

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Abu Dhabi, UAE

Meeting Date: March 11–14, 2013

Agenda Item 8

For:

☐ Approval

☒ Discussion

☐ Information

Consultation Paper, *Public Sector Combinations*

Objective(s) of Agenda Item

1. The objectives of this session are:
 - (a) To **discuss** a detailed analysis of the responses to the Consultation Paper (CP), *Public Sector Combinations*; and
 - (b) To **obtain directions** from the IPSASB for the development of a draft Exposure Draft.

Material(s) Presented

Agenda Item 8.1	List of Respondents and Analysis of Respondents by Region, Function, and Language
Agenda Item 8.2	Issues Paper
Agenda Item 8.3	Respondents' Comments on SMC 1, SMC 2, PV 6, PV 7, PV 8, PV 9 and SMC 6
Agenda Item 8.4	Response Letters

Action(s) Requested

2. The IPSASB is asked to consider the "Matters for Consideration" in Agenda Paper 8.2 and provide directions for the development of a draft Exposure Draft.

CONSULTATION PAPER, *PUBLIC SECTOR COMBINATIONS*
LIST OF RESPONDENTS

Response #	Respondent Name	Country	Function
001	Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA)	USA	Other
002	Cour des comptes	France	Audit Office
003	Conseil de normalisation des comptes publics (CNOCP)	France	Standard Setter/Standards Advisory Body
004	Charity Commission for England and Wales	UK	Other
005	Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA)	United Arab Emirates	Standard Setter/Standards Advisory Body
006	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
007	Ernst & Young	International	Accountancy Firm
008	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
009	The Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
010	Staff of the Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
011	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
012	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
013	Direction Générale des Finances Publiques (DGFIP)	France	Preparer
014	The Accounting Officer of the Commission, European Commission, DG Budget	Europe	Preparer
015	Office of the Comptroller General, Treasury Board of Canada	Canada	Preparer
016	Institut der Wirtschaftsprüfer (IDW)	Germany	Member or Regional Body

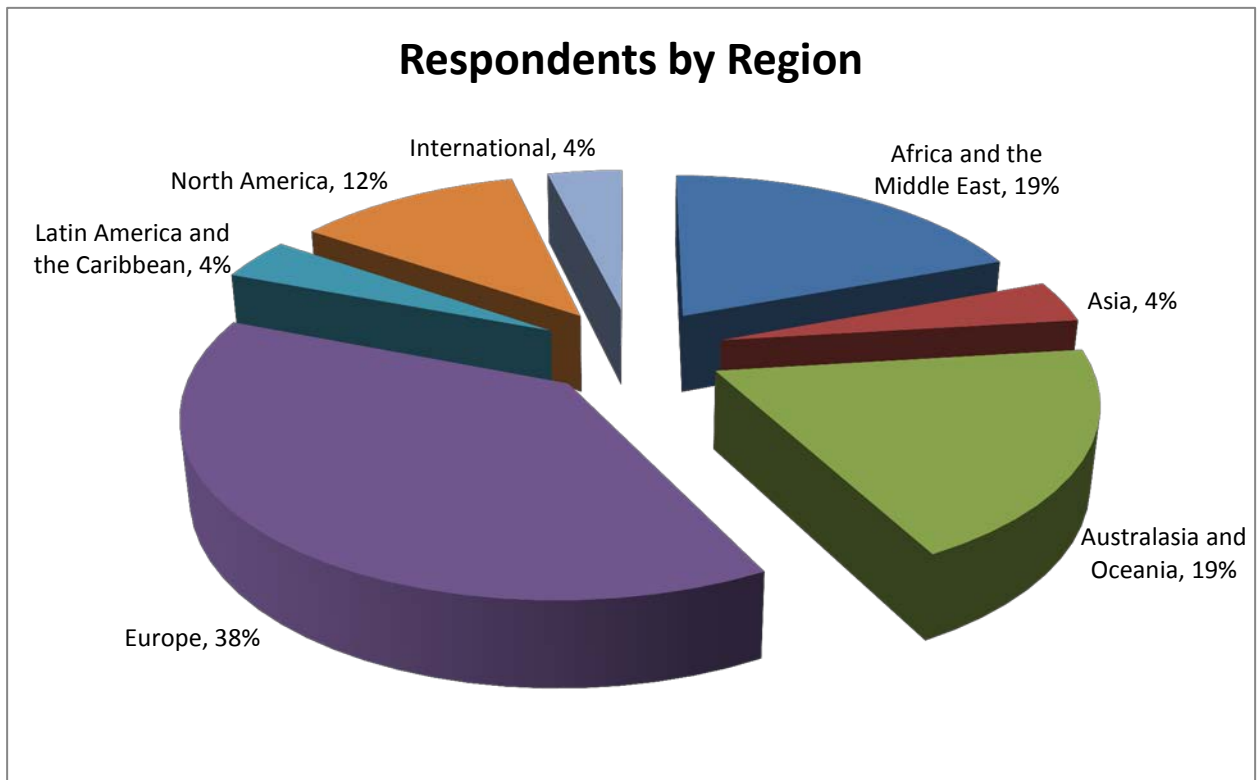
List of Respondents to CP, *Public Sector Combinations*
IPSASB Meeting (March 2013)

Response #	Respondent Name	Country	Function
017	Institute of Certified Public Accountants of Kenya (ICPAK)	Kenya	Member or Regional Body
018	Institute of Chartered Accountants of Nigeria (ICAN)	Nigeria	Member or Regional Body
019	CPA Australia and the Institute of Chartered Accountants in Australia (ICAA)	Australia	Member or Regional Body
020	Staff of the Public Sector Accounting Board (PSAB)	Canada	Standard Setter/Standards Advisory Body
021	Zambia Institute of Chartered Accountants (ZICA)	Zambia	Member or Regional Body
022	The Public Sector Committee of the Institute of Chartered Accountants of Scotland (ICAS)	UK	Member or Regional Body
023	New Zealand Accounting Standards Board (NZASB)	New Zealand	Standard Setter/Standards Advisory Body
024	Denise Silva Ferreira Juvenal	Brazil	Other
025	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Switzerland	Standard Setter/Standards Advisory Body
026	The Committee on Accounting for Public Benefit Entities (CAPE) of the Financial Reporting Council (FRC)	UK	Standard Setter/Standards Advisory Body

Analysis of Respondents by Region, Function, and Language

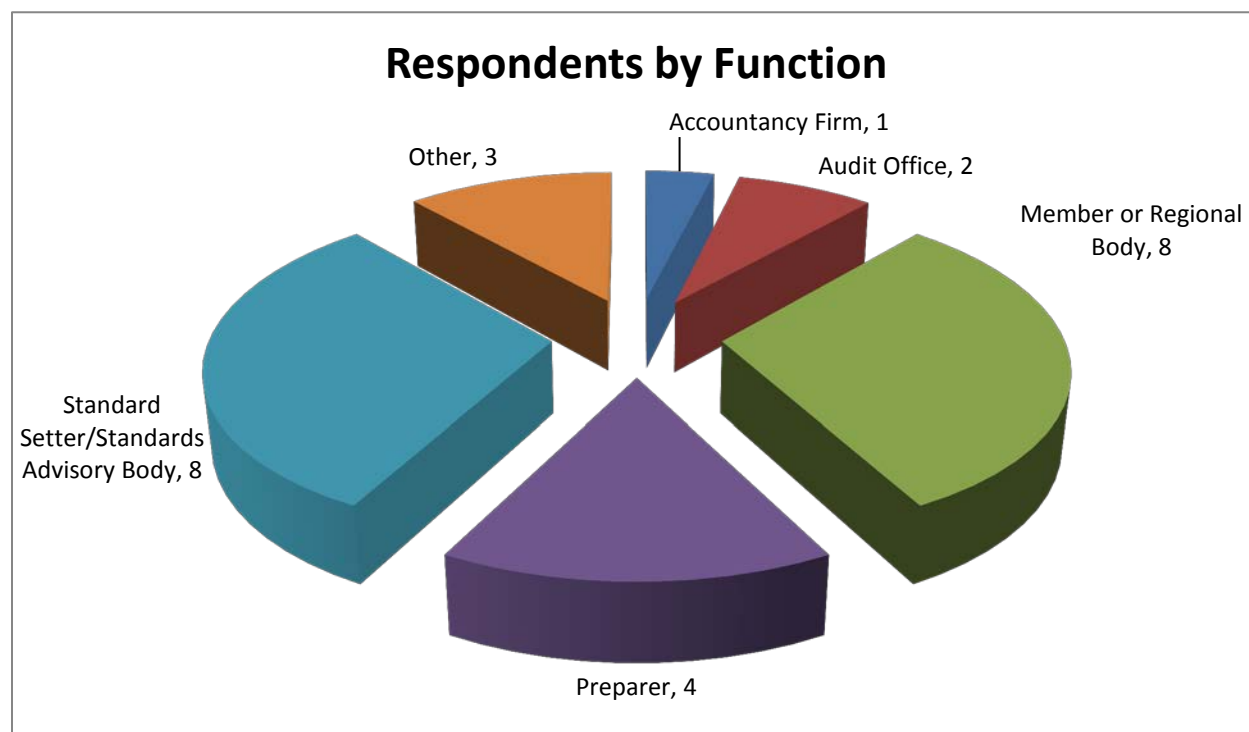
Geographic Breakdown

Region	Respondents	Total
Africa and the Middle East	5, 10, 17, 18 and 21	5
Asia	9	1
Australasia and Oceania	6, 8, 11, 19 and 23	5
Europe	2, 3, 4, 12, 13, 14, 16, 22, 25 and 26	10
Latin America and the Caribbean	24	1
North America	1, 15 and 20	3
International	7	1
Total		26



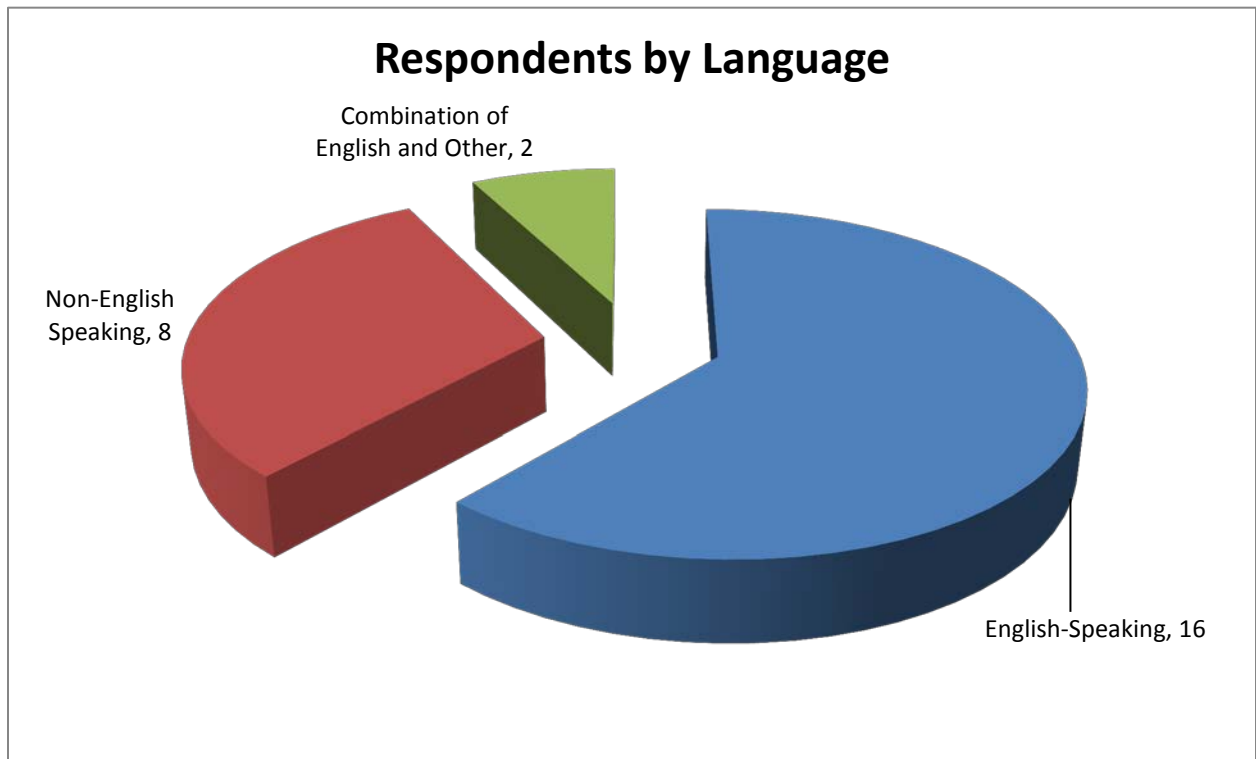
Functional Breakdown

Function	Respondents	Total
Accountancy Firm	7	1
Audit Office	2 and 11	2
Member or Regional Body	9, 12, 16, 17, 18, 19, 21 and 22	8
Preparer	8, 13, 14 and 15	4
Standard Setter/Standards Advisory Body	3, 5, 6, 10, 20, 23, 25 and 26	8
Other	1, 4 and 24	3
Total		26



Linguistic Breakdown

Language	Respondents	Total
English-Speaking	1, 4, 6, 8, 10, 11, 12, 15, 18, 19, 20, 21, 22, 23 and 26	15
Non-English Speaking	2, 3, 5, 9, 13, 16, 24 and 25	8
Combination of English and Other	7, 14 and 17	3
Total		26



CONSULTATION PAPER, *PUBLIC SECTOR COMBINATIONS* ANALYSIS OF COMMENTS

Introduction

1. The IPSASB issued Consultation Paper (CP), Public Sector Combinations (PSCs) in June 2012. The comment period ended on October 31, 2012. 26 respondents commented on the CP. A list of respondents is in Agenda Paper 8.1, together with an analysis of respondents' geographical origin, function and language (native/non-native English speakers). PSCs are hereafter referred to as "combinations."
2. The CP proposes that transactions or other events that meet the definition of a combination should be first distinguished between whether the combination is an acquisition or an amalgamation. If the combination is an amalgamation the CP proposes that the resulting entity apply the modified pooling of interests method of accounting. If the combination is an acquisition the CP distinguishes between acquisitions that occur within an economic entity, i.e., under common control (UCC) and those that are not under common control (NUCC). For acquisitions UCC the CP proposes that the recipient recognizes the assets acquired and the liabilities assumed at carrying amount but does not reach a conclusion for the accounting treatment of the difference arising.
3. For acquisitions NUCC the CP does not come to a conclusion on the measurement basis the recipient should apply. Instead it outlines two possible approaches: Approach A where the measurement basis is fair value and Approach B which distinguishes acquisitions NUCC based on whether or not it involves the transfer of no or nominal consideration. Where consideration is transferred, the measurement basis is fair value and where no or nominal consideration is transferred, the measurement approach is carrying amount. The accounting treatment of the difference arising for the recipient is considered separately and the CP proposes that where the net assets acquired are in excess of the consideration transferred the recipient recognizes a gain in surplus and deficit. Where the recipient assumes net liabilities the CP proposes that a loss is recognized in surplus and deficit. The CP does not reach a conclusion for the accounting treatment of the difference arising for the recipient where the consideration transferred is in excess of the net assets acquired and outlines two possible approaches: goodwill or a loss.

Structure of this Issues Paper

4. Specific Matter for Comment (SMC) 1 asks whether the scope of the CP is appropriate and the responses to this question are analyzed first.
5. SMC 2 asks whether respondents consider that the distinction between acquisitions and amalgamations, and combinations NUCC and UCC is appropriate. Overall there was general support for these distinctions, however, respondents made a number of alternative suggestions. Staff considers that it is easier to analyze this SMC by first considering the distinction between acquisitions and amalgamations (Part A of SMC 2) and then separately considering the distinction between combinations NUCC and UCC and respondents suggestions for combinations UCC (Part B of SMC 2).

6. The rest of the Issues Paper focuses on combinations UCC. The Preliminary Views (PVs) that relate to combinations UCC are PV 6, PV 7, PV 8 and PV 9 and the SMC that relates to combinations UCC is SMC 6.
7. The order of this Issues Paper can be summarized as follows:
 - (a) SMC 1—Is the scope of the CP appropriate;
 - (b) SMC 2 Part A—Distinction between acquisitions and amalgamations;
 - (c) SMC 2 Part B—Distinction between combinations NUCC and combinations UCC;
 - (d) PV 6—Recipient recognizes acquisition UCC when it gains control;
 - (e) PV 7—Recipient in acquisition UCC recognizes the carrying amounts of assets and liabilities acquired;
 - (f) PV 8—Resulting entity in an amalgamation applies the modified pooling of interests method of accounting;
 - (g) PV 9—Combining operations continuing to present GPFSs on going concern basis where resulting entity will fulfill responsibilities of those combining operations; and
 - (h) SMC 6—Accounting for the difference arising in an acquisition UCC.
8. Staff notes that combinations NUCC will be considered at a future meeting together with the remaining SMCs, PVs and other comments.
9. Agenda Paper 8.3 sets out respondents' detailed comments in the same order as set out in paragraph 7 above. Where appropriate, Staff has sub-divided the comments of respondents' that have made several points and this is indicated by adding a number immediately after the respondent number, e.g., 1.1 relates to the first comment that respondent 1 has made. The Agenda Paper includes a column for Staff comments, which provides a Staff view where appropriate.

SMC 1: Is the Scope of the CP Appropriate?

Overview of Responses to SMC 1

10. Specific Matter for Comment (SMC) 1 asks the following question:

“In your view, is the scope of this CP appropriate?”
11. 24 respondents replied to this SMC. 17 respondents (1, 4, 5, 9, 11, 12, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25 and 26) agree that the scope of the CP is appropriate.
12. Respondent 11 (in 11.1) suggests that further guidance is required in relation to the definition of an operation and that disclosure requirements for combining entities relating to the going concern basis should be included (in 11.7). This respondent (in 11.3) also suggests that the ED should clarify whether the requirements for combinations NUCC also apply to situations where one or more of the parties is not a public sector entity. Staff considers that these points could be addressed when drafting the ED.

Respondent did not Respond to Individual SMCs

13. Respondent 2 did not respond to individual SMCs because they consider that the CP emphasizes exchange acquisitions which are extremely rare in the public sector whereas it should emphasize amalgamations which are more frequent. This respondent recommends that the public sector situation is explored in more depth so that an accounting standard can be developed. These comments are noted.

