and transferring the functions, related activities, assets and liabilities to a newly created independent government entity, the Trade and Industry Board, for no consideration. Because the ultimate controlling entity is the National government, this is a combination under common control. It is a non-exchange transaction as there is no transfer of consideration. The Trade and Development Board and the Industry Board are the transferors and the Trade and Industry Board is the recipient.



17. The difference between Example 1 and Example 2 is that, in Example 1, the transfer of the function is to a recipient that is an existing entity. In Example 2, the National government creates a new entity to be the recipient entity. Staff considers that the creation of a new recipient entity does not require any amendment to the accounting treatment by the recipient, as set out for Example 1.

Recognition:	Existing assets and liabilities
Measurement:	At carrying amount
Difference arising:	Contribution from owners

**Does the Board agree that the accounting treatment for the recipient in Example 2, set out in summary form above, is appropriate?**

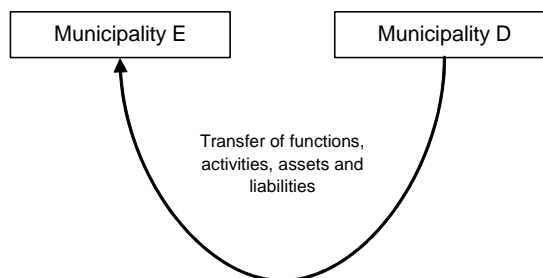
## ENTITY COMBINATIONS NOT UNDER COMMON CONTROL

18. An entity combination from a non-exchange transaction and not under common control is described in the diagram as an external restructuring of functions, entities or businesses.

### **Example 3 External restructuring to transfer one entity into another entity**

19. A Federal government creates legislation which mandates that the functions, related activities, assets and liabilities of Municipality D are annexed into Municipality E, which is a neighboring municipality, without the consent of either of the municipalities or their inhabitants. The Federal government's policy reason for taking such action is to create economies of scale by ensuring that each municipality is of a certain size. Municipality D does not receive any consideration. In this jurisdiction, the local government is independent of the Federal government, i.e. the local government is not controlled by the Federal government for financial

reporting purposes. Thus, this combination is not under common control. It is a non-exchange transaction as there is no transfer of consideration. Municipality D is the transferor and Municipality E is the recipient.



20. At the June 2008 meeting, the Board took the preliminary view that the measurement basis for an entity combination arising from a non-exchange transaction not under common control should also be carrying amount. The rationale is that, in such circumstances, there was arguably a common control which existed beyond that of a transitory nature – notably the collective common control of the general citizenry by the higher level of government. Furthermore, the Board considered that, from the perspective of amalgamating/annexing municipalities, to re-measure assets and liabilities would subsequently impact costs of services to citizens despite the substance of the restructured entities remaining the same. The Board acknowledged that this may be inconsistent with some of its other standards, such as IPSAS 23, where initial measurement is at fair value. Staff was asked to try to reconcile this inconsistency.
21. Standards where an asset acquired through a non-exchange transaction should initially be measured at its fair value as at the date of acquisition are listed below.

Standard	Type of asset
IPSAS 12 Inventories	Inventory
IPSAS 16 Investment Property	Investment property
IPSAS 17 Property, Plant and Equipment	Property, plant and equipment
IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)	An asset arising from the receipt of revenue, except to the extent that a liability is also recognized in respect of the same inflow

22. An entity combination arising from a non-exchange transaction not under common control appears to be similar to the acquisition of an asset arising from a non-exchange transaction. The difference is that an entity combination is an integrated activity which has related assets and liabilities, which are transferred to a recipient entity. Whether this difference (being related to an integrated activity) should result in a different measurement attribute, i.e. carrying amount instead of fair value, needs further consideration.



23. One part of the rationale for using the carrying amount, set out in paragraph 20 above, is that there is a collective common control of the citizenry by the higher level of government. IPSAS 6 “Consolidated and Separate Financial Statements” defines control as “the power to govern the financial and operating policies of another entity so as to benefit from its activities”. IPSAS 6 gives guidance on how to determine whether control for financial reporting purposes exists and explains that regulatory power does not constitute control for the purposes of financial reporting. Generally, each level of the public sector in a jurisdiction is autonomous and so control for financial reporting purposes does not exist. On consideration it appears to be unlikely that interventions by higher levels of government to restructure lower levels of government could be treated as entity combinations under common control for financial reporting purposes.
24. Another part of the rationale for using the carrying amount is that from the perspective of amalgamating/annexing municipalities, to re-measure assets and liabilities would subsequently impact costs of services to citizens despite the substance of the restructured entities remaining the same. Paragraph 15 of IPSAS 1 “Presentation of Financial Statements” explains the purpose of financial statements in the public sector, as follows.

Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it by:

- (a) Providing information about the sources, allocation and uses of financial resources;
  - (b) Providing information about how the entity financed its activities and met its cash requirements;
  - (c) Providing information that is useful in evaluating the entity’s ability to finance its activities and to meet its liabilities and commitments;
  - (d) Providing information about the financial condition of the entity and changes in it; and
  - (e) Providing aggregate information useful in evaluating the entity’s performance in terms of service costs, efficiency and accomplishments.
25. The re-measurement of assets and liabilities for the recipient in an entity combination from a non-exchange transaction not under common control from carrying amount to fair value provides information to users regarding:

- a. The source of its assets and liabilities ((a) above);
- b. The financial condition of those assets and liabilities ((d) above); and
- c. The recipient's management of those assets and liabilities in terms of costs, efficiency and accomplishments ((e) above).

This enables users to make a proper assessment of the management of those assets and liabilities.

