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September 27, 2012

Ms. Stephanie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on its June 2012 Consultation Paper (CP) entitled *Public Sector Combinations*. The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB believes that the need for guidance in the arena of public sector combinations is important and necessary. Negative world-wide economic conditions and the impact such conditions have on government budgets have caused and will continue to cause governments to rethink such basic issues as how services are provided, who provides services and the most efficient way to provide services. It is very likely that such conditions and such efforts will result in government operations being restructured. The IPSASB's efforts to address these issues are critical and will help to ensure that accounting for such transactions is consistent and that the results are useful. The FMSB supports the approach suggested in the Consultation Paper of accounting for such transactions as either an acquisition or an amalgamation. This is similar to an approach recently proposed by GASB in their recent exposure draft on this topic where it was proposed that transaction be accounted for as either an acquisition or a merger. For both GASB and IPSAB, the presence of consideration is a factor in determining whether an acquisition has taken place. For GASB, the presence of consideration is the determining factor; for IPSASB it is a characteristic among others to be considered (IPSASB, par. 3.11).

The FMSB does have a concern regarding one aspect of the Consultation Paper's approach for classifying transactions as either an acquisition or an amalgamation. The Consultation Paper defines an amalgamation as "... a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture." The FMSB believes that the key aspects of the definition will be subpart (b) dealing with the issue of control, and that using control to classify transactions may be problematic.



An example of this difficulty is presented Section 3, “The Boundary between Acquisitions and Amalgamations.” 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. It seems to us that the ability to direct the action of A is an indication of control. Moreover, other characteristics are listed in paragraph 3.13 that also may be present in a combining transaction that might tip the balance towards the transaction being classified as an acquisition. We are concerned that 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.

An alternative to the IPSASB’s approach would be to 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 Consultation Paper and eliminate the need to discuss the issue of Not Under Common Control (NUCC) and Under Common Control (UCC). As we reviewed the Consultation Paper, we found that if approach B is adopted related to acquisitions, there is little distinction between the accounting treatments for most transactions, except for an acquisition where consideration has been exchanged. The accounting for amalgamations and acquisitions without consideration seems to be on a similar basis and adds a level of complexity to the accounting issues that may not be warranted.

Following are the FMSB’s response to the areas for specific comment.

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

FMSB Response: We believe that the scope of the CP is appropriate to address the matter of Public Sector Combinations.

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.

FMSB Response: 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, 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. 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.

3. In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

FMSB Response: As suggested in our general comments, we would prefer if the IPSASB focused its classification of the transaction as either an acquisition or an amalgamation on the presence of significant consideration rather than a matter of control after the combination is complete.

4. In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);
- (b) Distinguishing between different types of acquisitions (Approach B) so that:
 - (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and
 - (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or
- (c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

FMSB Response: The FMSB supports approach B in accounting for acquisitions. We believe that where significant consideration has been exchanged, an acquisition has been executed and the transaction should be accounted for using a fair value measurement approach. We believe that this aligns the accounting with fundamental nature of the transaction.

5. In your view, where the consideration is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
- (c) A loss for all acquisitions?

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

FMSB Response: We believe that where necessary a gain or a loss should be recognized in all cases so long as the gain or loss is computed using fair value and not depreciated historical costs. The concept of "goodwill", while used in accounting for commercial transactions has merit, we do not believe that it has merit when accounting in a public sector environment.

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).

FMSB Response: 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.

7. In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

FMSB Response: The FMSB believes that the accounting for the recipient and the transferor should be symmetrical.

We would like to thank you for allowing us to submit our comments to the exposure draft. Should there be any questions regarding our comments, please contact Steven Sossei at ssossei@agacgfm.org.

Sincerely,



Eric S. Berman, CPA, Chair
AGA Financial Management Standards Board

cc: Evelyn A. Brown, CGFM-Retired
AGA National President

**Association of Government Accountants
Financial Management Standards Board**

July 2012 – June 2013

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**COMITE CONSULTATIF
SUR LA NORMALISATION
DES COMPTES PUBLICS**

The Chairman

Paris, 31 October 2012

Cour des comptes

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Ms Stephenie Fox
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CANADA

Re: Consultation Paper on Public Sector Combinations

Dear Ms Fox,

Please find below the French Cour des comptes reply to the Consultation Paper on Public Sector Combinations.

The Cour des comptes notes that the text emphasizes on exchange acquisitions, that seem to be extremely rare in the public sector, whereas it should emphasize on amalgamations, that seem to be more frequent. Nevertheless, even on amalgamations, the document focuses on abstract and theoretical elements, without giving concrete illustrations.

The Cour des comptes would therefore recommend to explore more in depth public sector oriented situations, in order to elaborate a more adequate accounting standard or guidance.

Consequently, we do not answer to the detailed questions raised in the Consultation Paper.

Yours truly,

Raoul BRIET



**COMITE CONSULTATIF
SUR LA NORMALISATION
DES COMPTES PUBLICS**

Le Président

Paris, le 31 octobre 2012

Cour des comptes

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CANADA

Objet : Document de consultation sur les acquisitions et regroupements d'entités dans le secteur public

Vous trouverez ci-joint la réponse de la Cour des comptes française au document de consultation sur les acquisitions et regroupements d'entités dans le secteur public.

La Cour des comptes constate que le document met l'accent sur les acquisitions entre entités, qui apparaissent extrêmement rares dans le secteur public, alors qu'il devrait plutôt traiter prioritairement des regroupements d'entités, plus fréquents. Sur ce dernier sujet, le document est centré sur des éléments abstraits et théoriques, insuffisamment illustrés.