Respondents Agree with Scope with some Reservations

14. A further four respondents (3, 6, 8 and 10) agree that the scope of the CP is appropriate with some reservations.
15. Respondent 3 agrees that the scope of the CP is appropriate although they consider that the CP is too focused on acquisitions of a commercial nature and does not sufficiently address public sector issues. These comments are noted.
16. Respondent 6 suggests that the scope of the project should be restricted to exclude transferor accounting for acquisitions UCC. This respondent considers that excluding transferor accounting from the scope of the project would ensure that the project remains focused on the key issues relating to combinations. This suggestion is also reflected in the respondent's overall comments on the PVs. Respondent 6 also considers that the accounting requirements for a transferor are already addressed by other IPSASs. Staff considers that this comment implicitly means that the accounting treatment for the transfer of an operation to the recipient would be accounted for in a similar way to the derecognition of individual assets and liabilities. So, for example the gain or loss arising from the derecognition of an item of property, plant, and equipment is included in surplus or deficit when the item is derecognized. This issue will be considered in SMC 7 at a future meeting.
17. Respondent 8 (in 8.1) suggests that the scope of the project should be expanded to include the accounting treatment of a combination in the financial statements of a GBE even though GBEs do not apply IPSASs. Their reasoning for this suggestion is that (a) IPSASs should be developed to consider not-for-profit GBEs and (b) GBEs are consolidated at the whole of government level. The remit of the IPSASB is to develop standards and guidance for public sector entities that are not GBEs and the suggestion to change remit is not within the scope of this project. Staff notes that the IPSASB is undertaking a project on GBEs.
18. Respondent 8 (in 8.2) also suggests that further guidance is required in relation to subsequent measurement similar to that included in IFRS 3. Paragraph 2.43 of the CP states that it does not deal with subsequent measurement because IPSASs already include requirements. IFRS 3 also acknowledges that subsequent measurement is generally dealt with in other IFRSs however, it includes guidance on the subsequent measurement of four specific items: reacquired assets, contingent liabilities recognized as of the acquisition date; indemnification assets and contingent consideration. Staff agrees that guidance on subsequent measurement should be included in the draft ED.
19. Respondent 10 suggests that the scope of the project should be expanded to include guidance on accounting for non-current assets held for sale and discontinued operations. The IPSASB has agreed to defer consideration of whether or not it should re-examine developing an IPSAS based on IFRS 5, *Non-current Assets Held-for-sale and Discontinued Operations*. Staff does not consider

that guidance on accounting for non-current assets held for sale and discontinued operations should be included in the scope of the project.

Not Specified

20. Three respondents (7, 13 and 15) do not specify whether or not they agree with the scope of the CP but provide comments as follows.
21. Respondent 7 suggests that further guidance could be included on differentiating between asset acquisitions, entity and operation acquisitions and amalgamations. Staff agrees that guidance additional to that included in the CP should be considered when developing the ED. In particular guidance in IFRS 3, *Business Combinations* (paragraphs B5–B12), may be useful in differentiating between asset acquisitions, and entity and operation acquisitions. Staff considers that this respondent implicitly agrees with the scope of the project.
22. Respondent 13 considers that this project should not be completed until after the completion of the *Conceptual Framework* and the project to revise IPSAS 6 because both of these projects are fundamental to determining the accounting treatment for combinations. The IPSASB agreed that this project should not be deferred until after the completion of the *Conceptual Framework*. These comments are noted.
23. Respondent 15 suggests that additional guidance should be included on the accounting for a transfer of an operation by the transferor. Staff assumes that this comment is related to acquisitions UCC because this respondent includes a cross-reference to SMC 7. This issue will be considered in SMC 7 at a future meeting.
24. Staff considers that the overall nature of the comments on the scope of the CP is positive and therefore the IPSASB should continue with the scope proposed in the CP.

Matter(s) for Consideration

1. Does the IPSASB agree:
 - (a) That the project should continue with the scope proposed in the CP;
 - (b) That guidance on accounting for non-current assets held for sale and discontinued operations should not be included in the scope of the project; and
 - (c) That further guidance should be included in the draft ED in relation to:
 - (i) The definition of an operation;
 - (ii) Disclosure requirements for combining entities relating to the going concern basis;
 - (iii) Subsequent measurement requirements similar to that included in IFRS 3; and
 - (iv) Distinguishing between asset acquisitions, entity and operation acquisitions and amalgamations using relevant text from IFRS 3?

SMC 2—Distinguishing between Acquisitions and Amalgamations and Combinations NUCC and UCC

25. Specific Matter for Comment (SMC) 2 asks the following question:

“In your view, is the approach used in this CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC, appropriate? If you

do not support this approach, what alternatives should be considered? Please explain your reasoning.”

- 26. 25 respondents replied to this SMC.
- 27. As stated above, to analyze the responses to this SMC it has been divided into two parts.

SMC 2 Part A—Distinction between Acquisitions and Amalgamations

Support for Distinction between Acquisitions and Amalgamations

- 28. 14 respondents (3, 4, 5, 7, 9, 10, 12, 16, 18, 21, 22, 24, 25 and 26) support distinguishing between acquisitions and amalgamations. Four of these respondents made comments.
- 29. Two respondents (3 and 5) comment that acquisitions with the transfer of consideration should be distinguished from combinations that do not involve a transfer of consideration.
- 30. Respondent 7 (in 7.2 and 7.3) is concerned that the examples given in Chapter 2 of acquisitions and amalgamations appear to be based on legal form rather than their economic substance. Staff considers that the intention of the examples given in Chapter 2 is to illustrate different types of combination based on the substance of the transaction rather than their legal form. The use of the term “entity” in the CP relates to an entity for financial reporting purposes and not the legal form of the entity. Respondent 23 (in 23.3) is also concerned that the distinction between acquisitions and amalgamations appears to be based on legal form rather than economic substance and considers that the distinction between acquisitions and amalgamations should be based on economic substance. Staff proposes to clarify this issue when developing the ED.
- 31. Respondent 25 suggests that the term “acquisition” be replaced with “transfer of operation” as they consider that this term more closely reflects the public sector situation. Staff notes that respondent 15 suggests that a separate term is used to define combinations that do not involve the transfer of consideration rather than using the term “acquisition.” Staff proposes to consider this change in terminology in combinations NUCC at a future meeting.

Do not Support Distinction between Acquisitions and Amalgamations

- 32. Two respondents (6 (in 6.1) and 19) do not support the distinction between acquisitions and amalgamations.
- 33. Respondent 6 considers that determining a distinction between an acquisition and an amalgamation is likely to be difficult and is not persuaded by the arguments in the CP for drawing this distinction. This comment is also reflected in the respondent’s overall comments on the PVs where they express strong reservations about the PVs. This respondent is concerned with the direction the project has taken since the IPSASB considered comments on ED 41, *Entity Combinations from Exchange Transactions* and disagrees with the IPSASB’s decision not to develop ED 41 into a standard.
- 34. Paragraphs 1.5–1.8 of the CP set out the IPSASB’s reasoning for not continuing with ED 41. Instead, the IPSASB decided to develop the CP to consider more broadly the approaches to accounting that might be adopted for the wide range of combinations that may occur in the public sector.

35. Respondent 6 considers that accounting for all combinations NUCC as acquisitions is likely to address most financial reporting issues and therefore a category for amalgamations is unnecessary.
36. Respondent 19 also considers that acquisition accounting as required by IFRS 3 is a suitable basis for all combinations and does not believe that the CP provides adequate justification for the public sector to be different from private sector accounting in this area.
37. Staff notes that both respondents are from Australia and the Australian equivalent to IFRS 3 excludes from its scope restructures of local governments where assets transferred to a local government from another local government at no cost, or for nominal consideration can be recognized either at carrying amount or at fair value. In Australia, the local government is not under the common control of the federal or state government. Staff considers that this exemption in effect excludes many combinations from the requirements in the Australian equivalent to IFRS 3.
38. The comments by these respondents are noted.

Respondents who make Alternative Suggestions

39. The CP proposes that the distinction between acquisitions and amalgamations is made based on whether or not one entity gains control over another entity. Eight respondents (1, 8, 11, 14, 15, 17, 20 and 23) suggest that a different distinction could be made to that proposed by SMC 2, as follows:
 - (a) Distinction between acquisitions and amalgamations is based on whether or not **significant consideration** is transferred;
 - (b) Distinction between acquisitions and amalgamations is based on whether or not **consideration** is transferred;
 - (c) Classify combinations as:
 - (i) Acquisitions NUCC where **significant consideration** is transferred; and
 - (ii) All other combinations;
 - (d) Classify combinations as:
 - (i) Acquisitions NUCC; and
 - (ii) All other combinations; and
 - (e) Considers an amalgamation NUCC is indicated by the fact that the combination is involuntary.

Distinction Based on Whether or not Significant Consideration is Transferred

40. Three respondents (1 (in 1.1), 15 (in 15.1) and 17) support having a distinction between acquisitions and amalgamations and suggest that the distinction be determined based on whether or not there is an exchange of significant consideration.
41. Respondents 1 and 17 suggest that an approach similar to that proposed by the Governmental Accounting Standards Board (GASB) Exposure Draft, *Government Combinations and Disposals of Government Operations* where combinations are distinguished on the basis of whether or not the transaction involves the exchange of significant consideration. These respondents consider that

this approach is similar to that outlined in SMC 4 of the CP for Approach B to acquisitions NUCC. In Approach B the measurement of assets and liabilities acquired depends upon whether or not consideration is transferred. Carrying amounts are used for combinations without the exchange of significant consideration and fair values are used for combinations with the exchange of significant consideration.

42. Respondents 1 and 17 also suggest that the distinction based on whether or not significant consideration is transferred should be used to determine whether the combination is an acquisition or amalgamation rather than being used to determine the measurement basis that the recipient would apply in an acquisition NUCC. Respondents 1 and 17 consider that their proposed approach would align the accounting treatment with the classification of the transactions and would be simpler to apply.
43. Staff notes that the GASB finalized its deliberations on this ED and issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* in January 2013. Staff also notes that this guidance includes the notion of amalgamations. It specifies that once the combination has been identified as one without the exchange of significant consideration, then a further distinction is made between mergers and transfers of operations based on whether or not the combination involves legally separate entities.
44. Staff does not consider that the distinction between mergers and transfers of operations based on whether or not the combination involves legally separate entities is operational in the context of IPSASs because the requirements in IPSASs are based on the economic substance of the transaction and not its legal form.
45. Respondent 15 also suggests that it would be clearer to use a distinction based on whether or not significant consideration¹ is transferred, but does not specifically mention the GASB's approach. This respondent considers that a distinguishing feature of combinations in the public sector is that many do not involve the exchange of consideration and combinations should be analyzed in the context of non-exchange transactions rather than the accounting methods used in the CP.
46. Staff notes that in an earlier phase of this project, the IPSASB decided that it was not possible to clearly distinguish between combinations that are exchange transactions and those that are non-exchange transactions.

Proposes Distinction Based on Whether or not Consideration is Transferred

47. Respondent 20 considers that a public sector approach should be developed to categorize combinations and that the distinction should be based on whether or not there is an exchange of consideration. This respondent considers that this suggestion reflects the economic substance of a combination and combinations without the transfer of consideration are fundamentally different in nature to those combinations with the transfer of consideration.
48. Respondent 5 also considers that the distinction between acquisitions (NUCC and UCC) where consideration is transferred and government reorganizations (UCC) where no consideration is transferred is important. This respondent considers that acquisitions NUCC are likely to involve the

¹ Although this respondent uses the term "consideration" in their response to SMC 2 they use the term "significant consideration" in their response to SMC 4 and the use of the latter term is reflected in the analysis of SMC 2.

transfer of consideration but does not explicitly address the issue of acquisitions NUCC with the transfer of no or nominal consideration.

Proposes Different Classification for Combinations

49. Respondent 14 suggests that the distinction be based on whether or not consideration is transferred, but does not mention the GASB's approach or use the term "significant consideration." This respondent suggests that the distinctions in the CP be simplified, as follows:
- (a) Acquisitions NUCC where consideration is transferred would apply the modified acquisition method²; and
 - (b) All other combinations, i.e., acquisitions NUCC where no consideration is transferred, amalgamations NUCC, and combinations UCC would apply the modified pooling of interest method with an appropriate solution for goodwill. Staff notes that proposals relating to combinations UCC are considered in the section on SMC 2 Part B.
50. Respondent 14 suggests this approach because (a) it is simpler than the approach suggested in the CP, (b) there are many combinations where no acquirer can be identified, and (c) the vast majority of combinations in the public sector do not involve the transfer of consideration.

Proposes Distinction between Acquisitions NUCC and all Other Combinations

51. Respondent 8 (in 8.2) suggests that the following distinction between combinations should be made:
- (a) Acquisitions NUCC where the measurement basis would be fair value; and
 - (b) All other combinations (including all combinations UCC and amalgamations NUCC) where the measurement approach would be carrying amount.
52. However, respondent 8 is not clear on how acquisitions NUCC would be distinguished from amalgamations NUCC.
53. Respondent 23 considers that in the public sector it may be more appropriate to account for all combinations as amalgamations unless the combination is NUCC and is clearly an acquisition. This respondent considers that acquisitions are uncommon in the public sector and consequently an amalgamation is the usual type of combination because most combinations are directive in nature and do not involve the transfer of consideration. This respondent considers that the definition of amalgamations in the CP is too narrow and therefore does not encompass the range of possible combinations that would fall into the realm of an amalgamation (i.e., combinations that are not an acquisition).

Involuntary Combination Indicates an Amalgamation NUCC

54. Respondent 11 (in 11.2) supports the distinction between acquisitions and amalgamations and considers that an amalgamation NUCC is indicated when the combination is involuntary in nature, i.e., directed by legislation, ministerial directive or other externally imposed requirement.

² In SMC 4 this respondent explains that the modified acquisition method uses carrying amount as the measurement approach.

Summary of SMC 2 Part A

55. 14 respondents support the distinction between acquisitions and amalgamations. Two respondents did not support this distinction. Eight respondents make alternative suggestions and five of these respondents suggest using the exchange of consideration to distinguish between an acquisition and an amalgamation. Respondent 11 suggests the determining factor should be whether or not the combination is voluntary. Respondent 8 suggests that there should be two categories of combinations: (a) acquisitions NUCC and (b) all other combinations but does not say how this distinction would be determined. Respondent 23 suggests the same distinction but suggests that the definition of an amalgamation is extended and further guidance given as to how to determine whether an entity has gained control of an operation.
56. Staff considers that before these alternative suggestions can be assessed, respondents' comments relating to acquisitions UCC and amalgamations UCC need to be considered. This is because some of the alternative suggestions made above propose that some combinations NUCC and all combinations UCC should have the same accounting treatment. Other respondents who do not make alternative suggestions relating to the distinction between acquisitions and amalgamations suggest that all combinations UCC should have the same accounting treatment.

Matter(s) for Consideration

2. Does the IPSASB agree that:
- (a) The alternative suggestions set out in paragraphs 40–54 are further considered at a future meeting after determining the accounting treatment for combinations UCC;
 - (b) The draft ED should clarify that the determination of an acquisition or an amalgamation is based on the economic substance of the combination rather than its legal form; and
 - (c) The suggestion to change the term “acquisition” to “transfer of operation” should be considered when combinations UCC are discussed at a future meeting?

SMC 2 Part B—Distinction between Combinations NUCC and UCC

57. This section considers comments relating to the distinction between combinations NUCC and UCC and respondents suggestions relating to combinations UCC.

Supports Distinction between Combinations NUCC and UCC

58. Seven respondents (5, 9, 10, 16, 18, 21 and 22) explicitly state that they support the distinction between combinations NUCC and UCC.

Respondents who made Alternative Suggestions in Distinction between Acquisitions and Amalgamations

59. Of the eight respondents who make alternative suggestions in the distinction between acquisitions and amalgamations (see SMC 2 Part A) five of these respondents (1, 8, 11, 14 and 23) also make suggestions relating to combinations UCC. Of the remaining three respondents, two (15 and 20) explicitly support the distinction between combinations NUCC and combinations UCC and respondent 17 does not comment specifically on this distinction.
60. Respondent 1 (in 1.2) considers that all combinations UCC are amalgamations rather than acquisitions.

61. Respondent 8's suggestion that combinations should be classified as (a) acquisitions NUCC and (b) all other combinations means that there is no requirement to distinguish between acquisitions and amalgamations for combinations UCC. This respondent notes that the CP proposes a similar accounting treatment for acquisitions UCC and amalgamations (both NUCC and UCC) so accounting for all combinations UCC as amalgamations may not make a difference.
62. Respondent 14 does not explicitly comment on the split between combinations NUCC and UCC but their suggestion that combinations should be classified as (a) acquisitions NUCC where significant consideration is transferred and (b) all other combinations implies that all combinations UCC would have the same accounting treatment.
63. Respondent 23 (in 23.1) considers that the appropriate approach to take for combinations is to first determine if the entities involved are UCC or NUCC before determining whether the combination is an acquisition or an amalgamation. They note that this is the approach outlined in paragraph 1.10 of the CP but that the rest of the CP considers the acquisition and amalgamation distinction first.
64. Respondent 23 also considers that if all the entities involved are ultimately controlled by the same entity both before and after the combination, the combination is more likely to be a reorganization or restructure of the operations of the economic entity. This respondent considers that combinations UCC should be accounted for as an amalgamation because an acquisition UCC is highly unlikely to occur and because of the difficulty of drawing a robust distinction between acquisitions and amalgamations.
65. Respondent 11 (in 11.1) considers that the proposal to classify combinations UCC between acquisitions and amalgamations to be one of form rather than substance and suggests that the accounting treatment for a combination UCC is determined based on whether or not it is voluntary.

Implicitly Supports Distinction between Combinations NUCC and UCC

66. Staff considers that respondent 6 (in 6.2) implicitly supports the distinction between combinations NUCC and UCC. This respondent does not support the distinction between acquisitions and amalgamations, however, they encourage the IPSASB to undertake further research into combinations UCC and suggest dividing the project into two separate projects on combinations NUCC and combinations UCC if the research on combinations UCC is slowing the development of an accounting treatment for combinations NUCC. This respondent also suggests working with the IASB on combinations UCC if possible.

Do not Comment Specifically on Distinction between Combinations NUCC and UCC

67. Five respondents (3, 4, 19, 24 and 25) do not comment specifically on whether or not they support the distinction between combinations NUCC and UCC.

Proposes Combinations UCC are accounted for as Amalgamations

68. Respondent 7 (in 7.4) does not explicitly support the distinction between combinations NUCC and UCC however their comments suggest that they support this distinction. This respondent agrees that the proposed distinction between acquisitions and amalgamations is necessary because amalgamations occur much more commonly in the public sector than in the private sector, particularly for entities NUCC. This respondent considers that if acquisitions UCC do not occur then it does not seem meaningful to propose a distinction between acquisitions UCC and

amalgamations UCC. This respondent also considers that many combinations UCC are amalgamations rather than acquisitions and suggests that if there are difficulties drawing a robust distinction between acquisitions UCC and amalgamations UCC then a solution may be to account for all combinations UCC as amalgamations.

- 69. Respondent 7 notes that the CP proposes the use of carrying amount for acquisitions involving entities UCC so this proposal may not substantially change the accounting treatment.
- 70. Respondent 12 questions whether acquisitions UCC actually arise in practice, and if they do, whether they warrant a different accounting treatment than that proposed for amalgamations UCC.