- 26. There does not appear to be a link between the re-measurement of assets and liabilities by the recipient in an entity combination from a non-exchange transaction not under common control and an increase in costs to citizens solely because the assets and liabilities received have been re-measured to fair value. The total costs may rise, but then the entity is providing services to a larger community. To require re-measurement to fair value is also consistent with the accounting treatment for assets acquired in a non-exchange transaction in four other IPSASs (as set out above in paragraph 21).
- 27. A related issue is whether the recognition of a recipient's assets and liabilities should be limited to the transferor's existing assets and liabilities or whether all identifiable assets and liabilities should be recognised. This may result in recognition of items not recognised in the transferor entity's financial statements. The advantage of requiring the identification of all assets and liabilities is that users of the financial statements of the recipient entity can hold the entity accountable for its management of that function, entity or business. How can accountability be demonstrated to be fulfilled if the recipient entity does not recognise all of the transferred assets and liabilities?
- 28. At present, Staff does not think that the rationale for the use of carrying amounts for an entity combination from a non-exchange transaction not under common control is sufficiently developed to be proposing to depart from the measurement of the acquisition of an asset arising from a non-exchange transaction, i.e. fair value.

<p><b>Can the Board provide further reasons for an entity combination from a non-exchange transaction not under common control to be measured differently, i.e. at carrying amount, from an acquisition of an asset from a non-exchange transaction, i.e. at fair value?</b></p>
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- 29. The Board also held the preliminary view that the difference arising on this type of entity combination is revenue/expense, as the entities to the combination are not under common control. This view is consistent with the Board's preliminary view (in paragraph 14 above) that any difference arising on a combination under common control is a contribution from owners/distribution to owners.

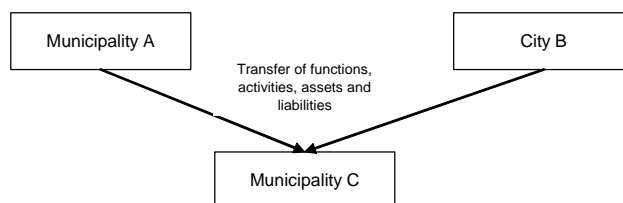
30. Further consideration is required as to the positioning of the difference arising on an entity combination from a non-exchange transaction not under common control in the Statement of Financial Performance. Generally, this type of restructuring in the public sector is outside of the transferor's and recipient's control and is not expected to recur. Paragraph 99 of IPSAS 1 requires all items of revenue and expense recognised in a period to be included in surplus or deficit unless an IPSAS requires otherwise. However, IPSAS 1 does not preclude the separate presentation of items that are distinct from the ordinary activities of a public sector entity. Thus, revenue arising from an entity combination in the recipient's financial statements could be presented as a separate category from ordinary activities. This presentation would have the advantage of not distorting the surplus or deficit from operations for the period so that the entity's performance can still be assessed.

**Does the Board agree that the difference arising on an entity combination from a non-exchange transaction not under common control is revenue for the recipient?**

**If yes to the question above, does the Board agree that further consideration is required regarding whether the revenue arising on an entity combination from a non-exchange transaction not under common control should be a separate category from operating activities in the Statement of Financial Performance?**

#### **Example 4 External restructuring to create a new entity**

31. A Federal government creates legislation which mandates that two local government entities, Municipality A and City B, must transfer all functions, activities, assets and liabilities into a newly created local government entity, Municipality C, for no consideration. Both entities are approximately equal in size. In this jurisdiction, the local government is independent of the Federal government, i.e. the local government is not controlled by the Federal government for financial reporting purposes. Thus, this combination is not under common control. It is a non-exchange transaction as there is no transfer of consideration. Municipality A and City B are the transferors and Municipality C is the recipient.



32. The difference between Example 3 and Example 4 is that, in Example 3, the transfer of functions is to a recipient that is an existing entity. In Example 4, the Federal government mandates a new entity to be the recipient. Staff considers that the creation of a new recipient entity does not require any amendment to the accounting treatment by the recipient, as set out for Example 3. Given that this

accounting treatment is not consistent with the preliminary view of the Board, the Staff has not asked the Board a specific question on Example 4.

## **FRESH START ACCOUNTING**

33. At the June 2008 meeting, the Board considered that it may be appropriate to use fresh start accounting for some types of merger. One example of a situation where fresh start accounting could be more appropriate was cited, where approximately 2,700 entities were merged into one combined entity. At present, it seems premature to consider this type of accounting until the concept is further developed. Staff asks that where Board Members, Technical Advisors and Observers are aware of other situations in which fresh start accounting could be more appropriate, to inform them. Another method of trying to assess the incidence of these situations may be to raise this issue in the Consultation Paper proposed below.

## **NEXT STEPS**

34. In order to progress the entity combinations project in a timely manner, Staff is proposing that the entity combinations from non-exchange transactions be split into two stages so that at the May meeting, the Board will consider separately a:
- a. Draft Exposure Draft on entity combinations from non-exchange transactions under common control; and
  - b. Draft Consultation Paper on entity combinations from non-exchange transactions not under common control.
35. If the Board generally agrees with the Staff's analysis of entity combinations from non-exchange transactions and under common control, the approach suggested in paragraph 34 above has the advantage of addressing the most prevalent types of entity combinations from non-exchange transactions that occur in the public sector.
36. The accounting treatment for entity combinations from non-exchange transactions not under common control is less clear and requires further consideration. A separate Consultation Paper may be helpful to identify issues that need to be resolved, without slowing down other parts of the overall entity combinations project.

<p><b>Does the Board agree that a draft Exposure Draft on entity combinations from non-exchange transactions and under common control together with a draft Consultation Paper on entity combinations from non-exchange transactions not under common control should be brought to the May meeting, for approval?</b></p>
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