La Cour des comptes recommande d'explorer des situations plus proches de la réalité du secteur public, de manière à élaborer une norme comptable ou un guide plus pertinent.

En conséquence, il ne nous apparaît pas utile de répondre aux questions précises posées dans le document de consultation.

Raoul BRIET



Paris, 25th October 2012

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Re: Consultation Paper on Public Sector Combinations

Dear Ms Fox,

Please find herewith the reply of the French Public Sector Accounting Standards Council (CNOCP) to the above Consultation Paper.

1. The Public Sector Accounting Standards Council is not satisfied with the provisions of this Consultation Paper, considering that the critical subject of public-sector entity amalgamations is not sufficiently addressed.

The Consultation Paper approaches the subject of combinations between public-sector entities from the perspective of acquisitions at market price, while generally, transactions between public-sector entities cannot be likened to commercial transactions. The objective of public-sector combinations is to streamline structures carrying out a public-service mission in order to improve said public service. As such, the Council regrettably notes that “amalgamations”, which are public-sector combinations as the Council understands them, are not addressed in further detail in the provisions of the Consultation Paper; there is only one brief section and no matters for comment in this regard in the document.



Conversely, the Council believes that the Consultation Paper wrongly focuses on acquisitions at market price, which are rarely encountered in the public sector.

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.

The Council also notes that certain notions addressed in the Consultation Paper pertain to the Conceptual Framework, and that until such framework is finalized, the proposed definitions create a degree of doubt. This is the case of the definition of control. For public-sector entities, the definition of control will have to be adapted in the various standards (control of an asset, control of one entity over another, control of special-purpose entities, etc.) once the Conceptual Framework is finalized. Control necessarily has a different meaning for public-sector entities than that provided in private-sector accounting standards, mainly due to the non-market character of the transactions and the particular nature of certain assets. Therefore it seems premature to adapt this notion of control in this Consultation Paper.

Finally, the treatment of such a subject requires that concurrent discussions on the consolidation standards in the IPSAS framework be initiated, with the specification that the Council has noted that the revision of IPSAS 6 through IPSAS 8 on consolidation was included in the IPSAS Board's agenda. When a transaction between public-sector entities is carried out, the Council understands that it falls within the scope of this Consultation Paper. If such transaction gives rise to a particular entity or structure, its inclusion in the scope of a combination and/or consolidation is addressed by the standards on combinations/consolidation. Both subjects are related and how they are linked cannot be ignored.

Consequently, the Council 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, so as to clarify its provisions and focus on problems particular to the public sector.



2. The Council believes that the work must be continued, giving priority to transactions specific to the public sector.

Despite rejecting the text, the Council favorably welcomes the fact that the IPSAS Board has included the subject of Public Sector Combinations on its agenda. The Council confirms the value and importance of this subject, since there are no provisions in this regard to date. The Council emphasizes that this is a complex issue that may give rise to various responses depending on the public policies put in place from a national, European or international standpoint.

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 the majority of combinations in the public sector differ, by their nature, from those conducted at market price in the private sector.

The Council keenly wishes to see the section on amalgamations clarified and developed. Accordingly, the Council suggests that the IPSAS Board continue its work, in connection with the work on the Conceptual Framework and the standards on combinations/consolidation, so as to develop a specific accounting standard for the public sector.

Yours sincerely,

Michel Prada



ANNEX

RESPONSES TO THE QUESTIONS IN THE CONSULTATION PAPER

Specific Matter for Comment 1 (following paragraph 2.49)

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

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.

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.

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.

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 marginal case that is rarely encountered in the public sector.

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.



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?

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.

Specific Matter for Comment 2 (following paragraph 2.49)

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.

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 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.

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.

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.



Specific Matter for Comment 3 (following paragraph 3.13)

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of none or more operations?

The Council cannot respond as such to this question, which addresses the subject of control.

This subject pertains to the Conceptual Framework. Once the Conceptual Framework is finalized, the definition of control for public-sector entities must be adapted in the various standards: control of an asset, control of one entity over another, control of special-purpose entities (financing structures, structures housing an asset and financed by various public-sector entities, etc.). For public-sector entities, control necessarily has a different meaning than that provided in private-sector accounting standards, mainly due to the non-market character of the transactions and the particular nature of certain assets.

Accordingly, the following elements must be taken into consideration in characterizing control among public-sector entities:

- the lack of ownership links between them
- the notion of monitoring projects in the context of co-financing programs
- involvement in steering committees that are differentiated from management committees for the project.

These elements are not addressed in the Consultation Paper.

Moreover, the treatment of such a subject requires that concurrent discussions be initiated on the consolidation standards in the IPSAS framework, with the specification that the Council has noted that the revision of IPSAS 6 through IPSAS 8 on consolidation was included in the IPSAS Board's agenda. When a transaction between public-sector entities is conducted, it falls within the context of this Consultation Paper. If such transaction gives rise to a particular entity or structure, its inclusion in the scope of a combination and/or consolidation is addressed by the standards on combinations/consolidation. Both subjects are related and how they are linked cannot be ignored.



Specific Matter for Comment 4 (paragraph 5.25)

In your view, should the recipient in an acquisition not under common control recognize in its financial statements the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);*
- (b) Distinguishing between different types of acquisitions (Approach B) so that:*
 - (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and*
 - (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or*
- (c) Another approach?*

Please explain why you support Approach A, Approach B or another approach.