Proposes Acquisitions UCC are Distinguished based on Whether or not the Combination has Commercial Substance

- 71. Respondent 26 (in 26.2) supports the distinction between acquisitions and amalgamations for combinations NUCC and combinations UCC but considers that acquisitions UCC should be sub-classified to distinguish between an acquisition UCC that is a commercial transaction or at arm's length and an acquisition UCC that is not a commercial transaction or at arm's length. This respondent considers that using fair value as the measurement basis is appropriate for acquisitions UCC that are commercial transactions. For acquisitions UCC where there is no commercial substance to the transaction, this respondent considers that the use of carrying amount may be appropriate. This is the converse view to respondents 1, 7, 8, 12, 14 and 23 who question whether an acquisition UCC actually occurs.

Summary of SMC 2 Part B

- 72. Seven respondents explicitly support the distinction between combinations NUCC and UCC and one respondent implicitly supports this distinction. Six respondents consider that all combinations UCC should be accounted for as amalgamations. Respondent 11 proposes that the distinction between acquisitions UCC and amalgamations UCC should be based on whether or not the combination is voluntary. Respondent 26 proposes that acquisitions UCC should be sub-categorized based on whether or not the combination is a commercial transaction.
- 73. The next section considers respondents comments relating to PV 6, PV 7, PV 8, PV 9 and SMC 6 to help determine whether or not combinations UCC should be accounted for as one category, i.e., amalgamations.

Combinations UCC—Distinguishing between Acquisitions and Amalgamations

PV 6—Recipient Recognizes Acquisition UCC when it Gains Control

- 74. PV 6 proposes that:

“An acquisition UCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation.”
- 75. Six respondents (5, 10, 14, 18, 23 and 24) comment on PV 6 and agree with the proposal. Staff considers that the respondents who did not comment on PV 6 implicitly agree with the proposal, except for respondent 6 who expresses strong reservations relating to all of the PVs (see paragraphs 33–35).

76. Respondent 10 suggests that guidance should be included on the concept of “acquisition date” and how it should be determined, e.g., although the legal acquisition date is specified in legislation the recipient gains control of the operation at an earlier or later date. This respondent considers that the ED should make it clear that the acquisition date is the date the recipient gains control of the operation, in other words, it is the economic substance of the transaction that determines the acquisition date and not its legal form. Staff suggests that consideration of this issue should be deferred until it is decided whether to continue with the CP’s proposal to have a category for acquisitions UCC.

PV 7—Recipient uses Carrying Amount in Acquisition UCC

77. PV 7 proposes that:

“The recipient in an acquisition UCC recognizes in its financial statements on the date of acquisition the carrying amounts of the assets and liabilities in the acquired operation’s financial statements, with amounts adjusted to align the operation’s accounting policies to those of the recipient.”

78. Five respondents (5, 10, 18, 23 and 24) comment on PV 7 and agree with the proposal. Staff considers that the respondents who did not comment on PV 7 implicitly agree with the proposal, except for respondent 6 who expresses strong reservations relating to all of the PVs (see paragraphs 33–35).
79. Respondent 10 (in 10.5) suggests that guidance should be included on the accounting treatment of the adjustments to align accounting policies. Staff notes that this respondent suggests that the recipient should account for these adjustments in a similar manner as the difference between the consideration transferred (if any) and the assets acquired and liabilities assumed. However, another option could be to account for these adjustments applying the requirements of the relevant IPSAS. Staff suggests that consideration of this issue should be deferred until it is decided whether to continue with the CP’s proposal to have a category for acquisitions UCC.
80. Respondent 23 considers that acquisitions UCC are uncommon in the public sector and recommends that combinations UCC are accounted for as amalgamations. However, if the IPSASB continues with the proposal to have a category for acquisitions UCC, this respondent agrees with the proposal in PV 7.

PV 8—Resulting Entity applies Modified Pooling of Interests Method in an Amalgamation

81. PV 8 proposes that:

A resulting entity in an amalgamation should apply the modified pooling of interests method of accounting.

82. The modified pooling of interests method of accounting involves the resulting entity recognizing in its financial statements on the date of amalgamation the combining entities financial statement items (including those items in net assets/equity), with amounts adjusted to align the accounting policies of the combining entities to those of the resulting entity. This means that there is no difference arising to be recognized as a gain, loss, directly in net assets/equity or as a contribution from or distribution to owners.
83. Six respondents (5, 10, 14, 18, 23 and 24) comment on PV 8 and five respondents agree with the proposal. Staff considers that the respondents who did not comment on PV 7 implicitly agree with

the proposal, except for respondent 6 who expresses strong reservations relating to all of the PVs (see paragraphs 33–35).

84. Respondent 23 (in 23.1) supports the modified pooling of interests method for amalgamations UCC, but only where the financial statements of the combining entities prior to the amalgamation are publicly available so that users have access to comparative information. Staff suggests that the issue of comparative information should be considered at a future meeting and guidance could be included when drafting the ED.
85. Respondent 23 (in 23.2) does not support the modified pooling of interests method for amalgamations NUCC. This respondent considers that the method of accounting for amalgamations NUCC should be the fresh start method. Because this Issues Paper is focusing on combinations UCC, the respondent's comments relating to amalgamations NUCC will be considered at a future meeting.
86. Respondent 10 suggests that guidance should be included on the accounting treatment of the adjustments to align accounting policies. Respondent 23 (in 23.3) suggests that guidance should be included on:
- (a) The elimination of intercompany transactions and balances;
 - (b) Which carrying values should be used—the carrying values in the combining entities' individual financial statements or the carrying values of those entities assets and liabilities as reported in either the immediate parent's or the ultimate parent's consolidated financial statements; and
 - (c) The treatment of reserves in the combining entities' individual financial statements that, had the combination not occurred, would have been recycled to the statement of financial performance in the future (e.g., cash flow hedge reserve) or otherwise would have been used to record particular types of subsequent gains/losses (e.g., asset revaluation reserve).
87. Staff agrees that guidance on the above aspects of the modified pooling of interests method should be considered at a future meeting and guidance could be included when drafting the ED.

PV 9—Combining Operations Continuing to Present GPFs on Going Concern Basis where Resulting Entity will Fulfill Responsibilities of those Combining Operations

88. PV 9 proposes that:
- “Where combining operations continue to prepare and present GPFs using accrual-based IPSASs in the period between the announcement of the amalgamation and the date of the amalgamation, these GPFs are prepared on a going concern basis where the resulting entity will fulfill the responsibilities of the combining operations.”
89. Five respondents (5, 10, 18, 23 and 24) comment on PV 9 and agree with the proposal. Staff considers that the respondents who did not comment on PV 9 implicitly agree with the proposal, except for respondent 6 who expresses strong reservations relating to all of the PVs (see paragraphs 33–35).

Summary of PVs 6–9

90. PV 6 and PV 7 relate to acquisitions UCC. Staff suggests that consideration of these PVs is deferred until it is decided to continue with the CP's proposal to have a category for acquisitions UCC.
91. PV 7 and PV 8 propose that the measurement approach for acquisitions UCC and amalgamations UCC is carrying amount. Because PV 8 proposes the modified pooling of interests method of accounting for amalgamations, it includes the accounting treatment of financial statement items in the net assets/equity of the combining entities. These items are recognized at carrying amount in the net assets/equity of the resulting entity.
92. SMC 6 considers the treatment of a difference arising in an acquisition UCC. Staff considers that analyzing the comments on SMC 6 will help to determine whether or not all combinations UCC should have the same accounting treatment because options (b) and (c) of that SMC propose that the difference arising in an acquisition UCC is recognized directly in net assets/equity which is a substantially similar result to the accounting treatment to the modified pooling of interests method of accounting.
93. Staff considers that there is general support for PV 8 and PV 9.

Matter(s) for Consideration

3. Does the IPSASB agree:
- (a) That consideration of PV 6 and PV 7 is deferred until it is decided to continue with the CP's proposal to have a category for acquisitions UCC;
 - (b) That a resulting entity in an amalgamation should apply the modified pooling of interests method of accounting (PV 8);
 - (c) That combining operations continue to present GPFs on a going concern basis whether the resulting entity will fulfill the responsibilities of those combining operations (PV9); and
 - (d) That the issues set out in paragraph 86 should be considered at a future meeting with a view to including guidance in the draft ED?

SMC 6: Accounting for Difference Arising in an Acquisition UCC

94. Specific Matter for Comment (SMC) 6 asks the following question:
- "In your view, should the recipient in an acquisition UCC recognize in its financial statements, on the date of acquisition, the difference arising as:
- (a) A gain or loss recognized in surplus or deficit (in the statement of financial performance);
 - (b) A contribution from owners or distribution to owners recognized directly in net assets/equity (in the statement of financial position); or
 - (c) A gain or loss recognized directly in net assets/equity (in the statement of financial position), except where the transferor is the ultimate controlling entity and then the gain or loss meets the definition of a contribution from owners or distribution to owners?

Please explain why you support (a), (b), or (c)."

95. SMC 6 does not consider that the difference arising could be goodwill because goodwill can only arise where consideration is transferred and in an acquisition UCC the ultimate controlling entity can specify whether any consideration is transferred, and its amount.
96. 23 respondents replied to this SMC.

Option (a) Gain or Loss Recognized in Surplus or Deficit

97. Five respondents (4, 5, 9, 18 and 20) support option (a). The reasons these respondents gave for supporting this option are as follows:
- (a) The acquisition is an in-year transaction that would normally be reflected in the recipient's statement of financial performance. [Reflected in paragraph 6.14 of the CP]
 - (b) The difference arising does not meet the definitions of contribution from owners or distribution to owners. [Reflected in paragraph 6.16 of the CP]
 - (c) There is no justification for reporting the difference arising as, and for creating, a new component of net assets/equity just because the acquisition is a transaction between entities UCC. [Reflected in paragraph 6.16 of the CP]
 - (d) The accounting treatment of an acquisition UCC between the recipient and the transferor should be symmetrical. Paragraph 51 of IPSAS 6, *Consolidated and Separate Financial Statements* requires a transferor to recognize the difference between the proceeds from disposal of the controlled entity and its carrying amount at the date of disposal as a gain or loss in surplus and deficit and therefore the recipient should recognize the difference arising at the date of acquisition as a gain or loss in surplus or deficit.
 - (e) It can be disclosed in the notes of the recipient's financial statements that the gain or loss on acquisition will be eliminated upon the recipient's consolidation into a higher level entity.

Option (b) Contribution from Owners or Distribution to Owners

98. Nine respondents (1, 6, 7, 8, 15, 17, 19, 24 and 26) support option (b). The reasons these respondents gave for supporting this option are as follows:
- (a) Meets the definition of a contribution to, or distribution from, owners. [Reflected in paragraph 6.20 of the CP]
 - (b) Carrying values may or may not reflect fair value and therefore it would be inappropriate to recognize a gain or a loss in surplus or deficit.
 - (c) Consistent with the jurisdictions requirements and the respondent is not aware of any significant implementation issues specific to public sector entities arising from these requirements.
 - (d) Reflects the substance of the transaction.
 - (e) The decision to undertake the combination is made by the ultimate controlling entity and therefore the impact on the acquiring and transferring intermediate entities should be reflected as a decision of the owner.

- (f) Reflects the fact that there is a net increase in the controlling entity's residual interest in the acquirer, offset by a corresponding decrease in the interest in the transferor as a result of the combination. [Reflected in paragraph 6.21 of the CP]
 - (g) There is no impact on the financial statements of the ultimate controlling entity and therefore a gain or loss should not be recognized by the recipient in its surplus or deficit. [Reflected in paragraph 6.17 of the CP]
 - (h) Paragraph 122 of IPSAS 1, *Presentation of Financial Statements*, explains that contributions by, and distributions to, owners may take the form of transfers between two entities within an economic entity.
99. Respondent 23 supports option (b) if the IPSASB continues to make the distinction between acquisitions UCC and amalgamations UCC.

Option (c) Gain or Loss Recognized Directly in Net Assets/Equity

100. Three respondents (21, 22 and 25) support option (c). These respondents did not explain their reasoning and staff assume that they were persuaded by the arguments in paragraphs 6.24 and 6.25 of the CP.

Supports a Modified Option (c)

101. Respondent 10 supports a modified version of option (c) whereby the difference arising is recognized directly in net assets/equity (accumulated surplus and deficit). This respondent considers that the transaction between the recipient and the transferor represents a transaction with owners that has occurred between entities UCC. The recipient is thus entitled to the transferor's portion of the accumulated surplus or deficit that relates to the assets and liabilities transferred. This respondent does not consider that the difference arising meets the definition of a contribution from owners or a distribution to owners and therefore does not support the second part of option (c) which considers that the difference arising does meet these definitions where the transferor is the ultimate controlling entity.

Supports Option (b) or (c)

102. Respondent 16 supports option (b) or (c) chosen as appropriate to the individual circumstances of the acquisition UCC.

Proposes Option (a) or (b) Dependent on Whether or not the Acquisition UCC is Voluntary

103. Respondent 11 proposes that the difference arising on an acquisition UCC is recognized as a contribution from owners or distribution to owners where:
- (a) It involves an involuntary transfer of an operation at the direction of the controlling entity or by virtue of legislation or ministerial directive; and/or
 - (b) The controlling entity designates the combination to be a contribution from owners or distribution to owners.
104. Respondent 11 considers that this accounting treatment is more reflective of a transaction by owners acting in their capacity as owners. Where the transfer of an operation is voluntary in nature, and is not designated to be a contribution from owners or distribution to owners, the

difference arising should be recognized as a gain or loss in surplus or deficit. Respondent 11 considers that this is the appropriate accounting treatment of the difference arising because these combinations do not represent transactions with owners in their capacity as owners. These comments are noted.

Rejects all Three Options

105. Respondent 3 considers that acquisitions UCC are infrequent and rejects all three options. This respondent suggests that the recipient recognizes the acquired entity at its net carrying amount. IPSAS 1 does not permit offsetting of assets and liabilities unless required or permitted by an IPSAS. Therefore, it is only required or permitted in limited circumstances, e.g., gains and losses arising from a group of similar transactions such as foreign exchange gains and losses, where this accounting treatment reflects the substance of the transaction. Staff considers that recognizing an acquisition UCC at its net carrying amount does not reflect the substance of the transaction and users will be unable to understand the types of assets and liabilities that the entity has received or assumed from the acquisition. These comments are noted.

Summary and Staff Conclusion for SMC 6

106. Five respondents support recognizing the difference arising in an acquisition UCC in surplus or deficit (option (a)). Nine respondents support recognizing the difference arising in an acquisition UCC as a contribution from owners or a distribution to owners (option (b)). Three respondents support recognizing the difference arising in an acquisition UCC as a gain or loss directly in net assets/equity (option (c)). Three respondents make alternative suggestions with respondent 10 proposing a modified version of option (c), respondent 16 supporting option (b) or (c) depending on the individual circumstances of the acquisition UCC and respondent 11 proposes option (a) or (b) based on whether or not the acquisition UCC is voluntary.
107. From the above analysis, staff considers that 15 respondents support option (b) or option (c) under some conditions. The majority of these respondents consider that the difference arising is a contribution from owners or a distribution to owners. If the IPSASB proposes accounting for the difference arising as either option (b) or option (c), the recipient's statement of financial performance in an acquisition would not show a gain or loss on acquisition in the period of acquisition, which is similar to the accounting treatment of an amalgamation UCC in the financial statements of the resulting entity. In addition, the opening balance sheet would be similar.

Name of Combinations UCC

108. Three respondents (5, 16 and 23) explain the nature of combinations UCC using terms other than amalgamation. Respondent 5 refers to combinations UCC where no consideration is transferred as "government reorganizations." Respondent 16 considers that amalgamations may be more commonly in the nature of reorganization initiatives or may be undertaken to relocate selected operations. This respondent also considers that acquisitions UCC may be reorganization initiatives rather than "true" acquisition initiatives. Respondent 23 considers that if all the entities involved in the combination are UCC the combination is more likely to be a reorganization or restructure of the operations of the group.

109. Staff considers that if combinations UCC become one category then it may be appropriate to use the term “reorganization” rather than “amalgamation” as reorganization more closely reflects the range of combinations UCC that occur.

Staff Conclusion for Combinations UCC

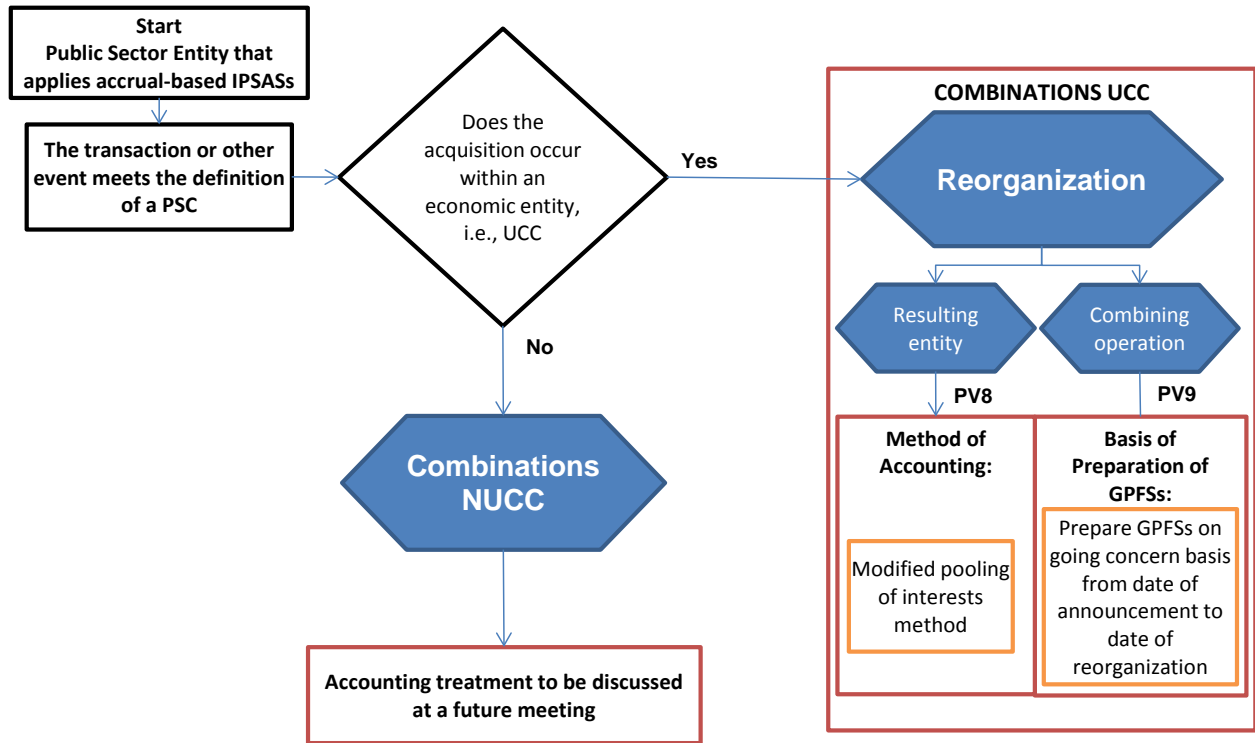
110. In SMC 2, six respondents consider that combinations UCC should be accounted for as amalgamations. Two of these respondents note that the CP proposes similar accounting treatments for acquisitions UCC and amalgamations UCC. PVs 7 and 8 propose the same measurement approach for acquisitions UCC and amalgamations UCC. Almost all of the respondents that comment on these PVs support the proposed accounting treatment.
111. 15 respondents to SMC 6 support the accounting treatment of the difference arising in an acquisition UCC being recognized directly in net assets/equity in some form. This results in a similar accounting treatment to amalgamations UCC.
112. Therefore, staff suggests that all combinations UCC should be accounted for as amalgamations. Staff also suggests that the appropriate term to use for combinations UCC is “reorganization.” Analysis of applying the modified pooling of interests method to reorganizations will be considered at a future meeting.
113. If the IPSASB agrees that combinations UCC should be one category (reorganizations), a consequence of this is that when a transaction or other event meets the definition of a combination, the first distinction is whether or not that combination is NUCC or UCC. This would change the sequence of decisions proposed in the CP. Staff notes that respondent 23 suggests that distinguishing between combinations NUCC and UCC should be the first distinction when considering a combination.