The Council draws attention to the fact that acquisitions at market price are infrequent in public sector. Furthermore, the Consultation Paper's lack of clarity does not clearly distinguish what is included in "acquisitions NUCC" (not under common control) and "acquisitions UCC" (under common control).

As mentioned during previous IPSAS Board consultations on the Conceptual Framework, the Council considers that the approach that is as close as possible to tracking the economic flows should be favored in the public sector, considering the nature of the transactions and that, consequently, fair value measurement should not be promoted insofar as public policy does not refer to the market, even though, in this case, the parallel with "non-exchange transactions" is perceived.



Specific Matter for Comment 5 (paragraph 5.46)

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;*
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or*
- (c) A loss for all acquisitions?*

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

As mentioned previously, the Council draws attention to the fact that acquisitions at market price, whether under common control or not, are infrequent in the public sector. It is very difficult at this stage to come to a decision on the alternatives proposed as long as they are based on very confusing provisions in the Consultation Paper. The matter of the accounting treatment of overpaying for an "acquisition NUCC" must be addressed in regard to the transaction, all the while taking into consideration the approach favored in the Conceptual Framework, which has to provide elements to determine the accounting treatment of the transaction in question. This is one more reason to finalize the Conceptual Framework.



Specific Matter for Comment 6 (paragraph 6.26)

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).

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.

Specific Matter for Comment 7 (paragraph 6.31)

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

The Council reiterates that the “mirror” effect, by which a single transaction is treated symmetrically in the financial statements of two distinct entities, is not an accounting principle. In some cases, it may be difficult to carry out symmetrical treatment, as each entity exercises its judgment and takes into consideration elements that are specific to it.

Nevertheless, if such acquisitions under common control had to be identified, the Council considers that the recipient must reflect the acquisition under common control at its net carrying amount. We can then consider that the accounting treatment will be symmetrical on the aggregate between the transferor and the recipient.



FRENCH VERSION

Nous vous prions de bien vouloir trouver ci-joint la réponse du Conseil de normalisation des comptes publics (CNOCP) sur la consultation relative aux « Public Sector Combinations ».

1. Le Conseil de normalisation des comptes publics n'est pas satisfait des dispositions de ce document de consultation, considérant que le sujet important des rapprochements d'entités publiques est mal traité.

Le document de consultation aborde le sujet du rapprochement entre entités publiques sous l'angle d'acquisitions au prix de marché, alors que généralement, les opérations entre entités publiques ne peuvent s'apparenter à des opérations commerciales. Les rapprochements d'entités publiques s'effectuent avec pour objectif de rationaliser les structures exerçant une mission de service public afin d'en améliorer ledit service. Le Conseil note ainsi avec regret que les « amalgamations », qui, selon sa compréhension, seraient donc les rapprochements d'entités publiques, ne fassent pas l'objet de dispositions plus développées dans le document de consultation ; seule une partie succincte sur laquelle aucune question n'est posée figure dans le document. A l'inverse, il estime que le document de consultation privilégie à tort les acquisitions au prix de marché, peu rencontrées dans le secteur public.

De façon générale, le Conseil estime que le document de consultation n'est pas de lecture aisée, et que ses dispositions sont assez confuses ; il en résulte une réelle difficulté à juger de la pertinence des approches proposées.

Le Conseil note également que certaines notions abordées dans le document de consultation relèvent du cadre conceptuel, et qu'en l'absence de finalisation d'un tel cadre, les définitions proposées sèment un certain doute. Il en est ainsi de la définition du contrôle, qui, pour les entités du secteur public, devra, une fois le cadre conceptuel finalisé, se décliner dans les différentes normes du référentiel (le contrôle d'un actif, le contrôle d'une entité sur une autre, le contrôle de structures



ad hoc, etc.). Le contrôle pour les entités publiques revêt en effet une acception nécessairement différente de celle figurant dans les référentiels de comptabilité privée, en raison principalement du caractère non marchand des transactions et de la nature particulière de certains actifs. Il paraît donc prématuré de décliner cette notion de contrôle dans le présent document.

Enfin, le traitement d'un tel sujet nécessite que soient amorcées en parallèle les réflexions sur les normes de consolidation du référentiel IPSAS, étant précisé que le Conseil a pris bonne note que la révision des normes IPSAS 6 à 8 sur la consolidation était inscrite à l'agenda de l'IPSAS Board. En effet, lorsqu'une opération entre entités publiques est effectuée, le Conseil comprend qu'elle entre dans le champ d'application du présent document de consultation. Si cette opération donne naissance à une entité ou à une structure particulière, son inclusion dans un périmètre de combinaison et/ou consolidation est traitée par les normes sur la combinaison/consolidation. Les deux sujets sont liés et leur articulation ne peut être ignorée.

Le Conseil estime donc que le sujet tel que présenté dans le document de consultation est mal traité et que le texte doit donc être revu intégralement, afin d'en clarifier les dispositions et de privilégier les problématiques particulières au secteur public.

2. Le Conseil estime que les travaux doivent être poursuivis, en donnant la priorité aux opérations propres au secteur public.

Malgré son rejet du texte, le Conseil accueille favorablement le fait que l'IPSAS Board ait inscrit à son agenda le sujet des « Public Sector Combinations ». Le Conseil confirme l'intérêt et l'importance de ce sujet, aucune disposition n'existant à ce jour. Le Conseil souligne qu'il s'agit d'une question complexe qui peut trouver des réponses différentes selon les politiques publiques mises en place sur le plan national, européen ou international.

Le Conseil estime que, dans l'absolu, l'approche consistant à distinguer les acquisitions au prix de marché des rapprochements d'entités publiques est justifiée, dans la mesure où la plupart des opérations de rapprochement dans le secteur public diffèrent, par nature, de celles qui s'effectuent à un prix de marché dans le secteur privé.



Le Conseil souhaite vivement voir précisée et développée la partie sur les « Amalgamations ». Ainsi, le Conseil suggère que l'IPSAS Board poursuive ses travaux, en liaison avec ceux sur le cadre conceptuel et les normes de combinaison / consolidation, afin d'aboutir à une norme comptable spécifique pour le secteur public.



ANNEXE

REPONSES AUX QUESTIONS POSEES DANS LA CONSULTATION

Question 1 (paragraphe 2.49)

A votre avis, le champ d'application figurant dans le document de consultation est-il approprié?

Le Conseil de normalisation des comptes publics considère que le périmètre du Consultation Paper est approprié dans la mesure où les opérations de rapprochements entre entités publiques ou encore les opérations faites en commun entre entités publiques (opérations par lesquelles plusieurs entités financent un actif contrôlé conjointement notamment) sont une réalité qu'il convient d'examiner pour proposer un traitement comptable applicable à de telles opérations.

En effet, le secteur public est très fréquemment confronté à des situations de regroupement d'entités, qui prennent souvent la forme d'opérations de mise en commun de moyens pour financer des projets. La question de la traduction comptable de telles opérations, dont certaines relatives à des subventions accordées ne sont pas directement traçables (« hidden operations »), trouve donc tout son sens pour les entités du secteur public.

Néanmoins, le Conseil estime que le document de consultation ne permet pas de répondre à ces questions de rapprochements et d'opérations entre entités publiques. En effet, le document de consultation aborde ces sujets sous l'angle d'opérations commerciales (acquisitions au prix de marché), alors que la plupart des opérations s'effectue avec pour objectif de rationaliser les structures exerçant une mission de service public et d'améliorer ledit service.

Le Conseil comprend que les réflexions ayant abouti aux nombreux développements sur les acquisitions (sous contrôle commun, et en l'absence de contrôle commun) se sont fondées sur l'acquisition, par un Etat, au prix de marché d'une entreprise ayant été l'objet d'une privatisation dans le passé. Le Conseil souligne qu'il s'agit, de son point de vue, d'un cas extrêmement marginal rarement rencontré dans le secteur public.



De façon générale, le Conseil estime que le document de consultation n'est pas de lecture aisée, et que ses dispositions sont assez confuses ; il en résulte une réelle difficulté à juger de la pertinence des approches proposées.

Aussi, le Conseil suggère de compléter les dispositions normatives d'exemples concrets qui pourraient éclairer sur les opérations visées par le projet de texte. A titre d'exemple, comment traduire comptablement l'opération de financement par plusieurs Etats d'un programme humanitaire de reconstruction et de développement ?

Le Conseil estime donc que le sujet tel que présenté dans le document de consultation est mal traité et que le texte doit donc être revu intégralement.

Question 2 (paragraphe 2.49)

Selon vous, l'approche utilisée dans la présente consultation consistant à distinguer les acquisitions des regroupements dans un premier temps, et, dans un second temps, distinguer au sein des regroupements les opérations entre entités sous contrôle commun et de celles que ne le sont pas, est-elle appropriée ? Si vous n'approuvez pas cette approche, quelles alternatives devraient être envisagées ? Merci de commenter votre réponse.

Le Conseil estime que, dans l'absolu, l'approche consistant à distinguer les acquisitions au prix de marché des rapprochements d'entités publiques est justifiée dans la mesure où la plupart des opérations de rapprochement dans le secteur public diffèrent, par nature, de celles qui s'effectuent, à un prix de marché, dans le secteur privé. Néanmoins, dans la mesure où les dispositions du document de consultation sont assez confuses, elles ne permettent pas de juger de la pertinence des approches proposées.

Le Conseil estime que toutes les opérations de rapprochements entre entités publiques, qui ne sont pas des opérations d'acquisition au prix de marché, doivent être traitées en priorité. Selon la compréhension du Conseil, le Consultation Paper considère de telles opérations comme des « Amalgamations ». Ce sont ces opérations qui sont fréquemment rencontrées par les entités du secteur public dans nombre de pays.

Ainsi, pour répondre à la question des alternatives à considérer, le Conseil propose que la partie sur les « Amalgamations » fasse l'objet de travaux



complémentaires afin d'aboutir à une norme comptable spécifique pour le secteur public.

Question 3 (paragraphe 3.13)

À votre avis, existe-t-il d'autres caractéristiques du secteur public à considérer pour déterminer une éventuelle prise de contrôle (ou une absence de prise de contrôle) d'une des parties lors d'une ou plusieurs opérations ?

Le Conseil ne peut pas répondre en tant que tel à cette question qui aborde le sujet du contrôle.

Il s'agit là en effet d'un thème qui touche au cadre conceptuel, la définition du contrôle pour les entités du secteur public devant, une fois le cadre conceptuel finalisé, se décliner dans les différentes normes du référentiel : le contrôle d'un actif, le contrôle d'une entité sur une autre, le contrôle de structures ad hoc (structures de financement, structures portant un actif et financés par diverses entités publiques, etc.). Or le contrôle pour les entités publiques revêt une acception nécessairement différente de celle figurant dans les référentiels de comptabilité privée en raison principalement du caractère non marchand des transactions et de la nature particulière de certains actifs.