Matter(s) for Consideration

4. Does the IPSASB agree that:
- (a) Combinations UCC should be accounted for as one category;
 - (b) The category should be termed “reorganizations” instead of “amalgamations”;
 - (c) The resulting entity in an reorganization should apply the modified pooling of interests method of accounting (noting that the specific requirements of applying the modified pooling of interests method will be considered at a future meeting); and
 - (d) Combinations should first be distinguished by determining whether the entities to the combination are NUCC or UCC?

114. If the IPSASB agree to the above questions, the first part of a flow chart on combinations is illustrated below.

Flowchart: Public Sector Combinations



Next Steps

115. For the June 2013 meeting Staff will continue the analysis of respondents' comments relating to:

- (a) PV 3—Control is sole definitive criterion for distinguishing an amalgamation from an acquisition;
- (b) SMC 3—Other public sector characteristics for distinguishing an amalgamation from an acquisition;
- (c) PV 4—Recipient recognizes acquisition NUCC when it gains control;
- (d) SMC 4—Measurement of acquisition NUCC;
- (e) PV 5—Recipient in acquisition NUCC recognizes difference arising as gain where recipient acquires net assets in excess of consideration transferred (if any) and loss where recipient assumes net liabilities; and
- (f) SMC 5—Accounting for difference arising where the consideration transferred is in excess of the net assets acquired in an acquisition NUCC.

116. At a future meeting staff will continue the analysis of respondents' comments relating to:

- (a) PV 1—Key definitions;
- (b) PV 2—Definition of combination UCC; and
- (c) SMC 7—Symmetrical Accounting for an Acquisition UCC.

RESPONDENTS' COMMENTS ON CONSULTATION PAPER, *PUBLIC SECTOR COMBINATIONS*

SMC 1: In your view, is the scope of this CP appropriate?

Table 1: Overview of Responses to SMC 1

Comment	Respondent #	Totals
Agrees that scope of the Consultation Paper is appropriate	1, 4, 5, 9, 11, 12, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25 and 26	17
Agree with Scope with some Reservations		
Agrees although considers CP is too focused on acquisitions of a commercial nature and does not sufficiently address public sector issues relating to combinations	3	1
Agrees except that it should not include transferor accounting for acquisitions UCC	6	1
Agrees except that it should include the accounting treatment of a combination in the financial statements of a GBE	8	1
Agrees except that it should include guidance on accounting non-current assets held for sale and discontinued operations	10	1
Not Specified		
Not specified but suggests additional guidance for differentiating between asset acquisitions, acquisitions and amalgamations	7	1
Not specified but considers that this project should not be completed until after the completion of the <i>Conceptual Framework</i> and the project to revise IPSAS 6	13	1
Not specified but suggests additional guidance in accounting for a transfer of an operation by the transferor	15	1
Other Views		
Respondent replied to selected SMCs only	14	1
Did not respond to any SMCs because CP emphasizes exchange acquisitions and should explore public sector situations	2	1
Total Respondents		26

Table 2: Table of Responses to SMC 1 Is Scope of CP Appropriate? (see AP 8.2 SMC 1 for analysis)

Response #	Respondent Comments	Staff Comments
SMC 1: Is scope of CP appropriate?		
001 FMSB USA	We believe that the scope of the CP is appropriate to address the matter of Public Sector Combinations.	Agrees that scope of the CP is appropriate.
002 Cour des Comptes France	[This respondent did not respond to individual SMCs because they consider that the CP emphasizes exchange acquisitions which are extremely rare in the public sector whereas it should emphasize amalgamations which are more frequent. This respondent recommends that the public sector situation is explored in more depth so that an accounting standard can be developed.]	These comments are noted.
003 CNOCP France	<p>The French Public Sector Accounting Standards Council (CNOCP) considers the scope of the Consultation Paper (CP) to be appropriate insofar as combinations between public-sector entities or transactions conducted jointly between public-sector entities (in particular, transactions by which several entities finance a jointly-controlled asset) are a reality that should be examined in order to propose an accounting treatment applicable to such transactions.</p> <p>The public sector is quite frequently confronted with situations in which entities are combined that often take the form of a pooling of resources to finance certain projects. The issue of reflecting the accounting for such transactions, including some relating to grants that cannot be directly traced ("hidden operations"), therefore makes complete sense for public-sector entities.</p> <p>Nevertheless, the Council believes that the Consultation Paper does not address these issues of combinations and transactions between public-sector entities. The Consultation Paper approaches these subjects from the perspective of commercial transactions (acquisitions at market price), while the majority of these transactions aim to streamline structures carrying out a public-service mission and to improve such service.</p> <p>The Council understands that discussions resulting in a number of developments on acquisitions (under common control and not under common control) were based on the acquisition, by a government, at market price of an entity that had been previously privatized. The Council emphasizes that, from its point of view, this is an extremely</p>	Agrees that scope of the CP is appropriate although considers CP is too focused on acquisitions of a commercial nature and does not sufficiently address public sector issues relating to combinations.

Response #	Respondent Comments	Staff Comments
SMC 1: Is scope of CP appropriate?		
	<p>marginal case that is rarely encountered in the public sector.</p> <p>Generally speaking, the Council believes that the Consultation Paper is not easy to read and that its provisions are rather confusing. As a result, it is difficult to judge the value of the approaches proposed.</p> <p>Furthermore, the Council suggests supplementing the provisions of the standards with concrete examples that might shed light on the transactions referred to in the draft text. For example, how should the financing by several governments of a humanitarian reconstruction and development program be reflected from an accounting standpoint?</p> <p>The Council consequently believes that the subject as it is presented in the Consultation Paper is not sufficiently addressed and that the text must therefore be revised in its entirety.</p>	
004 Charity Commission UK	We agree that the paper is correctly scoped as it considers acquisitions and combinations that are amalgamations and considers the components or entities that are acquired or amalgamated.	Agrees that scope of the CP is appropriate.
005 ADAA Abu Dhabi	We agree the scope of the CP is appropriate.	Agrees that scope of the CP is appropriate.
006 AASB Australia	The AASB agrees with the scope of the CP in the context of the approach taken in the CP (i.e. to consider more broadly the approaches to accounting that might be adopted for public sector combinations (PSCs) arising in different circumstances) except for the proposed inclusion of transferor accounting. The AASB thinks that excluding transferor accounting from the scope of the CP would help ensure the project remains focussed on the key issues relating to public sector combinations. Further the AASB considers that the accounting requirements for a transferor are already addressed by other IPSASs.	Agrees that scope of the CP is appropriate except that it should not include transferor accounting.
007 E&Y Intl	We suggest more guidance should be provided on differentiating between asset acquisitions, acquisitions (as defined in para 2.8) and amalgamations. Potential confusion could arise with the definition of an 'operation', and what constitutes an integrated set of	Not specified but thinks that more guidance should be included on differentiating between asset acquisitions, acquisitions and

Response #	Respondent Comments	Staff Comments
SMC 1: Is scope of CP appropriate?		
	activities and assets. ¹	amalgamations.
008.1 HoTARAC Australia	HoTARAC agrees with the CP approach to consider a wide range of PSCs. As noted above, HoTARAC supports the IPSASB's consideration of acquisitions UCC as previous raised in the ED 41 response. However, HoTARAC does not agree that the scope excludes the accounting treatment of a combination in the financial statements of a GBE, based on the assumption that GBEs do not apply IPSASs. In the Australian context, some jurisdictions have both for-profit and not-for-profit (NFP) GBEs. and therefore IPSASBs should be developed to consider NFP GBEs. GBEs are also consolidated at the whole of government level, and therefore should be included in the scope of this project.	Agrees that scope of the CP is appropriate except that it should include the accounting treatment of a combination in the financial statements of a GBE.
008.2 HoTARAC Australia	HoTARAC notes that IFRS 3 covers subsequent measurement and accounting, which are topics not addressed in the CP. HoTARAC believes that these topics should be considered by IPSASB.	See Agenda Paper 8.2 SMC 1 for comments.
009 JICPA Japan	We believe that the scope of the CP is appropriate, since acquisition of assets, assumption of liabilities and interests in joint ventures should be prescribed separately.	Agrees that scope of the CP is appropriate.
010 Staff ASB South Africa	We support the scope of this Consultation Paper, but suggest that, in the absence of an IPSAS dealing with non-current assets held for sale and discontinued operations, the proposed pronouncement dealing with public sector combinations should include some guidance, specifically around the required disclosure requirements, to be considered by a transferor in a public sector combination under common control.	Agrees that scope of the CP is appropriate but it should include guidance on dealing with non-current assets held for sale and discontinued operations.
011.1 ACAG	ACAG believes the scope of the CP is generally appropriate as it deals with PSCs that involve:	Agrees that scope of the CP is appropriate. See Agenda Paper 8.2 for comments relating to

¹ IFRS 3.BC18 – The definition of a business under IFRS 3 is broad because an integrated set of activities and assets only needs to be capable of being run as a business; is not required to have any outputs; and does not need all of the inputs and processes that the seller used, in order to qualify as a business. Further, a submission seeking clarification on the definition of a business was made to the IFRS Interpretations Committee (IFRIC), and IFRIC staff is in the midst of performing further outreach and analysis on this issue [IFRIC Agenda Paper 17, September 2012].

Response #	Respondent Comments	Staff Comments
SMC 1: Is scope of CP appropriate?		
Australia	<ul style="list-style-type: none"> entities UCC and NUCC consideration and no or nominal consideration transfers of net assets and net liabilities. <p>ACAG also supports the exclusion of transfers of assets and liabilities that do not represent "operations". However, ACAG believes further guidance is required in relation to the definition of "operations". While the definition of "operations" is broader than that of "business" included in IFRS 3, we believe that this may still be open to interpretation. Our experience in dealing with business combinations under IFRS 3/AASB 3 is that where differences of opinion exist in relation to the meaning of "business", they can be difficult and costly to resolve.</p>	further guidance.
011.2 ACAG Australia	Where other IPSASB standards already identify accounting treatments for transfers outside the proposed scope of this CP, references to the relevant standards would be useful to provide additional guidance for these areas.	Staff does not consider that cross-references to other standards for the accounting treatment of items outside the scope of this project are relevant. No guidance is proposed in the draft ED.
011.3 ACAG Australia	ACAG believes that in developing a future accounting standard, consideration should also be given to providing guidance/clarification in relation to the following areas: <ul style="list-style-type: none"> whether the requirements for PSCs NUCC also apply to situations where one or more of the parties is not a public sector entity, or only where all parties to the PSC are public sector entities 	See Agenda Paper 8.2 for comments relating to further guidance.
011.4 ACAG Australia	<ul style="list-style-type: none"> accounting for transfers by transferors for PSCs UCC, particularly where symmetrical accounting treatment is required between recipients and transferors (an example of why this may be relevant has been included in relation to Specific Matter for Comment 7) [See SMC 7] 	This issue will be considered in the analysis of SMC 7 at a future meeting.
011.5 ACAG Australia	<ul style="list-style-type: none"> if a substantive difference in accounting treatment is retained in the proposed standard based on whether consideration (other than nominal consideration) is transferred, the definition of "nominal consideration" and whether this includes an amount that does not represent a reasonable approximation of the fair value of the operations transferred 	This issue will be considered in the analysis of SMC 4 at a future meeting.

Response #	Respondent Comments	Staff Comments
SMC 1: Is scope of CP appropriate?		
011.6 ACAG Australia	<ul style="list-style-type: none"> accounting for adjustments on the transfer of operations that arise from the application of different fair value estimation techniques e.g. going from an income based approach to depreciated replacement cost 	This issue is not specifically related PSCs. Therefore staff considers it is outside the scope of this project. No guidance is proposed in the draft ED.
011.7 ACAG Australia	<ul style="list-style-type: none"> development of additional disclosure requirements to explain why the going concern basis is considered appropriate where a PSC UCC results in a public sector entity ceasing to be a going concern as proposed in Preliminary View 9. 	See Agenda Paper 8.2 for comments relating to further guidance.
012 CIPFA UK	CIPFA agrees that the scope of the Consultation Paper, which covers all public sector combinations, is appropriate.	Agrees that scope of the CP is appropriate.
013 DGFIP France	As mentioned in the introduction, the handling of this subject is fundamental. On the other hand, it should have followed the publication of the conceptual framework and revision of IPSAS 6. These fundamental normative texts would have enabled the IPSAS Board to draft a standard suited to the specific characteristics of the public sector, both from the perspective of scope of consolidation and nature of the combinations.	Not specified but considers that this project should not be completed until after the completion of the <i>Conceptual Framework</i> and the project to revise IPSAS 6.
015 Treasury Canada	We believe additional guidance should be included with respect to accounting for a transfer of an operation by the transferor. Please see our comments on Specific Matter for Comment 7. [This respondent also asks for guidance for the transferor in an acquisition UCC in SMC 7]	Not specified but suggests that additional guidance is necessary in accounting for a transfer of an operation by the transferor.
016 IDW Germany	<p>The scope is appropriate at this stage of the project, although in reaching certain decisions consideration of subsequent application in practice may be relevant. For example, as we explain in our response to SMC 5, in deciding whether it would be appropriate for goodwill to be recognized separately in a recipient entity's statement of financial position, consideration as to the immediate and future impact on the entity's statement of financial performance is highly relevant.</p> <p>We agree that the scope exclusions as explained in paragraph 2.43 et seq. are appropriate at this stage of the project. We also note that various issues including disclosures, the treatment of non-controlling interests and of costs related to public sector related combinations will have to be given further consideration once feedback on the CP</p>	Agrees that scope of the CP is appropriate.

Response #	Respondent Comments	Staff Comments
SMC 1: Is scope of CP appropriate?		
	has been reviewed. In our view, this is an appropriate course of action.	
017 ICPAK Kenya	We believe that the scope of the CP is appropriate to address the matter of Public Sector Combinations.	Agrees that scope of the CP is appropriate.
018 ICAN Nigeria	Yes, the Institute considers the scope of the CP to be appropriate particularly, as it sets out clearly issues covered and exclusions, some of which the CP notes have either been covered in some other IPSASs or are part of ongoing work of the Board.	Agrees that scope of the CP is appropriate.
019 CPA & Institute Australia	We agree there is a need for a project to deal with all combinations as we understand that currently many entities take different approaches. This problem is not restricted to the public sector, as a combination of entities under common control is outside the scope of IFRS 3 Business Combinations. Therefore, we encourage the IPSASB to work with the IASB to develop principles that have common application and not develop its own model in isolation.	Agrees that scope of the CP is appropriate.
020 Staff PSAB Canada	The scope of the Consultation Paper (CP) appears appropriate. The clarification about government business enterprise in paragraph 2.41 and the examples in Appendix B help illustrate the scope. However, the scope discussion around consolidated general purpose financial statements (GPFs) of an economic entity, GPFs of a single entity, GPFs of an intermediate economic entity, and separate GPFs of an economic entity under the sub-section "The Parties to a Public Sector Combination (PSC) which are in the Scope of the CP" (paragraphs 2.24 to 2.40) appears unnecessarily complicated. IPSASB may consider summarizing/generalizing them at a higher level that would make the key message more understandable. For example, one or two sentences like footnotes 34 and 35 on page 30, and/or incorporating them in Table 1 on page 21.	Agrees that scope of the CP is appropriate.
021 ZICA Zambia	The Institute believes that the scope of the Consultation Paper is appropriate as it covers principal areas of accounting; the timing of recognition, and the initial measurement basis or approach that could be adopted for the wide range of combinations that may occur in the public sector.	Agrees that scope of the CP is appropriate.
022	Yes.	Agrees that scope of the CP is appropriate.

Response #	Respondent Comments	Staff Comments
SMC 1: Is scope of CP appropriate?		
ICAS UK		
023 NZASB NZ	The NZASB is of the view that the scope of the CP is appropriate because the scope covers the different types of combinations that occur in the public sector. However, the NZASB considers that a future ED should be structured differently – refer to the discussion and diagram in the main concerns section of this appendix.	Agrees that scope of the CP is appropriate. Staff notes that the suggestion for a different structure is addressed in SMC 2.
024 Juvenal Brazil	For this moment is appropriate the scope of this CP, but I suggest if board agrees the consult EUROSTAT ² and IASB ³ in relation Business Combinations and New Agenda of IASB, I don't know if is need to increase or observed important considerations in this aspect.	Agrees that scope of the CP is appropriate.
025 SRS- CSPCP Switzerland	By and large the SRS-CSPCP is in agreement with the framework of this CP. Because Joint Ventures are expressly excluded, the question arises how unions (Konkordate in German) and special purpose associations (Zweckverbände in German) that promote cooperation between municipalities and cantons are to be treated. It is very important that there is a clear demarcation between real mergers on the one hand and the unions and special purpose associations on the other. A clear demarcation towards IPSAS 6 – 8 should also be drawn.	Agrees that scope of the CP is appropriate. The accounting treatment of unions and special purpose associations will depend on the substance of the transaction. This will need to be determined on a case by case basis. Staff notes that the IPSASB is currently undertaking a project to update IPSASs 6–8.
026 CAPE UK	Yes.	Agrees that scope of the CP is appropriate.

² http://epp.eurostat.ec.europa.eu/portal/page/portal/public_consultations/consultations/ipsas

³ <http://www.ifrs.org/Current-Projects/IASB-Projects/Business-Combinations/Pages/Business-Combinations-II.aspx> ; <http://www.ifrs.org/Current-Projects/IASB-Projects/Common-Control-Transactions/Pages/Common-Control-Transactions.aspx>; and <http://www.ifrs.org/Current-Projects/IASB-Projects/IASB-agenda-consultation/Pages/IASB-agenda-consultation.aspx>

SMC 2: In your view, is the approach used in this CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC, appropriate? If you do not support this approach, what alternatives should be considered? Please explain your reasoning.