Ainsi, les éléments suivants doivent être pris en considération pour caractériser le contrôle entre entités publiques :

- l'absence de lien capitalistique entre les entités ;
- la notion de pilotage de projets dans le cadre de programmes de cofinancement (« monitoring ») ;
- l'implication dans des comités de direction (« steering committees ») qui se différencie de la gestion du projet (« management committee »).

Or ces éléments ne sont pas abordés dans le Consultation Paper.

Par ailleurs, le traitement d'un tel sujet nécessite que soient amorcées en parallèle les réflexions sur les normes de consolidation du référentiel IPSAS, étant précisé que le Conseil a pris bonne note que la révision des normes IPSAS 6 à 8 sur la consolidation était inscrite à l'agenda de l'IPSAS Board. En effet, lorsqu'une opération entre entités publiques est effectuée, elle entre dans le cadre du présent Consultation Paper. Si cette opération donne naissance à une entité ou à une structure particulière, son inclusion dans un périmètre de combinaison et/ou



consolidation est traitée par les normes sur la combinaison / consolidation. Les deux sujets sont liés et leur articulation ne peut être ignorée.

Question 4 (paragraphe 5.25)

Selon vous, comment doivent être reconnus dans les états financiers de l'entité receveuse les actifs et passifs issus d'une opération d'acquisition entre entités qui ne sont pas sous contrôle commun ?

(a) Pour toutes les acquisitions, à la date d'acquisition, évaluation à la juste valeur des actifs identifiables acquis et des passifs présumés issus de l'opération (approche A) ;

(b) Distinction de différents types d'acquisitions (approche B):

(i) Pour les acquisitions sans transfert de contrepartie ou avec un transfert symbolique de contrepartie, les actifs et passifs de l'opération acquise sont reconnus en ajustant les montants sur la base des conventions comptables appliquées par l'entité receveuse à la date d'acquisition ; et

(ii) Pour les acquisitions avec transfert de contrepartie, à la date d'acquisition, évaluation à la juste valeur des actifs identifiables acquis et des passifs présumés issus de l'opération ;

(c) Une autre approche ?

Merci de commenter les raisons pour lesquelles vous êtes en faveur de l'approche A, l'approche B ou une autre approche.

Le Conseil attire l'attention sur le fait que les acquisitions au prix de marché sont peu fréquentes dans le secteur public. Par ailleurs, le manque de clarté du Consultation Paper ne permet de distinguer clairement ce que regroupent les « acquisitions NUCC » et les « acquisitions UCC ».

Comme mentionné lors des précédentes consultations de l'IPSAS Board sur le cadre conceptuel, le Conseil considère que l'approche consistant à être au plus proche des flux économiques est à privilégier dans le secteur public compte tenu de la nature des opérations, et que, par conséquent, l'évaluation à la juste valeur n'est pas à promouvoir dans la mesure où la politique publique ne fait pas



référence au marché, même si, au cas présent, le parallèle avec les « non-exchange transactions » est perçu.

Question 5 (paragraphe 5.46)

À votre avis, quand la contrepartie transférée est supérieure à l'actif net acquis, comment doit être comptabilisée la différence pour les opérations d'acquisitions entre entités qui ne sont pas sous contrôle commun dans les états financiers du bénéficiaire (pour les approches A et B afférentes aux acquisitions avec transfert de contrepartie) ?

- (a) Un écart d'acquisition pour les acquisitions où l'opération acquise est génératrice de trésorerie et une perte pour toutes les autres acquisitions ;*
- (b) Un écart d'acquisition pour toutes les acquisitions (ce qui nécessiterait le développement d'une définition de l'écart d'acquisition qui englobe la notion de potentiel de service), ou*
- (c) Une perte pour toutes les acquisitions ?*

Merci de commenter votre réponse.

Comme déjà mentionné, le Conseil attire l'attention sur le fait que les acquisitions au prix de marché, qu'elles soient sous contrôle commun ou non, sont peu fréquentes dans le secteur public. Il est à ce stade très difficile de se prononcer sur les alternatives proposées dès lors qu'elles reposent sur les dispositions très confuses du Consultation Paper. La question du traitement comptable d'un surcoût d'une « acquisition NUCC » doit se traiter au regard de l'opération effectuée, tout en prenant en considération l'approche privilégiée dans le cadre conceptuel, celui-ci devant fournir des éléments permettant de déterminer le traitement comptable de l'opération considérée. Il s'agit donc là d'une raison supplémentaire pour finaliser le cadre conceptuel.



Question 6 (paragraphe 6.26)

À votre avis, comment doit être comptabilisée, dans les états financiers de l'entité receveuse, la différence lors d'opérations d'acquisitions entre entités sous contrôle commun ?

- (a) Un gain ou une perte comptabilisé en résultat (dans le compte de résultat),*
- (b) Une contribution reçue ou une subvention accordée reconnue directement en situation nette (dans le bilan), ou*
- (c) Un gain ou une perte comptabilisé directement en situation nette (dans le bilan), sauf lorsque l'entité transférante est l'entité contrôlante ultime et que le gain ou la perte correspond à la définition d'une contribution reçue ou d'une subvention accordée ?*

Merci de commenter votre réponse.

Outre le fait que ces opérations sont peu fréquentes, le Conseil rejette les trois solutions proposées. En effet, le traitement comptable d'une acquisition sous contrôle commun, telle que le Conseil la comprend, doit nécessairement privilégier l'enregistrement de l'entité acquise à sa valeur nette comptable.

Question 7 (paragraphe 6.31)

Selon vous, le traitement comptable d'une acquisition entre entités sous contrôle commun doit-il être symétrique dans les comptes de l'entité transférante et de l'entité receveuse ?

Le Conseil rappelle que l'effet « miroir » consistant à traiter symétriquement une même opération dans les comptes de deux entités distinctes n'est pas un principe comptable. Dans certains cas en effet, il peut être difficile d'opérer un traitement symétrique, chaque entité exerçant son jugement et prenant en considération des éléments qui lui sont propres.

Néanmoins, si de telles opérations d'acquisitions sous contrôle commun devaient être identifiées, le Conseil considère que l'entité receveuse doit traduire l'opération d'acquisition sous contrôle commun à sa valeur nette comptable ; on peut alors penser que les traitements comptables seront alors globalement symétriques entre l'entité transférante et l'entité receveuse.



Ms Stephanie Fox
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CANADA

Charity Commission Direct
PO Box 1227, Liverpool L69 3UG

t: 01823 345470
f: 01823 345424

Your Ref:

Our Ref:

Date: 29 October 2012

Dear Stephanie,

Exposure Draft: Public Sector Combinations

The Charity Commission for England and Wales is established by law as the regulator and registrar of charities in England and Wales. Our aim is to provide the best possible regulation of these charities in order to increase charities' efficiency and effectiveness and public confidence and trust in them. We welcome the opportunity to respond to the consultation on your Exposure Draft: Public Sector Combinations. Our detailed response to the consultation questions is attached as an annex to this letter.

We recognise that the Exposure Draft is framed with reference to the public sector but it deals with issues that apply equally to the wider not-for-profit sector where the commercial model of acquisition accounting does not always provide an appropriate solution.

UK GAAP recognises that in the case of non-exchange transactions that a gift of net assets is treated as a gain or the assumption of net liabilities is a loss. We welcome the recognition in the consultation draft that amalgamations can occur and we would encourage IPSAS to develop an alternate solution based on gift accounting rather than applying a fair value based model which has its origins in acquisition accounting.

If I can be of further help concerning the nature of combinations as they apply in the UK charity sector please do contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nigel Davies', is written over a light blue horizontal line.

Nigel Davies, Deputy Head of Accountancy Policy

nigel.davies@charitycommission.gsi.gov.uk

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Annex: Charity Commission response to IPSASB Public Sector Combinations
Specific Matters for Comment

**Specific matter for comment 1: In your view is the scope of this
consultation paper appropriate?**

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.

**Specific matter for comment 2: In your view is the approach used in this
consultation paper of distinguishing between acquisitions and
amalgamations, with a further distinction for public sector combinations
not under common control and under common control appropriate? If
you not support this approach, what alternatives should be considered?
Please explain your reasoning.**

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.

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.

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, the absence of a requirement for comparative information implies a discontinuity in operations which does not arise in the case of an amalgamation.

Annex: Charity Commission response to IPSASB Public Sector Combinations
Specific Matters for Comment

Specific matter fair comment 3. In your view, are there other public sector characteristics that should be considered determining whether one party has gained control of one or more operations?

We are supportive of amalgamation as an alternative to acquisition accounting. The absence of consideration is a factor that does set apart not-for-profit and public sector accounting from commercial for-profit accounting.

When considering IAS 22, criterion (a) can be applied if the ability to exercise voting power or control is substituted in place of voting ordinary shares. An acquirer could be identified if the board of the acquirer exercised the majority or sole voting rights in the resulting entity.

We agree that to apply the criterion (b) of relative size would be misleading. In the for-profit sector all funds are available for corporate use and represent potential return to the owners and this criterion recognises that in the case of a merger the resulting entity is providing approximately equal value to the participating owners.

Identifying an amalgamation in the public sector context arguably should consider the motive for the combination as a factor. Where a combination is ordered and directed by statute or by a higher authority it would seem inappropriate to portray such a combination as an acquisition, except where it is described as such in the order.

Also the reconstruction of an entity needs consideration where an entity is required to change the functions it undertakes. If the changes involve significant new activities being taken across from the other entities participating in the combination then arguably this too is an amalgamation rather than an acquisition. Alternatively it might be viewed as 'fresh start' accounting with the assets and liabilities taken across being measured at fair value but fresh start accounting implies a discontinuity in service provision which may not always be the case.

**Annex: Charity Commission response to IPSASB Public Sector Combinations
Specific Matters for Comment**

Specific matter for comment 4. In your view should the recipient in an acquisition not under common control recognize in its financial statements, the acquired operations assets and liabilities by:

- a) Applying fair value the identifiable asset acquired and liabilities assumed the operation at the date of acquisition all acquisitions (approach A);**
b) Distinguishing between different types of acquisitions (approach B) so that: i) for acquisitions where no nominal consideration is transferred, the carrying amounts of assets and liabilities in the acquired operation's financial statements are recognised, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and
ii) for acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation date of acquisition; or
c) another approach?

Please explain why you support approach A approach B all another approach.

The difficulty in applying approach 'A' is that in the context of whole of government accounts, the fair value basis effectively allows the recognition of internally generated goodwill, as no resources are passing into or out of the public sector. Unless fair value is restricted on an acquisition to only categories of assets and liabilities that are normally subject to revaluation at the financial year end, such as financial instruments or buildings, then intangible assets and the 'goodwill' or 'negative goodwill' will also be recognised.

Although approach 'B' recognises that some assets are gifts, IPSAS requires that gifts are recognised at fair value. However, if the intention is to recognise gifts made to the public sector then approach 'B' is a better solution as it avoids creating and recognising internally generated goodwill.