Table 3: Overview of Responses to SMC 2 Part A—Distinction between Acquisitions and Amalgamations

Comment	Respondent #	Total
Supports Distinction Between Acquisitions and Amalgamations		
Support distinction between acquisitions and amalgamations	3, 4, 5, 7, 9, 10, 12, 16, 18, 21, 22, 24 and 26	13
Support distinction and suggests that the term “acquisition” should be replaced with “transfer of operation”	25	1
Supports some sort of Distinction		
Support but propose distinction be based on whether or not significant consideration is transferred	1, 15 and 17	3
Support but propose distinction is based on whether or not consideration is transferred	20	1
Proposes distinction is (a) acquisitions NUCC where significant consideration is transferred and (b) all other combinations	14	1
Proposes distinction is (a) acquisitions NUCC and (b) all other combinations	8	1
Proposes that all combinations are accounted for as amalgamations unless combination is NUCC and clearly an acquisition	23	1
Considers that an amalgamation NUCC is indicated by the fact that the combination is involuntary	11	1
Other Views		
Do not support distinction between acquisitions and amalgamations	6 and 19	2
Did not consider that the CP was clear enough to give an answer	13	1
Did not respond to any SMCs because CP emphasizes exchange acquisitions and should explore public sector situations	2	1
Total Respondents		26

Table 4: Overview of Responses to SMC 2 Part B—Distinction between Combinations NUCC and UCC

Comment	Respondent #	Total
Respondents who made Alternative Suggestions in Distinction between Acquisitions and Amalgamations (see Table 3 above)		
Support distinction between combinations NUCC and UCC	15 and 20	2
Proposes that the distinction between combinations UCC is based on whether or not the combination is voluntary	11	1
Proposes that all combinations UCC are accounted for as one category	8, 14 and 23	3
Proposes that all combinations UCC are accounted for as amalgamations	1	1
Does not comment specifically on the distinction between combinations NUCC and UCC	17	1
Support Distinction Between Combinations NUCC and UCC		
Support distinction between combinations NUCC and UCC	5, 9, 10, 16, 18, 21 and 22	7
Implicitly support distinction between combinations NUCC and UCC	6	1
Respondents who made Alternative Suggestions		
Proposes or comments that all combinations UCC are accounted for as amalgamations	7 and 12	2
Proposes that acquisitions UCC are distinguished based on whether or not the combination has commercial substance	26	1
Other Views		
Do not comment specifically on the distinction between combinations NUCC and UCC	3, 4, 19, 24 and 25	5
Did not consider that the CP was clear enough to give an answer because it does not clearly articulate the notion of an amalgamation	13	1
Did not respond to any SMCs because CP emphasizes exchange acquisitions and should explore public sector situations	2	1
Total Respondents		26

Table 5: Table of Responses to SMC 2 Distinguishing between Acquisitions and Amalgamations and NUCC and UCC (see AP 8.2 (SMC 2 Part A and Part B for analysis)

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
001.1 AGA USA	The approach outlined in the CP provides an approach for classifying transactions that does reach the goal desired by the IPSASB. However, as stated in our general comments on the preceding page [The issues addressed by the respondent in the covering letter are substantially the same as set out in this SMC], we believe that the IPSASB should consider adopting a framework for classifying the transaction as either an acquisition or an amalgamation using criteria similar to that used by GASB in its recent exposure draft on public sector combinations. The approach used by GASB was centered on the concept of whether or not the transaction involved the exchange of significant consideration, rather than whether or not one entity obtained control over another entity. This approach also appears to align with the accounting approach suggested in the Consultation Paper if Alternative B for acquisitions is used. In this approach, only transactions that involves the exchange of consideration will result in items being recognized at "fair value". In all other instances, the use of "carrying values" is the suggested method for recording transactions. It would seem logical to align the accounting with the classification of the transactions.	Acquisitions/Amalgamations Support. See Agenda Paper 8.2 for comments.
001.2 AGA USA	Furthermore, the matter of classifying a transaction as an acquisition when the entities that are combining operations are themselves under common control (UCC) and no significant consideration was exchanged seems to be incongruent with the nature of the underlying transaction. If the entities are already under common control, this would appear to be an amalgamation (or merger) rather than an acquisition.	NUCC/UCC See Agenda Paper 8.2 for comments.
002 Cour des comptes France	[This respondent did not respond to individual SMCs because they consider that the CP emphasizes exchange acquisitions which are extremely rare in the public sector whereas it should emphasize amalgamations which are more frequent. This respondent recommends that the public sector situation is explored in more depth so that an accounting standard can be developed.]	These comments are noted.
003 CNOCP	The Council believes that, in absolute terms, the approach by which acquisitions at market price are distinguished from public-sector amalgamations is justified, insofar as	Acquisitions/Amalgamations

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
France	<p>most combinations in the public sector differ, by their nature, from those conducted at market price in the private sector. Nevertheless, inasmuch as the provisions of the Consultation Paper are rather confusing, they do not allow us to judge the value of the proposed approaches.</p> <p>The Council believes that all combinations between public-sector entities that are not acquisitions at market price must be addressed in priority. As the Council understands it, the Consultation Paper considers such transactions to be "amalgamations". These are the transactions that are frequently encountered by entities in the public sector in a number of countries.</p> <p>Accordingly, to address the matter of alternatives that should be considered, the Council proposes that additional work is needed on the section on amalgamations in order to develop a specific accounting standard for the public sector.</p>	<p>Support.</p> <p>NUCC/UCC</p> <p>No specific comments.</p>
004.1 Charity Commission UK	We agree that the distinction between acquisitions where control is acquired and amalgamations where control is not acquired is a helpful one. The distinction drawn between amalgamations where existing entities combine as opposed to joint ventures where a new entity is established by venturers sharing control at the outset is helpful. It is also appropriate given that the venturers will continue to exist whereas the parties to an amalgamation are subsumed into an altered entity or new entity going forward.	<p>Acquisitions/Amalgamations</p> <p>Support.</p> <p>NUCC/UCC</p> <p>No specific comments.</p>
004.2 Charity Commission UK	A distinction based on control is limited in its application. This is because control is defined as 'the power to govern the financial operating policies of another entity so as to benefit from its activities'. Although this concept applies in the public sector quite well as the state ultimately controls the use of any residual interest, it is not such a good fit with certain not-for-profit situations. For example in the case of charities where the trustee administers the funds held on trust on behalf of the beneficiaries and so no direct private benefit to the trustee results from their trusteeship.	Staff notes the comments on the application of control in the not-for-profit private sector.
004.3 Charity Commission UK	The approach taken by the exposure draft for amalgamations is a variation on 'fresh start' accounting where instead of revaluing the assets and liabilities of the combination at fair value, they are taken without re-measurement at carrying value with the only adjustment being that necessary for a common accounting policy. Although this may be expedient,	Paragraph 2.43 of the CP notes that disclosures will be considered once the accounting treatments of different PSCs have been further developed. Staff considers that requirements for comparative information in an

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	the absence of a requirement for comparative information implies a discontinuity in operations which does not arise in the case of an amalgamation.	amalgamation will be addressed when the proposed disclosure requirements are developed in the ED.
005 ADAA UAE	<p>Letter</p> <p>Our experience is focused on PSEs [Staff considers that “PSEs” are “public sector entities”] under common control (UCC). PSEs UCC do not normally set out to acquire other PSEs (or parts thereof). When a PSE does acquire another PSE (or part thereof) it is unusual in our experience for cash consideration or some other form of purchase price consideration to be exchanged. It is usual for any government debt (or deferred income) that is linked to the operation being acquired to be passed from the transferor to the acquirer of the operation.</p> <p>Our primary use of general purpose financial statements is comparability of PSEs UCC to ensure accountability and stewardship of operations and assets. Comparability includes comparability of current and predecessor PSEs and of performance in current and past reporting periods, therefore our preferred accounting base for acquisitions by PSEs UCC is historic cost. PSCs not under common control (NUCC) are unusual in our territory however in such situations we consider fair value accounting is the preferred accounting base either because it is likely some form of purchase price consideration is required in order to equalize the value of the assets and liabilities exchanged, or because the transferor or acquirer is providing or receiving either an increase in economic benefits or an increase in service potential.</p> <p>SMC 2</p> <p>We agree with the approach used in the CP. It is not uncommon for governments in searching for cost reductions and improvements in service delivery to reorganize public sector operations and move an operation from one reporting entity to another reporting entity with there being no change in the government’s ultimate control of those operations. Accordingly, in assessing the quality of management’s stewardship of a PSE’s assets and delivery of past and future performance, a user of GPFS needs to distinguish between acquisition transactions (UCC and NCC) where consideration is provided and government reorganisation transactions (UCC) where no consideration is provided. Acquisition transactions NUCC necessarily require remeasurement of assets and liabilities to fair</p>	<p>Acquisitions/Amalgamations</p> <p>Support.</p> <p>NUCC/UCC</p> <p>Support.</p>

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	value in order to assist such an assessment. Whereas applying fair value remeasurement to government reorganization transactions (UCC) in which there is no change in government control distorts such an assessment.	
006.1 AASB Australia	<p>The AASB thinks that, in practice, the distinction between an acquisition and amalgamation is likely to be difficult in some circumstances (whether in the private or public sectors). The AASB is not persuaded by the arguments presented in the CP for drawing the distinction between acquisitions and amalgamations, as noted in the response to Specific Matter for Comment 3, below.</p> <p>The AASB thinks that treating PSCs not under common control (NUCC) as acquisitions is likely to address most financial reporting issues that arise in such circumstances.</p>	<p>Acquisitions/Amalgamations</p> <p>Do not support.</p> <p>See Agenda Paper 8.2 for comments.</p>
006.2 AASB Australia	<p>As noted in the covering letter [see below] to this submission, the AASB encourages the IPSASB to undertake further research into PSCs under common control (UCC), particularly if the IASB is not expected to address related private sector issues in a timely manner.</p> <p>Letter</p> <p>Overall, the AASB has strong reservations about the preliminary views. The AASB is concerned with the direction the project has taken since the IPSASB considered comments on IPSASB ED 41 <i>Entity Combinations from Exchange Transactions</i>. In particular, the AASB disagrees with the IPSASB not proceeding with adapting IFRS 3 <i>Business Combinations</i> (IFRS 3), where appropriate, for the public sector. In that regard, consistent with the approach in IFRS 3, the AASB notes that treating combinations of public sector entities not under common control as acquisitions is likely to address most financial reporting issues that arise in such circumstances.</p> <p>Further, the AASB notes that the CP includes preliminary views relating to combinations under common control – an aspect of accounting that is yet to be fully addressed by the IASB. The AASB encourages the IPSASB to undertake further research into combinations of public sector entities under common control, particularly if the IASB is not expected to address related private sector issues in a timely manner. However, the AASB encourages the IPSASB to approach the IASB with a view to identifying how the two</p>	<p>NUCC/UCC</p> <p>Implicitly support.</p>

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	Boards could work together on the issues – but the IPSASB should not delay its work if the IASB is not yet ready to proceed. Further, to help keep the project focussed, the IPSASB should not address the accounting by transferors and, if the IPSASB finds that pursuing common control issues slows down its consideration of non-common control issues, the IPSASB should consider dividing the project into two separate projects.	
007.1 E&Y Intl	Distinction between acquisitions and amalgamations We agree with the view expressed in chapter 3 that the factors considered in IAS 22 are not relevant, as those factors were intended to result in combinations being treated as amalgamations only in exceptional circumstances involving “true mergers of equals”. So the IAS 22 context is different to the public sector context being considered in the CP.	These comments are noted.
007.2 E&Y Intl	The examples given in Chapter 2 (as set out in diagrams 1, 2 and 3) of acquisitions and amalgamations appear to be based on legal form. In contrast, if the combining operations maintain their separate legal structure (as in diagrams 1 and 2) it appears that the combination is viewed as an acquisition. But if the two operations are combined to create a single legal entity (as in diagram 3 and discussed in paragraphs 2.39 and 2.40), it is viewed as an amalgamation. Given that the definition of a public sector combination is “the bringing together of separate <u>operations</u> into one entity, either as an acquisition or an amalgamation”, it’s not clear why legal form is so important.	See Agenda Paper 8.2 for comments.
007.3 E&Y Intl	For example, consider the following two different legal structures of a combination: <ul style="list-style-type: none"> Ownership of the equity instruments of Entity B are transferred to Entity A, so Entity B becomes the legal subsidiary of Entity A. The net assets of Entity B are transferred to Entity A, and Entity B is wound up. Paragraph 2.40 asserts that the form of an amalgamation does not matter, and yet the CP distinguishes between acquisitions and amalgamations based on legal form. If Entity B keeps its separate legal identity and becomes the legal subsidiary of Entity A, it is viewed as an acquisition, whereas if the net assets of Entity B are transferred to Entity A, it’s viewed as an amalgamation. Either way, there is now a combined economic entity comprising the operations of what used to be the separate operations of Entity A and Entity B. Given the outcome is the same the Board should express a clear view if the legal	The distinction between an acquisition and amalgamation is whether or not the entity (for financial reporting purposed) after the combination does not gain control over the other operations and/or entities. Where the entity after the combination gains control other the other operations and/or entities then it is an acquisition. Where the entity after the combination does not gain control other the other operations and/or entities then it is an amalgamation. Staff does not consider that the example given by the respondent is correct in relation to amalgamations. Where

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	<p>structure is determinative of whether this combination is an acquisition or amalgamation. To put it another way, we would appreciate a clarification if Entity A is considered to have gained control of an operation in the first situation (when equity instruments are transferred), but is not considered to have gained control of an operation in the second situation (when net assets are transferred).</p> <p>At least, it would be useful to include examples of the types of combinations that would be regarded as being acquisitions rather than amalgamations. For example, it might be argued that all combinations involving a public sector entity and a private sector entity are acquisitions, because such transactions expand the public sector as a whole. As during the Financial Crisis governments took over banks and other private sector entities, all of these combinations involve the public sector entity taking control over a private sector entity seems to be acquisitions, with fair value accounting applied. Another consideration is the following: If amalgamations are public sector specific transactions, then it seems likely that both entities involved in an amalgamation are originally public sector entities.</p>	<p>the net assets of entity B (assuming that this meets the definition of an operation) are transferred to entity A and entity A gains control of that operation, the combination is an acquisition. For the example to meet the definition of an amalgamation, irrespective of whether or not entity B is a legal entity, entity A does not gain control of entity B. The legal structure does not determine the type of combination rather it is determined by whether or not entity A gains control of entity B. In other words, the type of combination is determined by reference to the substance of the transaction.</p> <p>See Agenda Paper 8.2 for comments.</p>
007.4 E&Y Intl	<p>Further distinction between PSCs NUCC and UCC</p> <p>A convincing reason for the distinction is only given if it is assumed that acquisitions under common control are not commonly conducted with 'substance' and at fair values. Under this premise the proposed distinction is meaningful.</p> <p>In the for-profit sector when dealing with combinations amongst entities under common control, which are scoped out of IFRS 3, we take the view that in order to apply acquisition accounting (rather than pooling or modified pooling), the transaction must have 'substance' – and hence there are a range of factors to be considered. In the public sector, we would expect that many combinations amongst entities under common control (UCC) are amalgamations rather than acquisitions. Therefore, if there are difficulties in drawing a robust distinction between acquisitions and amalgamations, perhaps one solution for combinations involving entities UCC is to treat them all as amalgamations. In this context we note that the CP concludes the carrying values (not fair values) should be</p>	<p>Acquisitions/Amalgamations</p> <p>Support.</p> <p>NUCC/UCC</p> <p>Support.</p> <p>See Agenda Paper 8.2 for comments.</p>

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	<p>used for all combinations involving entities UCC, so this proposal may not substantially change the proposed accounting.⁴</p> <p>Letter</p> <p><i>Amalgamations</i></p> <p>A significant deviation from generally accepted private sector accounting standards is the introduction of 'amalgamations'. From a conceptual perspective, the proposed distinction between an acquisition and an amalgamation seems reasonable. However, there is very little discussion in the Consultation Paper about what guidance will be provided to help entities to make this distinction. Given the different treatment of acquisitions and amalgamations, this distinction needs to be made robustly. When developing IFRS 3, the IASB concluded that it was too difficult to distinguish between acquisitions and mergers (IFRS 3 BC 35). In the context of the private sector, most combinations are acquisitions, and therefore they decided to treat all combinations (other than those excluded from the scope of the standard) as acquisitions. That experience indicates that drawing this distinction is difficult. Given that amalgamations are much more common in the public sector, it is agreed that a distinction needs to be drawn, particularly in the case of entities not under common control. However, in our view more work is required to make this distinction based on substance rather than legal form.</p>	
008.1 HoTARAC Australia	HoTARAC supports the approach taken in this CP to distinguish between PSCs NUCC and UCC, as these may require different accounting treatments.	<p>NUCC/UCC</p> <p>Support.</p> <p>See Agenda Paper 8.2 for comments.</p>
008.2 HoTARAC Australia	However, HoTARAC has split views regarding whether it useful to consider amalgamations for PSCs as proposed in the CP. Some HoTARAC members are not persuaded by the CP's arguments for distinguishing acquisitions and amalgamation, and	<p>Acquisitions/Amalgamations</p> <p>This respondent proposes distinction is (a) acquisitions NUCC and (b) all other combinations.</p>

⁴ However, this suggestion might have an impact on comparative information. Under the proposals in the CP, there is no comparative information presented for the combined entity if the combination is an amalgamation (see Table 2, page 30, for the modified pooling of interests method, which is proposed for amalgamations). As a consequence, if all combinations of entities UCC are treated as amalgamations, it would mean the combined entity has no comparative information or other history for the pre-combination period.