In the context of charities and gift accounting, the receipt of a gifted asset is not seen as an acquisition with negative goodwill or a 'bargain purchase' because the motivation is not that of an exchange transaction. Instead UK standards simply recognise the net assets gifted as a gain or if net liabilities are gifted as a loss (expenditure).

Annex: Charity Commission response to IPSASB Public Sector Combinations
Specific Matters for Comment

Specific matter for comment 5. In your view where the consideration transferred is in excess of the net assets acquired, should the difference arising acquisition not under common control (both approach A and approach B, acquisitions where consideration is transferred) be recognised in the recipient's financial statements, on the date of acquisition, as:

- a) goodwill for acquisitions where the acquired operation is cash generating and a loss for all other acquisitions;**
- b) goodwill for all acquisitions (which would require development of the definition of goodwill that encompasses the notion of service potential);**
- or**
- c) a loss for all acquisitions?**

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

The principle behind recognising goodwill in commercial accounting is that the acquirer has purchased a cash generating unit where the excess consideration is written back over the economic life of the unit so smoothing the effect on reported profit. This is in anticipation of the acquired cash generating unit contributing to profit over its economic life.

In the case of the public and not-for-profit sectors such commercial considerations may apply in some cases but for the majority of combinations this is unlikely to apply.

The application of a simple test as to whether an operation is cash generating may be insufficient because in many cases the cash generated may be below the economic cost of service provision. For those entities governed by IPSAS, solution 'C' provides the most consistent solution reflecting the underlying role of the state in providing goods and services to its citizens. After all state owned for- profit enterprises are scoped out of IPSAS and apply IFRS.

Specific matter for comment 6. In your view, should the recipient in acquisition under common control recognise in its financial statements on the date of acquisition, the difference arising as:

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

Please explain why you support A, B, or C.

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.

**Annex: Charity Commission response to IPSASB Public Sector Combinations
Specific Matters for Comment**

Specific matters for comment 7. In your view should the accounting treatment for the recipient and transferor of an acquisition under common control be symmetrical?

Logically to avoid inadvertently creating internally generated goodwill within the group, the accounting treatment should be symmetrical.

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

Dear Sirs,

Consultation Paper on Public Sector Combinations (PSC)

The Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA) is pleased to provide a response to the International Public Sector Accounting Standards Board (IPSASB) request for comments on its Consultation Paper regarding Public Sector Combinations (CP). We are wholly supportive of the IPSASB's objectives to enhance the quality and consistency of financial reporting of Public Sector Entities (PSEs) and to improve the transparency and accountability of government reporting.

Public sector combinations are a significant and necessary feature of government activities, undertaken to reshape and refocus government operations in order to facilitate achievement of government strategies. The absence of accounting guidance in this area doubtless has contributed to diversity in practice and we welcome this opportunity to respond to the CP.

Our experience is focused on PSEs 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.

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.

Preliminary View 1

A public sector combination is the bringing together of separate operations into one entity, either as an acquisition or an amalgamation.

The key definitions are as follows:

*(a) An **acquisition** is a transaction or other event that results in a recipient gaining control of one or more operations.*

*(b) An **amalgamation** is a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture.*

*(c) A **combining operation** is an operation that combines with one or more other operations to form the resulting entity.*

*(d) An **operation** is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.*

*(e) A **recipient** is the entity that gains control of one or more operations in an acquisition.*

*(f) A **resulting entity** is the entity that is the result of two or more operations combining where none of the combining operations gains control of the other operations.*

*(g) A **transferor** is the entity that loses control of one or more of its operations to another entity (the recipient) in an acquisition.*

We agree that the seven terms defined above are appropriate. In our experience general purpose financial statements are not prepared for the amalgamation, they are prepared separately for the two or more operations that form the amalgamation for financial reporting purposes of the entities that control the operations contained in the amalgamation.

Preliminary View 2

*A **public sector combination under common control** is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.*

We agree with the definition of a public sector combination under common control (PSC UCC).

Preliminary View 3

The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations.

We agree that the sole criterion for distinguishing an amalgamation from an acquisition should be control.

Preliminary View 4

An acquisition NUCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation.

We agree that the recognition criteria should focus on the date the recipient gains control.

Preliminary View 5

The recipient in an acquisition NUCC recognizes in its financial statements on the date of acquisition, the difference arising as:

- (a) A gain where the recipient acquires net assets in excess of consideration transferred (if any); and*
- (b) A loss where the recipient assumes net liabilities.*

We agree that a PSC NUCC should apply fair value measurement criteria to the assets and liabilities acquired and that any gain or loss arising is recognised in the income statement.

Preliminary View 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.

We agree that the recognition criteria should focus on the date the recipient gains control.

Preliminary View 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.

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.

Preliminary View 8

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

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.

Preliminary View 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.

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.

Specific Matter for Comment 1

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

We agree the scope of the CP is appropriate.

Specific Matter for Comment 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.

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 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.

Specific Matter for Comment 3

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

In our experience public sector operations do not normally acquire or combine with other public sector operations unless they are instructed to do so by government. For example a newly elected government may overturn decisions taken by a previous government and decide to vertically or horizontally integrate activities that were previously not aggregated, or government may decide to disaggregate operations that were previously aggregated. In such situations it may be clear that the rationale is due to one operation performing at a higher level than the other operation and therefore although it appears that it is the higher performing operation's management that is taking control of the less well performing operation, they are only doing so at the behest of government. Our

experience of government decrees, the government budget approval process and government allocation of budget are also characteristics we consider in determining control.