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	<p>do not support this proposed separation in the CP. These HoTARAC members consider that the CP does not provide any public sector characteristics that justify this distinction on a conceptual basis, and notes that the IFRS previously removed the concept of mergers in the superseded IAS 22, on the basis that they rarely occurred. In addition, HoTARAC notes that the IASB was unable to define the difference between mergers and business combinations for IFRS 3. For the distinction to be meaningful for users and in the interest of consistent application by preparers of the principles in the standard, further consideration of a convincing conceptual basis is required to support the proposed distinction.</p> <p>Further, HoTARAC notes that the CP uses the same accounting treatment for acquisitions UCC and amalgamations (refer to Preliminary Views 7 and 8). Therefore, HoTARAC proposes an alternative approach for consideration where PSCs are classified as either:</p> <ul style="list-style-type: none"> • Acquisitions NUCC (based on convergence with IFRS 3); and • All other PSCs (including PSCs UCC; and amalgamations) <p>The 'All other PSCs' proposal covers any combinations under UCC without the requirement to distinguish between acquisitions or amalgamations for recognition and measurement purposes. Attachment A [See Appendix A at the end of this Agenda Paper] reflects this alternative approach based on the CP's Appendix C Public Sector Combinations Flow Chart, and illustrates HoTARAC's preferred accounting treatments as discussed in the specific matters for comment below.</p> <p>[The comments made in this SMC are outlined in the respondent's covering letter.]</p>	See Agenda Paper 8.2 for comments.
009 JICPA Japan	We agree with the CP's approach that distinguishes between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC.	<p>Acquisitions/Amalgamations Support.</p> <p>NUCC/UCC Support.</p>
010 Staff ASB	We support the approach used in the Consultation Paper to distinguish acquisitions and amalgamations and public sector combinations under common control and not under	Acquisitions/Amalgamations

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
South Africa	common control.	Support. NUCC/UCC Support.
011.1 ACAG Australia	<p>ACAG supports the distinction between PSCs UCC and NUCC. However, ACAG does not support a distinction between “amalgamations” and “acquisitions” in relation to PSCs UCC.</p> <p>In particular, this distinction appears to be based more on the form or outcome of the PSC rather than the substance. In Australia, PSCs UCC most commonly arise as an involuntary transfer of operations at the direction of the controlling entity. In these circumstances, ACAG believes the accounting treatment should be the same regardless of whether the PSC is an “acquisition” or an “amalgamation”.</p> <p>In our view, a more appropriate approach would be for the accounting treatment to be based on whether the PSC UCC is voluntary or involuntary in nature. Further explanation of how this would be applied is provided in relation to Specific Matter for Comment 6.</p>	NUCC/UCC Support.
011.2 ACAG Australia	<p>The distinction between “acquisitions” and “amalgamations” for PSCs NUCC is supported. ACAG believes that an indicator for an amalgamation NUCC (as discussed in the CP at paragraph 3.12) is the fact that the combination is involuntary i.e. imposed by virtue of legislation, ministerial direction or other externally imposed requirement.</p> <p>[The comments made in this SMC are outlined in the respondent's covering letter.]</p>	Acquisitions/Amalgamations Support. See Agenda Paper 8.2 for comments.
012 CIPFA UK	<p>CIPFA is content with the proposed distinction between acquisitions and amalgamations, and between PSCs NUCC and UCC.</p> <p>In line with our reading of section 3 on the borderline between acquisitions and amalgamations, we are not sure whether acquisitions UCC will arise in practice, or that this would warrant a different accounting treatment to amalgamations.</p>	Acquisitions/Amalgamations Support. NUCC/UCC See Agenda Paper 8.2 for comments.
013 DGFIP	As mentioned in the introduction, although combinations through acquisition are rather rare in the public sector, the notion of acquisition is very explicit and broadly developed in	Acquisitions/Amalgamations

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
France	the proposed standard, while the notion of “amalgamation,” which would be directed more towards meeting the needs of the public sector, is unclear in the proposed text. Therefore, it is difficult to answer the question.	<p>This respondent does not consider that the CP is clear enough to give an answer because it does not clearly articulate the notion of an amalgamation.</p> <p>Staff notes that the concept of amalgamations will be developed in the ED.</p> <p>NUCC/UCC</p> <p>No specific comments.</p>
014 DG Budget EC	<p>As regards your specific matter for comment 2 we do think that the distinction between acquisitions and amalgamations based on the control criterion⁵ and the further differentiation in transactions under common control (UCC) and not under common control (NUCC) is appropriate in respect to the understanding of possible transactions in the public sector. However, the concept with the four sub-cases is at first sight difficult to understand and leads to the situation that the public sector standard becomes more difficult than the private sector standards. For the development of a future standard we would encourage the Board, based on our comments hereunder, to simplify the subcases. As regards recognition, measurement and comparatives, we believe that only two cases need to be differentiated⁶:</p> <ul style="list-style-type: none"> • Acquisitions NUCC where consideration is transferred; and • All other PSCs. <p>In particular the acknowledgement that there are many cases where no acquirer can be identified and that in addition in the vast majority of our past cases no consideration has been transferred is important in the public sector context.</p>	<p>Acquisitions/Amalgamations</p> <p>Support.</p> <p>See Agenda Paper 8.2 for comments.</p> <p>NUCC/UCC</p> <p>No specific comments.</p> <p>See Agenda Paper 8.2 for comments.</p>
015.1 Treasury	<p>Please see comments on preliminary views above. [See extract below.]</p> <p>Extract from Preliminary Views Comments</p>	<p>Acquisitions/Amalgamations</p> <p>Support.</p>

⁵ Control over the resulting entity.

⁶ Based on the modified acquisition method for acquisitions NUCC, the modified pooling of interest method for amalgamations and on an appropriate solution for the goodwill issue.

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
Board Canada	Overall, we agree with the direction taken in the preliminary views, except that we believe that further clarity could be gained by separately defining public sector combinations that involve an exchange of consideration and those that do not, rather than using the umbrella term "acquisitions". A distinguishing feature of public sector combinations is that many do not include the exchange of consideration. For such combinations, the transaction is usually driven by the senior or higher level of government, in an effort to improve the service potential or efficiency of operations of the entity or government as a whole, rather than focussing on the future cash flows of the combined entity. The accounting methods described in the CP, i.e. acquisition method, pooling of interests and modified pooling of interests, are relevant when considering a business type combination in which consideration is exchanged. Therefore, we recommend that a separate term is used to define combinations that do not involve the exchange of consideration, and that these combinations are analysed in the context of non-exchange transactions rather than the accounting methods described in the CP.	See Agenda Paper 8.2 for comments.
015.2 Treasury Board Canada	We agree that the accounting treatment of combinations under common control should be considered separately to those that are not under common control.	NUCC/UCC Support. See Agenda Paper 8.2 for comments.
016.1 IDW Germany	Distinguishing between acquisitions and amalgamations In our view, the arguments put forward in the private sector for treating all combinations as acquisitions (i.e., "true" amalgamations are rare events in the private sector) will not necessarily hold true in the public sector, since amalgamations may be commonly more in the nature of reorganization initiatives or may be undertaken to relocate selected operations. Thus we agree that a differentiation between acquisitions and amalgamations as defined in the CP is appropriate because of the difference in substance between these two types of combinations in the public sector context and the relevance thereof to financial statement users. According to our understanding, the main reason for discontinuing the IAS 22 approach to accounting for amalgamations was the potential for "misuse" in the private sector, as entities claiming to have effected an amalgamation as opposed to an acquisition sought	Acquisitions/Amalgamations Support.

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	not to “uncover” goodwill that would subsequently have to be amortized thus impacting financial performance for several years into the future. Such issues are likely to be of far less relevance in the public sector context, but may be relevant to some degree in certain cases.	
016.2 IDW Germany	<p>Further distinction between not under common control (NUCC) and UCC</p> <p>We agree that differentiating between combinations under common control and those not under common control is also appropriate in the public sector. In particular, users are likely to benefit from information about an acquired operation that prior to the combination was outside an area under common control, since this is, by nature, an introduction of a new operation(s) to an economic entity.</p> <p>In contrast, acquisitions that occur within an area under common control may, by their nature, effectively be reorganization initiatives rather than “true” acquisition initiatives.</p> <p>Thus, we agree that the accounting for this type of combination would not be expected to give rise to the recognition of any hidden reserves that would not be accounted for otherwise in line with the entity's accounting policies. In contrast, financial information on combinations involving operations or entities that were prior to the combination not under common control needs to be considered separately as it may be appropriate for users to be informed of the difference between the consideration transferred and the fair value of the net assets acquired.</p>	<p>NUCC/UCC</p> <p>Support.</p>
017 ICPAK Kenya	<p>The approach outlined in the CP provides a basis for classifying transactions that do reach the goal desired by the IPSASB. However we believe that the IPSASB should consider adopting a framework for classifying the transaction as either an acquisition or an amalgamation using criteria similar to that used by GASB in its recent exposure draft on public sector combinations.</p> <p>The approach used by GASB was centered on the concept of whether or not the transaction involved the exchange of significant consideration, rather than whether or not one entity obtained control over another entity. This approach also appears to align with the accounting approach suggested in the Consultation Paper if Alternative B for acquisitions is used. In this approach, only transactions that involve the exchange of</p>	<p>Acquisitions/Amalgamations</p> <p>Support.</p> <p>See Agenda Paper 8.2 for comments.</p> <p>NUCC/UCC</p> <p>No specific comments.</p>

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	<p>consideration will result in items being recognized at “fair value”. In all other instances, the use of “carrying values” is the suggested method for recording transactions. It would seem logical to align the accounting with the classification of the transactions.</p> <p>ICPAK does have a concern regarding one aspect of the Consultation Paper's approach for classifying transactions as either an acquisition or an amalgamation. we believes that using control to classify transactions poses many challenges and provide the following examples:-</p> <p>Paragraphs 3.2 and 3.12 provide that an amalgamation that occurs when a combination is imposed on one level of government, call it A, by another level of government, call it B, even though B does not control A. The CP states that the imposition is possible because B can direct A to do it. To us, the ability to direct the action of A is an indication of control in addition; other characteristics are listed in paragraph 3.13 that also may be present in a combining transaction that might tilt the transaction to being classified as an acquisition. Naturally very few transactions shall be balanced in such a way that one entity may not have some advantage over another entity in size or representation in the new amalgamated entity when the transaction has been completed. While we recognize that professional judgment shall be involved in any such determinations, we would suggest that the IPSASB provide some additional guidance in this regard.</p> <p>We suggest that IPSASB's adopt an approach similar to GASB's proposal to classify transactions based upon the exchange (or lack of an exchange) of significant consideration between the entities in the transaction. This type of monetary approach to classifying transactions would result in a simpler classification approach than the approach suggested in the CP.</p> <p>[The comments made in this SMC are also outlined in the respondent's covering letter. In addition, this respondent also makes it clear that they support the distinction between an acquisition and an amalgamation.]</p>	
018 ICAN Nigeria	<p>Yes, the Institute believes that the approach of distinguishing the two methods of combination serves to assist readers in understanding the main features of both methods and particularly, where these two methods are applied in the public sector context. However, the Board has been silent on what happens to these various distinctions when</p>	<p>Acquisitions/Amalgamations Support.</p>

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	public sector entities move to adopt the requirements of IFRS as this is the case in some jurisdictions.	NUCC/UCC Support. Staff notes that if a public sector entity adopts the requirements of IFRS, that entity is not applying IPSASs anymore and therefore this issue is not relevant to the IPSASB.
019 CPA & ICAA Australia	No, we do not support making a distinction between acquisitions and amalgamations as no adequate justification for a public sector difference has been advanced to depart from the principle of acquisition accounting which is the basis of IFRS 3. We believe acquisition accounting is a suitable basis for a finalised IPSAS.	Acquisitions/Amalgamations Do not support. See Agenda Paper 8.2 for comments. NUCC/UCC No specific comments.
020 Staff PSAB Canada	<p>Using whether and how control has changed as a result of public sector combination (PSC) to distinguish between acquisitions and amalgamations and between not under common control (NUCC) and under common control (UCC) appear reasonable. The challenge is in defining what gaining control means in PSC, particularly in amalgamations which combine operations of different sizes.</p> <p>An alternative would be to develop a public sector approach to categorize PSCs. Instead of following the traditional private sector approach of drawing a line between acquisitions and mergers, consider classifying PSCs based on whether they are of a purchase nature, i.e., whether an exchange of consideration is involved.</p> <p>Specific Matter for Comment 4 implies IPSASB's acknowledgement that PSCs that involve consideration may be different from those that do not. Many combinations of operations with related assets and liabilities in the public sector involve no or nominal consideration. The economic substance of combinations with or without (or with nominal) consideration is fundamentally different. The accounting should fairly represent the nature of a combination.</p> <p>[The comments made in this SMC are also outlined in the respondent's covering letter. In</p>	Acquisitions/Amalgamations Support. See Agenda Paper 8.2 for comments. NUCC/UCC Support.

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	addition, this respondent also considers that combinations of a purchase nature would be appropriately accounted for applying acquisition accounting and combinations of a non-purchase nature would be accounted for differently regardless of the combining operations' relative size and power or ability to control the resulting operation.]	
021 ZICA Zambia	In your view, the approach used in this CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC, is appropriate. The CP has considered the wide range of combinations that may occur in the public sector.	Acquisitions/Amalgamations Support. NUCC/UCC Support.
022 ICAS UK	SMC 2 Definitions appear reasonable although further clarification is required to identify the circumstances whereby amalgamation not under common control might happen. Extract from Preliminary Views Overall we support the general direction of these proposals and note that similar arrangements are being set up for the UK public sector with amendments to the Financial Reporting Manual (FRoM) from 1 April 2012. The approved text is not available at the date of writing. We agree with the preliminary views presented in the consultation paper.	Acquisitions/Amalgamations Support. NUCC/UCC Support. Staff notes that this respondent comes from a jurisdiction where the central government controls the local government. In other jurisdictions local government is NUCC of another level of government.
023.1 NZASB NZ	SMC 2 The NZASB is of the view that the approach outlined in paragraph 1.10 is the appropriate approach. This would require determining first whether the parties to the combination are UCC or NUCC before determining whether the combination is an acquisition or an amalgamation (see our general comments). As explained under our general comments [Set out below], the NZASB is of the view that an acquisition involving entities UCC is uncommon in the public sector and that the first question to be considered if a combination is within the scope of the forthcoming IPSAS is whether the entities to the combination are UCC or not.	NUCC/UCC Support. See Agenda Paper 8.2 for comments.

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	<p>Appendix</p> <p>Approach taken in CP</p> <p>Paragraph 1.10 states that the approach taken in the CP is to distinguish between combinations where the parties to the combination are under common control (UCC) and combinations where the parties to the combination are not controlled by the same ultimate controlling party (NUCC). A further distinction is made between an acquisition and an amalgamation. However, the diagram in Appendix C (page 58 of the CP) distinguishes first between an acquisition and an amalgamation and then considers whether the combination is UCC or NUCC.</p> <p>The NZASB is of the view that the approach outlined in paragraph 1.10 is the appropriate approach to take, that is, first determine if the entities involved in the combination are UCC or NUCC before addressing the structure of the transaction. Determining whether the combination is UCC or NUCC as the first step results in fewer issues for consideration, such as whether the combination is an acquisition or an amalgamation followed by the appropriate accounting for the combination (as discussed below).</p> <p>The approach outlined in paragraph 1.10 would be shown diagrammatically [See Appendix B at the end of this Agenda Paper] as follows (based on the NZASB's view that an acquisition UCC would be uncommon in the public sector as discussed below):</p> <p>Under Common Control</p> <p>Appendix A defines a public sector combination under common control as</p> <p><i>"a public sector combination in which all of the entities or operations involved are <u>ultimately</u> controlled by the same entity <u>both before and after</u> the public sector combination."</i> [Emphasis added]</p> <p>The NZASB supports the use of this definition as it is consistent with the explanation of a business combination of entities or businesses under common control in paragraph B1 of IFRS 3 <i>Business Combinations</i>.</p> <p>The NZASB considered whether a combination genuinely represents an acquisition when all parties are under common control (UCC). When an entity combines with another entity UCC, it can be difficult to determine whether one entity genuinely gained control of</p>	

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	<p>another entity.</p> <p>If all the entities involved are ultimately controlled by the same entity both before and after the combination, the combination is more likely to be a reorganisation or restructure of the operations of the group. This type of combination also occurs in the for-profit sector, sometimes for the same reasons as in the public sector. For example, this type of combination may be undertaken in both the public and the private sector for the purposes of reducing costs or for increased efficiency of operations.</p> <p>Having determined that a combination UCC is highly unlikely to be an acquisition, and given the difficulty of drawing a robust distinction between amalgamations and acquisitions, particularly when the combining entities are UCC, the NZASB is of the view that all combinations of entities UCC should be accounted for as an amalgamation/reorganisation.</p>	
023.2 NZASB NZ	<p>General comments</p> <p>The NZASB is of the view that:</p> <ul style="list-style-type: none"> an acquisition is uncommon in the public sector; a public sector combination under common control (UCC) would rarely, if ever, be an acquisition; and consequently, an amalgamation is the usual type of combination in the public sector. <p>When developing IFRS 3 <i>Business Combinations</i>, the IASB finally decided that it was too difficult to clearly distinguish between acquisitions and mergers. Hence it was decided to treat all combinations as acquisitions because in the for-profit sector most combinations are more likely to be acquisitions. However, in the public sector most combinations are directive in nature and do not involve the transfer of consideration, hence these combinations are more akin to mergers or amalgamations.</p> <p>It may, therefore, be more appropriate in the public sector to treat combinations as an amalgamation unless the transaction is a combination not under common control and is clearly an acquisition.</p>	<p>Acquisitions/Amalgamations</p> <p>See Agenda Paper 8.2 for comments.</p>
023.3	Distinction between an amalgamation and an acquisition of entities NUCC	See Agenda Paper 8.2 for comments.

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
NZASB NZ	<p>The NZASB does not agree that the <u>sole</u> definitive criterion for distinguishing an amalgamation from an acquisition should be that none of the combining operations gains control of the other operations. Although gaining control is a necessary condition for an acquisition to occur, it is not of itself sufficient. All facts and circumstances need to be considered together with the substance of the transaction. For example, the combination is more likely to be an amalgamation where it is imposed on one level of government by a higher level of government for the purposes of reducing costs or for increased efficiency of operations.</p> <p>The CP does not provide sufficient guidance for distinguishing between an acquisition and an amalgamation. The other characteristics to be considered when distinguishing between an acquisition and an amalgamation, briefly discussed in paragraphs 3.11 to 3.15, should be considered in more detail. For example, paragraph 3.12 talks about the PSC being imposed on one level of government by another level of government and expresses the view that "...then it may indicate that it could be an amalgamation." This characteristic should be further explored and a definitive view formed as a PSC imposed in this manner could be an amalgamation even if one entity appears to gain control of another entity.</p> <p>Another matter to consider in distinguishing between an acquisition and an amalgamation is whether all the combining entities are public sector entities, or whether the combination involves a private sector entity being combined with a public sector entity, such that the private sector entity becomes part of the public sector. An example of the latter type of combination is where a government takes over a failing private sector entity because allowing the entity to go into liquidation is not considered to be in the public interest. Such combinations result in the expansion of the public sector and are more likely to be an acquisition rather than an amalgamation.</p> <p>Any guidance developed to help distinguish an acquisition from an amalgamation needs to ensure that the type of PSC is not determined by the legal form or process of combining the entities or operations involved in the combination. Governments undertake their operations and activities by means of legal structures, for example, independent crown entities, and by means of departments, which are not legal structures.</p>	

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	<p>For example, assume that a PSC is imposed by the government. The combination could be achieved either by entity B becoming a legal subsidiary of entity A or by the net assets of entity B being transferred to entity A and entity B being wound up. In both cases, the operations of both entities are combined but that combination was achieved in different ways. The legal form of the transaction should not be the determining factor.</p> <p>Overall, the distinction between acquisitions and amalgamations needs further consideration, in particular to ensure it is based on economic substance rather than legal form. The diagrams in Chapter 2 (as set out in diagrams 1, 2 and 3) imply that the type of combination is dependent on legal form. If the combining operations maintain their separate legal structure, with one entity becoming the legal subsidiary of another entity (as in diagrams 1 and 2), the combination is viewed as an acquisition. But if the two operations are combined to create a single legal entity (as in diagram 3 and discussed in paragraphs 2.39 and 2.40), the combination is viewed as an amalgamation. Given that the definition of a public sector combination is "the bringing together of separate operations into one entity, either as an acquisition or an amalgamation", it's not clear why legal form is so important in distinguishing between an acquisition and an amalgamation. Furthermore, even when one entity becomes the legal subsidiary of another entity in an acquisition, it does not necessarily follow that the legal parent is the acquirer.</p> <p>The NZASB recommends that in developing a final standard, the IPSASB clarifies that legal form is not the determinant of the type of combination.</p>	
024 Juvenal Brazil	<p>Yes, I think that this approach used in this CP of distinguishing between acquisitions and amalgamations, is appropriate, but I think that in relation acquisitions and amalgamations has some considerations of others organizations, this year the PCAOB comments about Audit the future⁷ and Business Combinations⁸ if board agree⁹.</p>	<p>Acquisitions/Amalgamations Support.</p> <p>NUCC/UCC No specific comments.</p>

⁷ http://pcaobus.org/News/Speech/Pages/06072012_HansonAICPA.aspx

⁸ http://pcaobus.org/News/Releases/Pages/10222007_ReportIssuesIdentifiedinspectionsPublicCompanies.aspx

⁹ <http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Discussion-Paper-and-Comment-Letters/Comment-Letters/Documents/CL29.pdf>

Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
025 SRS- CSPCP Switzerland	<p>The SRS-CSPCP agrees in principle with the distinction between „acquisition“ and „amalgamation“. But it believes that in the public sector the expression “acquisition” is not particularly happily chosen, because they are new organisations and not real takeovers. The IPSAS Board refers in the public sector to “operation”, which in the private sector is “business”. The expression “acquisition” tends to be used by the private sector and therefore, parallel to the difference between “business” and “operation”, another expression should also be found for “acquisition”. A possibility would be “transfer of operation”.</p> <p>The SRS-CSPCP agrees with this distinction.</p>	<p>Acquisitions/Amalgamations Support. See Agenda Paper 8.2 for comments.</p> <p>NUCC/UCC No specific comments.</p>
026.1 CAPE UK	<p>SMC 2</p> <p>We concur with the distinction between acquisitions and amalgamations. However, as noted in the covering letter [Set out below] and in our response to SMC 4, in our view the accounting for [acquisitions] NUCCs and some UCCs should be the same.</p> <p>Letter</p> <p><u>Acquisitions</u></p> <p>In our view, for public sector combinations that are acquisitions, recording assets and liabilities acquired at fair value provides more relevant information. Therefore, we consider that fair value should be used for all combinations not under common control.</p>	<p>Acquisitions/Amalgamations Support.</p>
026.2 CAPE UK	<p>Whilst we consider that fair value should be the first high-level principle, we agree that for some acquisitions under common control, there may be less benefit from using fair value and given the costs of using it, it would be appropriate to permit or require the use of previous carrying amounts.</p> <p>For acquisitions under common control we do not agree that the criterion for the use of fair value or carrying amount should be whether no or nominal consideration is provided. In our view, a superior test is to make a determination of the substance behind the combination. If the transaction is in substance a commercial transaction or is at arm's length, then fair value is appropriate. However, in other cases where there is no commercial substance to the transaction for example, if it is an involuntary combination as</p>	<p>NUCC/UCC Support. See Agenda Paper 8.2 for comments.</p>

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Response #	Respondent Comments	Staff Comments
SMC 2: Distinguishing between Acquisitions and Amalgamations and NUCC and UCC		
	a result of a policy directive or regulation, then the carrying amount may be appropriate.	

PV 6: An acquisition UCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation

Response #	Respondent Comments	Staff Comments
PV 6: Recipient Recognizes Acquisition UCC when it Gains Control		
005	We agree that the recognition criteria should focus on the date the recipient gains control.	Support.
010	<p>As with our comment to preliminary view 4 above, we support the view that an acquisition under common control should be recognised on the date that the recipient gains control of the acquired operation, which can be different to the date specified in the binding arrangement that governs the acquisition.</p> <p>We also suggest that the proposed pronouncement dealing with public sector combinations should discuss the concept of substance over form, ie that although the legal acquisition date is specified in legislation, actual control over the assets acquired and liabilities assumed might be obtained at a later or an earlier date.</p> <p>We also propose that the concept of “acquisition date” and how it should be determined should be explained in the proposed pronouncement.</p>	<p>Support.</p> <p>See Agenda Paper 8.2 for comments.</p>
014	[Same comment for PV 6] We believe that it is appropriate that all acquisitions should be recognised in the financial statements of the recipient on that date the recipient gains control which corresponds to your preliminary views 4 and 6 . We agree that this best reflects the substance of the transaction and that it corresponds with the concept of the acquisition method.	Support.
018	Agreed.	Support.
023	In the rare event that a PSC is an acquisition UCC, the NZASB agrees with this Preliminary View.	Support.
024	I agree with comments, but I don't know if is possible for implementation in others jurisdictions, I suggest contact others regulators ¹⁰ .	Support.

¹⁰ <http://www.ifrs.org/search/Pages/results.aspx?k=common%20control>

PV 7: The recipient in an acquisition UCC recognizes in its financial statements on the date of acquisition the carrying amounts of the assets and liabilities in the acquired operation's financial statements, with amounts adjusted to align the operation's accounting policies to those of the recipient

Response #	Respondent Comments	Staff Comments
PV 7: Recipient in Acquisition UCC Recognizes the Carrying Amounts of Assets and Liabilities Acquired, with Adjustments to Align Accounting Policies		
005	We agree that the recipient in an acquisition UCC recognizes in its financial statements on the date of acquisition the carrying amounts of the assets and liabilities in the acquired operation's financial statements, with amounts adjusted to align the operation's accounting policies to those of the recipient. We agree any gain or loss arising from those adjustments is recognised in the income statement.	Support.
010.1	<p>We support the view that the recipient should recognise the carrying amounts of the assets and liabilities in its financial statements on the date of acquisition for a transaction or event that occurred between entities under common control, with amounts adjusted to align the operation's accounting policies with its own.</p> <p>The proposal to use carrying amounts is supported because:</p> <ul style="list-style-type: none"> • If carrying amounts are used by both the recipient and transferor, no gain or loss is recognised by either party as opposed to remeasuring those assets and liabilities to fair value. • Gains and losses are not recognised as the entity that ultimately controls the recipient and transferor is merely transacting with itself. • No additional costs need to be incurred to revalue the assets and liabilities acquired. 	Support.
010.2	<p>We do however suggest that consideration should be given to the inclusion of the following guidance in the proposed pronouncement dealing with public sector combinations:</p> <p>(a) The recipient and transferor need to apply the same accounting bases prior to the public sector combination to ensure that the carrying amounts of the assets and liabilities transferred are measured on the same basis. For example, if the transferor</p>	Paragraph 2.23 of the CP notes that it applies to entities that prepare and present GPFs in accordance with accrual-based IPSASs and does not address how to apply accrual-based IPSASs for the first time. The IPSASB is currently proceeding with a project on the First-Time Adoption of Accrual Basis

Response #	Respondent Comments	Staff Comments
PV 7: Recipient in Acquisition UCC Recognizes the Carrying Amounts of Assets and Liabilities Acquired, with Adjustments to Align Accounting Policies		
	applied a cash-basis of accounting and the recipient applied an accrual basis of accounting, the assets acquired and liabilities assumed need to be reflected at an accrual basis before the recipient can recognise the assets acquired and liabilities assumed in accounting for the public sector combination.	IPSASs. Therefore, staff considers that applying accrual-based IPSASs for the first-time to the acquired operation is not within the scope of this project.
010.3	Another example will be where a Government Business Enterprise (GBE), ie the transferor, was applying IFRSs prior to the acquisition in, for example the accounting for government grants, while the recipient is applying IPSASs. Prior to the acquisition, the accounting basis of the GBE should be aligned with the accounting principles in the applicable IPSAS.	The PV proposes that it is the recipient that adjusts the acquired operation's accounting policies so staff considers that this example is incorrect.
010.4	We further suggest that the adjustments to the assets and liabilities to align the accounting bases of the recipient and transferor should be made on the acquisition date, prior to aligning the operation's accounting policies to those of the recipient.	See comments for Respondent 10.2.
010.5	(b) When adjustments are required to the assets acquired and liabilities assumed in the public sector combination, guidance should be provided on the treatment of the adjustments, as well as the party responsible for making these adjustments. We suggest that the recipient should make the necessary adjustments to the basis of accounting for the assets it acquires and the liabilities it assumes in the public sector combination. We also suggest that the recipient should account for these adjustments in a similar manner as the difference between the consideration transferred (if any) and the assets acquired and liabilities assumed.	See Agenda Paper 8.2 for comments.
018	Agreed.	Support.
023	As discussed earlier, the NZASB is of the view that an acquisition amongst entities UCC is uncommon in the public sector and recommends that all combinations of entities UCC be treated as amalgamations or some other form of reorganisation. However, if the IPSASB decides to proceed with treating some combinations of entities UCC as acquisitions, then the NZASB agrees with the proposed approach.	Support. See Agenda Paper 8.2 for comments.

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Response #	Respondent Comments	Staff Comments
PV 7: Recipient in Acquisition UCC Recognizes the Carrying Amounts of Assets and Liabilities Acquired, with Adjustments to Align Accounting Policies		
024	I agree with comments, but I don't know if is possible for implementation in others jurisdictions, I suggest contact others regulators ¹¹ .	Support.

¹¹ <http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Meeting-Summaries-and-Observer-Notes/Documents/AIP0901b7obs.pdf>

PV 8: A Resulting Entity in an Amalgamation should apply the Modified Pooling of Interests Method of Accounting

Response #	Respondent Comments	Staff Comments
PV 8: Resulting Entity in Amalgamation Applies Modified Pooling of Interests Method of Accounting		
005	In our experience an entity does not normally prepare general purpose financial statements for an amalgamation. However, if financial statements are to be prepared then we favour the modified pooling of interests method of accounting. We consider that this method is more supportive than other methods because performance and accountability can still be assessed without the complexity of re-measuring assets and liabilities. We note that IPSAS 16 and 17 contain a subsequent measurement revaluation alternative which overcomes any disadvantages of this method.	Support.
010	We support the application of the modified pooling of interest method of accounting by the resulting entity. However, we propose that the proposed pronouncement dealing with public sector combinations should provide guidance on adjusting the carrying amounts of the combining operation's assets acquired and liabilities assumed to the accounting basis that is applied by the resulting entity on the date of amalgamation. We also suggest that guidance should be provided on the treatment of these adjustments, as well as the party responsible for making these adjustments (also see our proposed suggestions to preliminary view 7 above).	Support. See Agenda Paper 8.2 for comments.
014	For public sector combinations in the form of amalgamations we fully support the preliminary view 8 of the Board to apply the modified pooling of interest method of accounting. In particular the concept of combining operations without a transfer of a consideration with the objective of achieving a "merger of equals" is best reflected using the (modified) pooling of interest method and takes the public sector reality into account. We are of the opinion that providing information on the combination of operations as if they had always been combined can be confusing and does not provide addressees of financial reporting with relevant information and thus the proposed modification of this consolidation method is appropriate.	Support.

Response #	Respondent Comments	Staff Comments
PV 8: Resulting Entity in Amalgamation Applies Modified Pooling of Interests Method of Accounting		
018	Agreed.	Support.
023.1	The NZASB supports the modified pooling of interests method of accounting for amalgamations involving entities UCC on the condition that the financial statements of the combining entities prior to the amalgamation are publicly available, given that comparative information is not presented under the modified pooling of interests method. The availability of the financial statements of the combining entities is necessary because these financial statements provide information for the users of the financial statements of the resulting entity that is not otherwise available.	Amalgamation UCC Support but only where the financial statements of the combining entities prior to the amalgamation are publicly available. See Agenda Paper 8.2 for comments.
023.2	However, the NZASB supports fresh start accounting for amalgamations of entities that are NUCC. This method of accounting is applied in New Zealand in these situations.	Amalgamation NUCC Do not support. See Agenda Paper 8.2 for comments.
023.3	Guidance should be provided on the modified pooling of interest method so that there is consistency in the accounting treatment for a resulting entity. In particular, guidance is needed on: (a) the elimination of intercompany transactions and balances; (b) which carrying values should be used – the carrying values in the combining entities' individual financial statements or the carrying values of those entities assets and liabilities as reported in either the immediate parent's or the ultimate parent's consolidated financial statements; and (c) the treatment of reserves in the combining entities' individual financial statements that, had the combination not occurred, would have been recycled to the statement of financial performance in the future (e.g., cash flow hedge reserve) or otherwise would have been used to record particular types of subsequent gains/losses (e.g., asset revaluation reserve).	See Agenda Paper 8.2 for comments.

Respondents' Comments on CP, *Public Sector Combinations*
IPSASB Meeting (March 2013)

Response #	Respondent Comments	Staff Comments
PV 8: Resulting Entity in Amalgamation Applies Modified Pooling of Interests Method of Accounting		
024	I agree with comments, but I don't know if is possible for implementation in others jurisdictions, I suggest contact others regulators ¹² .	Support.

¹² <http://www.iasplus.com/en/news/2012/october/investment-entities-amendments> and <http://www.iasplus.com/en/othernews/ivsc/ivsc-issues-competency-framework-for-valuers>

PV 9: Where combining operations continue to prepare and present GPFs using accrual-based IPSASs in the period between the announcement of the amalgamation and the date of the amalgamation, these GPFs are prepared on a going concern basis where the resulting entity will fulfill the responsibilities of the combining operations

Response #	Respondent Comments	Staff Comments
PV 9: Combining Operations Continuing to Present GPFs on Going Concern Basis where Resulting Entity will Fulfil Responsibilities of those Combining Operations		
005	We agree with preliminary view 9. In our experience the key point to assess is whether government will continue to provide support to the operations delivering the goods or services and not whether the legal entity itself is going to continue those operations. Management preparing the financial statements and the auditor providing an opinion on the financial statements are required by other accounting and auditing standards to reflect appropriate disclosure of the effect on the going concern basis in the financial statements.	Support.
010	Even though the principle of going concern is addressed in other IPSASs, we support the view that the proposed pronouncement dealing with public sector combinations should remind and require the combining operation to continue to prepare and present its financial statements on a going concern basis where the resulting entity will fulfill that entity's responsibilities following the amalgamation.	Support.
018	Agreed.	Support.
023	The NZASB is of the view that Preliminary View 9 is appropriate.	Support.
024	I agree with comments, but I don't know if is possible for implementation in others jurisdictions, I suggest contact others regulators. ¹³	Support.

¹³ <http://xrb.govt.nz/includes/download.aspx?ID=124031>

SMC 6: In your view, should the recipient in an acquisition UCC recognize in its financial statements, on the date of acquisition, the difference arising as:

- (a) A gain or loss recognized in surplus or deficit (in the statement of financial performance);
- (b) A contribution from owners or distribution to owners recognized directly in net assets/equity (in the statement of financial position); or
- (c) A gain or loss recognized directly in net assets/equity (in the statement of financial position), except where the transferor is the ultimate controlling entity and then the gain or loss meets the definition of a contribution from owners or distribution to owners?

Please explain why you support (a), (b), or (c).

Table 6: Overview of Responses to SMC 6 Accounting for Difference Arising in an Acquisition UCC

Comment	Respondent #	Totals
Support (a) gain or loss recognized in surplus or deficit	4, 5, 9, 18 and 20	5
Support (b) contribution from owners or distribution to owners	1, 6, 7, 8, 15, 17, 19, 24 and 26	9
Supports (b) if some combinations of entities UCC are accounted for as acquisitions	23	1
Support (c) gain or loss recognized directly in net assets/equity except where transferor is ultimate controlling entity then contribution from owners or distribution to owners	21, 22 and 25	3
Other Options		
Supports a modified version of (c) gain or loss recognized directly in net assets/equity	10	1
Supports (b) or (c)	16	1
Proposes option (a) or (b) dependent on whether or not the acquisition UCC is voluntary	11	1
Other Views		
Rejects all three options	3	1
Not specified and questions whether acquisitions UCC occur	12	1
No comment on this SMC	13	1
Respondent replied to selected SMCs only	14	1
Did not respond to any SMCs because CP emphasizes exchange acquisitions and should explore public sector situations	2	1
Total Respondents		26

Table 7: Table of Responses to SMC 6 Accounting for Difference Arising in an Acquisition UCC (see AP 8.2 SMC 6 for analysis)

Response #	Respondent Comments	Staff Comments
SMC 6: Accounting for Difference Arising in an Acquisition UCC		
001 AGA USA	The FMSB supports option (b). The approach suggested by the IPSASB for these transactions is to use the carrying values as the measurement basis for the transactions. We believe that as carrying values may or may not reflect fair value, it would be inappropriate to recognize either a gain or a loss on such transactions. Therefore, approach (b) should be used.	Support (b) contribution from owners or distribution to owners.
002 Cour des comptes France	[This respondent did not respond to individual SMCs because they consider that the CP emphasizes exchange acquisitions which are extremely rare in the public sector whereas it should emphasize amalgamations which are more frequent. This respondent recommends that the public sector situation is explored in more depth so that an accounting standard can be developed.]	These comments are noted.
003 CNOCP France	Aside from the fact that these transactions are infrequent, the Council rejects all three solutions proposed. The accounting treatment of an acquisition under common control, as the Council understands it, must necessarily favor recording the entity acquired at its net carrying amount.	Rejects all three options. See Agenda Paper 8.2 for comments.
004 Charity Comm UK	The advantage of approach 'A' is that any gain or loss is taken through the performance statement and since it is matched a movement of cash between entities upon consolidation it is netted out as part of the intra group consolidation adjustments.	Support (a) gain or loss recognized in surplus or deficit.
005 ADAA UAE	Consistent with IFRSs we do not agree with the recognition of internally generated goodwill therefore in an acquisition UCC we would not recognise goodwill. In theory PSEs [public sector entities] UCC should apply consistent accounting policies therefore any differences arising in an acquisition UCC should be measurement differences rather than recognition differences. Any changes in these measurement differences in the future will be recognised in the statement of financial performance therefore we agree with view (a) that any measurement differences arising on acquisition should also be recognised in the statement of financial performance.	Support (a) gain or loss recognized in surplus or deficit. This SMC does not relate to the recognition of goodwill.
006.1	In Australia, Australian Accounting Standard AASB 1004 Contributions specifies	Support (b) contribution from owners or

Response #	Respondent Comments	Staff Comments
SMC 6: Accounting for Difference Arising in an Acquisition UCC		
AASB Australia	requirements for the accounting for the restructure of administrative arrangements (i.e. PSCs UCC), including a requirement that a contribution from owners or distribution to owners is recognised in relation to assets and liabilities transferred (paras. 54-59) ¹⁴ . The AASB is not aware of any significant implementation issues specific to public sector entities arising from these requirements. Accordingly, the AASB supports option (b), that a contribution from owners or distribution to owners be recognised directly in net assets/equity (in the statement of financial position).	distribution to owners.
006.2 AASB Australia	In addition to supporting option (b), the AASB thinks that the IPSASB should consider the implications of the fact that the definition of equity in IPSASs is restricted, compared with IFRSs, due to the IPSASB's equity definition referencing instruments.	The IPSASB's and IASB's definitions of equity instrument are almost identical. ¹⁵ However, the IASB has a definition of equity as well which does not refer to a contract. ¹⁶ The IPSASB do not have an equivalent definition.
006.3 AASB Australia	Further, the AASB notes that issues pertinent to this specific matter for comment raise fundamental questions about the nature of entities within government. In particular, whether entities within government should be regarded as separate/stand-alone entities or segments/disaggregated parts of the government. Addressing such issues could slow down the whole project and therefore the IPSASB should consider dividing the project into two separate parts so as not to delay its work on PSCs NUCC.	See Agenda Paper 8.2 for comments relating to the distinction between combinations NUCC and UCC in SMC 2 Part B.
007 E&Y Intl	We support approach (b), as we think it reflects the substance of the transaction when dealing with combinations under common control. We would apply the same approach to acquisitions of assets from an entity under common control. The approach commonly	Support (b) contribution from owners or distribution to owners. Paragraph 6.9 of the CP explains that the accounting

¹⁴ These paragraphs reflect relatively recent thinking of the AASB and are not expected to be amended as a result of the AASB's *Income from Transactions of Not-For-Profit Entities* project. AASB 1004 paragraphs BC24-BC29 provide the AASB's rationale for the approach adopted in AASB 1004 (Link to AASB 1004 – http://www.aasb.gov.au/admin/file/content105/c9/AASB1004_12-07.pdf – accessed 30 October 2012).

¹⁵ The IPSASB's definition of an equity instrument is “any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.” The IASB's definition of an equity instrument is “ “

¹⁶ The IASB's definition of equity is “the residual interest in the assets aof the entity after deducting all its liabilities.”

Response #	Respondent Comments	Staff Comments
SMC 6: Accounting for Difference Arising in an Acquisition UCC		
	applied in practice when an entity acquires an asset for nil consideration from the parent or another group entity is the one described as approach (b).	requirements in other IPSASs relating to transactions and other events do not distinguish between transactions and other events that occur UCC or NUCC. Staff notes that assets acquired from non-exchange transactions (such as for nil consideration) are required by IPSASs to be recognized at fair value. These comments are noted.
008.1 HoTARAC Australia	HoTARAC supports option (b) for the recipient UCC to recognise the difference arising between the consideration transferred (if any) and the net assets acquired or net liabilities assumed in net assets/equity as a contribution from owners or a distribution to owners. This is consistent with the treatment in Australia in AASB 1004 for administrative restructures. Typically, the driver for the combination is to meet the owner government's policy objectives, therefore any differences should be recognised by the recipient through an adjustment to owner contributions or distributions to owner.	Support (b) contribution from owners or distribution to owners.
008.2 HoTARAC Australia	Questions also arise as to what is the appropriate measurement basis for such transfers. Preliminary View 7 in the CP implies that the recipient recognises the transferred assets/liabilities with amounts adjusted to align with their own accounting policies. This reflects the fact that the CP has not reached a conclusion as to the measurement basis to apply for acquisitions (para 6.9). Similarly in Australia, AASB 1004 does not specify the measurement basis to be adopted for assets and liabilities transferred in the course of an administrative restructure. As a result, the assets and liabilities transferred could be measured at fair value or book value. Some Australian jurisdictions, in mandating fair value (i.e. based on fair value to the transferee), require any adjustments to the carrying amount of the transferred assets and liabilities to be first recognised by the transferor entity prior to transfer. This ensures that the net equity transferred out from the transferor entity equals the net equity transferred to the transferee entity, consistent with transactions within a wholly owned group.	Paragraph 6.9 of the CP is referring to acquisitions NUCC and therefore is not relevant to acquisitions UCC. Staff notes the comments on the situation in Australia.
008.3 HoTARAC	Also in Australia some jurisdictions effect transfers of the net assets/liabilities between entities UCC, first through an intermediary owner entity, typically departments on behalf of	The issue of symmetrical accounting is the subject of SMC 7 which will be considered at a future meeting.

Response #	Respondent Comments	Staff Comments
SMC 6: Accounting for Difference Arising in an Acquisition UCC		
Australia	<p>the government or a Crown entity. Where such an intermediary owner entity is used, HoTARAC recommends for the initial transaction between the transferor and the intermediary owner entity, that the net assets/liabilities of the operation be transferred at carrying amounts through contribution/distribution to owner. While the intermediary owner entity has control over the operation's net assets, HoTARAC recommends that their carrying amounts be revalued where necessary to reflect either the mandated fair value (if applicable) or any adjustments to align with the PSC recipient's accounting policies. The intermediary owner entity would then transfer these adjusted net asset/liability carrying amounts as owner contributions/distributions to the PSC recipient entity, reflecting that typically it is the owner government, and not the transferor/recipient entities, that decide to transfer an operation between entities UCC.</p> <p>HoTARAC strongly recommends that the CP clarify these recognition requirements.</p>	
008.4 HoTARAC Australia	<p>In addition, given the IPSASB's current work program on its Conceptual Framework, HoTARAC recommends that IPSASB consider whether the difference arising would meet the definition of each element considered in Phase 2 of the Framework, such as gain, loss, contribution from owners, distribution to owners, revenues and expenses.</p>	<p>Paragraph 1.11 of the CP explains that the IPSASB agreed to refer to the definitions in existing IPSASs and acknowledges that once the <i>Conceptual Framework</i> project is completed, it may have implications for any standards arising from the PSCs project. IPSASs will be reviewed for consistency with the <i>Conceptual Framework</i> as projects are completed. Paragraphs 6.10–6.26 of the CP discuss whether the difference arising meets the definitions in existing IPSASs and does not come to any conclusions because there are differing views as to which definitions are met.</p> <p>These comments are noted.</p>
009 JICPA Japan	<p>We support (a) A gain or loss recognized in surplus or deficit on the basis that the accounting treatment of an acquisition UCC between the recipient and the transferor should be symmetrical (please see our comments to the Specific Matter for Comment 7 below), and the transferor should recognize the difference between the proceeds from disposal and the controlled entity's amount as a gain or loss on disposal of a controlled</p>	<p>Support (a) gain or loss recognized in surplus or deficit.</p>

Response #	Respondent Comments	Staff Comments
SMC 6: Accounting for Difference Arising in an Acquisition UCC		
	entity (prescribed in the paragraph 51 of IPSAS 6).	
010 Staff ASB South Africa	<p>We do not support alternative (a) or (b) provided under this matter for comment.</p> <p>In our view, the difference arising in an acquisition under common control does not constitute a gain or loss and also does not meet the definition of a contribution from owners or distribution to owners. We therefore do not support option (a) or (b).</p> <p>We believe the difference arising in an acquisition under common control should be recognised directly in net assets/equity (accumulated surplus and deficit) as the transaction between the recipient and the transferor represents a transaction with owners that occurred between entities under common control. The recipient is thus entitled to the transferor's portion of the accumulated surplus or deficit that relates to the assets transferred and liabilities relinquished. The treatment of the difference against accumulated surplus or deficit will also be eliminated on consolidation. This view is to some extent addressed in alternative (c) (ie first part of the alternative excluding the exception).</p>	<p>Supports a modified version of (c) gain or loss recognized directly in net assets/equity.</p> <p>See Agenda Paper 8.2 for comments.</p>
011 ACAG Australia	<p>ACAG agrees with Preliminary View 7 in the CP that the recipient in an acquisition UCC recognises in its financial statements, on the date of acquisition, the carrying amounts of the assets and liabilities in the acquired operation's financial statements with amounts adjusted to align the operation's accounting policies to those of the recipient.</p> <p>ACAG believes that whether the difference in a PSC UCC is recognised as a contribution from owners/distribution to owners should depend on the substance rather than the form or outcome of the PSC. In this regard, ACAG support the PSC being recognised as a contribution from owners/distribution to owners directly in net assets/equity where:</p> <ol style="list-style-type: none"> 1. it involves an involuntary transfer of an operation at the direction of the controlling entity or by virtue of legislation or ministerial directive; and/or 2. the controlling entity designates the PSC to be a contribution by/distribution to owners. <p>ACAG believes this is more reflective of a transaction by owners acting in their capacity as owners. This approach is also more consistent with the basis of accounting adopted in Australia under AASB 1004 Contributions and AASB Interpretation 1038 Contributions by</p>	<p>Proposes option (a) or (b) dependent on whether or not the acquisition UCC is voluntary.</p> <p>See Agenda Paper 8.2 for comments.</p>

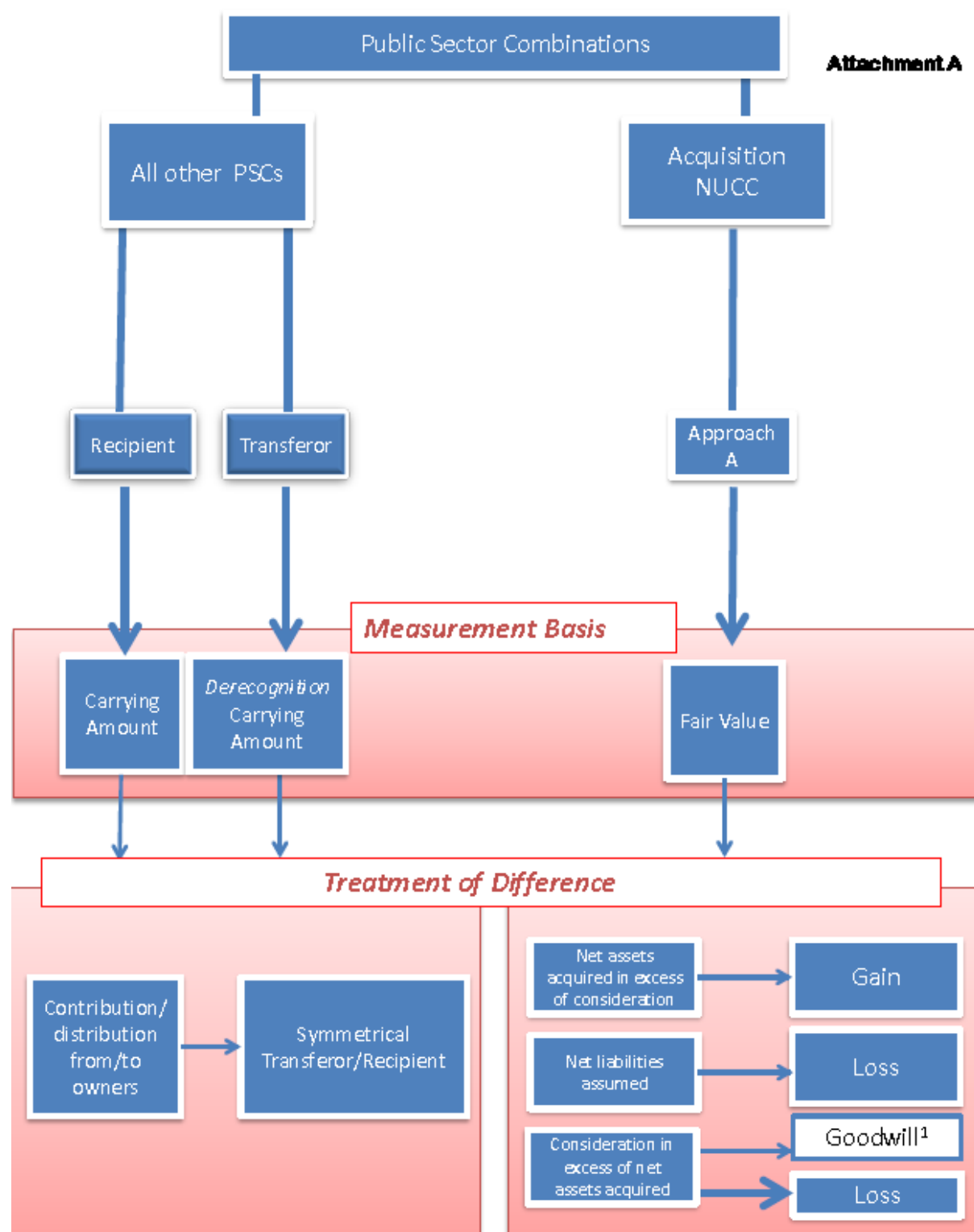
Response #	Respondent Comments	Staff Comments
SMC 6: Accounting for Difference Arising in an Acquisition UCC		
	<p>Owners Made to Wholly-Owned Public Sector Entities.</p> <p>Where the transfer is voluntary in nature, and is not designated to be a contribution by/distribution to owners, the difference should be treated as a gain or loss in the statement of financial performance. This is because such PSCs do not represent transactions with owners in their capacity as owners.</p>	
012 CIPFA UK	<p>As noted in our response to SMC 2 we are not sure whether acquisitions UCC will arise: CIPFA's view on this may reflect the specifics of the public sector arrangements within the UK and other jurisdictions where we have reviewed public sector financial reporting.</p> <p>At this stage of discussion we have no strong view on the representation and placement of this difference, except that there should be clear disclosure and explanation of this item which links it to the Public Sector Combination.</p>	<p>Not specified and questions whether acquisitions UCC occur.</p> <p>See Agenda Paper 8.2 SMC 2 Part B for comments.</p>
013 DGFIP France	No comments as the text currently stands.	No comment on this SMC.
014 DG Budget EC	[Respondent replied to selected SMCs only]	
015 Treasury Board Canada	<p>We support approach (b), that the gain or loss arising from a combination where entities are under common control is a contribution from, or distribution to, owners recognized directly in net assets/equity. Since the decision to transfer an operation is made by the ultimate controlling entity, usually as a means to provide more efficient or effective services, the impact on the acquiring and transferring intermediate entities should be reflected as a decision of the owner. There is a net increase in the controlling entity's residual interest in the acquirer, offset by a corresponding decrease in the interest in the transferor after the acquisition. As there is no impact on the financial statements of the ultimate controlling entity, we believe that there should be no gain or loss reflected in the financial statements of the acquiring and transferring entities resulting from the decision to transfer the operation. Based on IPSAS 1, Presentation of Financial Statements, paragraph 122, a contribution from owner may take the form of transfers between two</p>	Support (b) contribution from owners or distribution to owners.

Response #	Respondent Comments	Staff Comments
SMC 6: Accounting for Difference Arising in an Acquisition UCC		
	entities within an economic entity.	
016 IDW Germany	<p>In general, we do not support Approach A, as – for the reasons discussed above – we do not believe that motives underlying public sector acquisitions UCC normally reflect the intention of affecting financial performance.</p> <p>Whether B or C might be appropriate would depend on the individual circumstances, although we suspect this is likely more often to be C.</p>	<p>Supports either (b) contribution from owners or distribution to owners or (c) gain or loss recognized directly in net assets/equity except where transferor is ultimate controlling entity then contribution from owners or distribution to owners.</p> <p>See Agenda Paper 8.2 for comments.</p>
017 ICPAK Kenya	ICPAK supports option (b). The approach suggested by the IPSASB for these transactions is to use the carrying values as the measurement basis for the transactions. We believe that as carrying values may or may not reflect fair value, it would be inappropriate to recognize either a gain or a loss on such transactions. Therefore, approach (b) should be used.	Support (b) contribution from owners or distribution to owners.
018 ICAN Nigeria	The Institute supports the recognition of the difference as shown in (a) above, whether gain or loss arising on the date of acquisition in the statement of financial performance of the recipient entity.	Support (a) gain or loss recognized in surplus or deficit.
019 CPA & ICAA Australia	We support approach (b) – a contribution from owners or distributions to owners recognised directly in net assets/equity (in the statement of financial position). We reason that this approach is consistent with the economic consequences of an acquisition UCC, being no change in underlying assets and liabilities, when analysed from the perspective of whole-of-government reporting.	Support (b) contribution from owners or distribution to owners.
020 Staff PSAB Canada	<p>We support (a) because:</p> <ul style="list-style-type: none"> We do not believe the difference arising meets the definitions of contribution from owners or distribution to owners. From the perspective of the recipient entity, the acquisition is an in-year transaction that would normally be reflected in its statement of financial performance. We do not see the justification for reporting the difference arising as, and for creating, a new component of net assets just because the acquisition is a transaction between 	Support (a) gain or loss recognized in surplus or deficit.

Response #	Respondent Comments	Staff Comments
SMC 6: Accounting for Difference Arising in an Acquisition UCC		
	<p>entities under common control.</p> <ul style="list-style-type: none"> The fact that the gain or loss reported by the recipient will be eliminated upon consolidation can be disclosed in the notes to its financial statements to inform users of its nature and effect at the controlling entity level. 	
021 ZICA Zambia	We support Approach (c): the profit/loss should not be recognized in income, but in equity (in the statement of financial position).	Support (c) gain or loss recognized directly in net assets/equity except where transferor is ultimate controlling entity then contribution from owners or distribution to owners.
022 ICAS UK	Option (c) is supported as this is not a financial performance issue, as suggested by option (a). We would welcome further information on what the disclosure would look like.	Support (c) gain or loss recognized directly in net assets/equity except where transferor is ultimate controlling entity then contribution from owners or distribution to owners.
023 NZASB NZ	If the IPSASB decides to proceed with treating some combinations of entities UCC as acquisitions, the NZASB supports Approach (b). In a transaction between entities UCC this difference is likely to reflect the common control nature of the transactions rather than an arm's length economic gain or loss of the acquirer. Therefore, treating this difference as a contribution from/distribution to owners more accurately reflects the nature of the transaction.	Supports (b) contribution from owners or distribution to owners if some combinations of entities UCC are accounted for as acquisitions.
024 Juvenal Brazil	I think that letter b is more adequate in this moment, after a new structure that public sector will be make for implementation new standards I agree with letter a that need to be system elaborated with internal control adequate for these informations with transparency and quality dates.	Support (b) contribution from owners or distribution to owners.
025 SRS- CSPCP Switzerland	The SRS-CSPCP supports Approach (c): the profit/loss should not be recognized in income, but in equity.	Support (c) gain or loss recognized directly in net assets/equity except where transferor is ultimate controlling entity then contribution from owners or distribution to owners.
026 CAPE	<p>SMC 6</p> <p>As explained in the covering letter [set out below], we consider that the difference arising</p>	Support (b) contribution from owners or distribution to owners.

Response #	Respondent Comments	Staff Comments
SMC 6: Accounting for Difference Arising in an Acquisition UCC		
UK	<p>should be treated as a contribution from, or distribution to, owners (b). We do not accept that this be restricted to cases where the transferor is the ultimate controlling entity.</p> <p>Letter</p> <p>For acquisitions under common control that are recorded at previous carrying amounts, our view is that any difference between the consideration given and the amount of the acquired assets and liabilities meets the definition of a contribution to or distribution from owners and should be treated as such.</p>	

Appendix A: Flow Chart from Respondent 8—HoTARAC (See SMC 2)



1. Minority view on proviso that a suitable definition of goodwill can be developed for the public sector.

Appendix B: Flow Chart from Respondent 23—NZASB

The NZASB's proposed approach (and proposed accounting treatment)