Specific Matter for Comment 4

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

(a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);

(b) Distinguishing between different types of acquisitions (Approach B) so that:

(i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and

(ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or

(c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

We agree with approach A. This approach for acquisitions NUCC is consistent with IFRSs. We consider it unusual that no consideration is transferred in such situations, because if it is not then either the acquirer or the transferor has benefitted economically from the transaction, which in the interests of accountability and stewardship of public assets, should be unlikely. Such a situation could arise where governments are providing benefits across borders to other governments. In such a situation then the value of the operation which has been transferred would be of significance to the public, government and other users of the GPFSS.

Specific Matter for Comment 5

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

(a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;

(b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or

(c) A loss for all acquisitions?

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

In principle we consider goodwill is as likely to arise in public sector acquisitions as it is likely to arise in private sector acquisitions however accounting for goodwill (as evidenced by the changes in the accounting standards) continues to be problematic. Problems arise in the valuation of goodwill, its life, the identification of cash generating units in the operation, the groups of assets and the synergies to which the goodwill is attributed. These problems are audit evidence problems rather than accounting interpretation problems, although we also find omissions of certain disclosures provided by entities even though those disclosures are required by accounting standards. We do not agree with view (c) that a loss should be recognised on all acquisitions, primarily because the key reason for making an acquisition is to enhance the performance of the acquiring and acquired entity and therefore one would expect synergies and intangible assets to be identified in the combination. Recognising a loss although clean and simple suggests an erosion of operational performance in the combination which is possible however it should be that the opposite is true, otherwise why undertake the combination? We also do not support view (a) because the nature of PSEs is mostly to utilize government resources to deliver services to the public which are by nature not net cash generative. For these reasons we therefore support view (b) and agree that for acquisitions NUCC a definition of goodwill that encompasses the notion of service potential is developed.

Specific Matter for Comment 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).

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 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.

Specific Matter for Comment 7

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

Yes. For reasons of comparability, accountability and transparency it is undesirable for PSEs UCC to adopt inconsistent accounting treatments.

Yours faithfully

Steven Ralls BA, FCA
Head of Accounting and Auditing Standards Desk
Financial Audit and Examination, Abu Dhabi Accountability Authority



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30 October 2012

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
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CANADA

Dear Stephenie

IPSASB Consultation Paper *Public Sector Combinations*

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IPSASB Consultation Paper *Public Sector Combinations* (the CP).

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 *Entity Combinations from Exchange Transactions*. In particular, the AASB disagrees with the IPSASB not proceeding with adapting IFRS 3 *Business Combinations* (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.

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 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.

AASB submission on IPSASB CP *Public Sector Combinations*

In addition to the general comments above, the AASB also has a number of concerns and comments on specific aspects of the preliminary views, as outlined in the attachment.

If you have any queries regarding any matters in this submission, please contact Nikole Gyles (ngyles@asb.gov.au).

Yours sincerely

A handwritten signature in black ink, reading "K.M. Stevenson". The signature is fluid and cursive, with the first name and middle initial "K.M." written in a more compact, stylized manner, followed by the surname "Stevenson" in a more legible, flowing script.

Kevin M. Stevenson
Chairman and CEO

AASB submission on IPSASB CP *Public Sector Combinations*

**AASB's Specific Comments on the IPSASB Consultation Paper
*Public Sector Combinations***

The AASB's views on the questions in the CP are as follows:

Specific Matter for Comment 1 (following paragraph 2.49)

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

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.

Specific Matter for Comment 2 (following paragraph 2.49)

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.

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.

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.

As noted in the covering letter 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.

Specific Matter for Comment 3 (following paragraph 3.13)

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

As noted in response to specific matter for comment 2 above, the AASB disagrees with the distinction between acquisitions and amalgamations, particularly in a NUCC context. The AASB considers that the CP does not provide a sufficient conceptual basis, or specific public sector reasons, as to why public sector entities should be required to distinguish acquisitions from amalgamations. In addition, such a distinction may also be considered to be a backwards step from the requirements of IFRS 3, which removed the concept of

AASB submission on IPSASB CP *Public Sector Combinations*

mergers¹ on the basis that ‘true mergers’ in which none of the combining entities obtains control of the others are so rare as to be virtually non-existent. Further, in developing IFRS 3, a non-arbitrary boundary for distinguishing true mergers or mergers of equals from other business combinations was not able to be established (IFRS 3, para. BC35).

In addition, the AASB considers the implication in the CP that no goodwill typically arises ignores the fact that many public sector combinations result in the deferral of cash outflows. It is inappropriate to imply that no asset is created when two entities are combined, because it raises the question of why the two entities would have been combined in the first place.

The AASB acknowledges that entity combinations UCC circumstances might fundamentally differ from entity combinations NUCC circumstances and therefore might justify a different conclusion about acquisition or amalgamations and therefore a different accounting treatment. Therefore, before arriving at any conclusion, the AASB thinks the issues need to be comprehensively considered in both a for-profit and not-for-profit context. As noted in the cover letter to this submission, the AASB encourages the IPSASB to undertake further research into PSCs UCC, particularly if the IASB is not expected to address related private sector issues in a timely manner.

Specific Matter for Comment 4 (following paragraph 5.25)

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation’s assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);
- (b) Distinguishing between different types of acquisitions (Approach B) so that:
 - (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation’s financial statements are recognized, with amounts adjusted to align the operation’s accounting policies to those of the recipient, at the date of acquisition; and
 - (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or
- (c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

The AASB agrees with the reasons provided in the CP paragraphs 5.9-5.14 supporting the adoption of fair value as the measurement basis for all acquisitions (Approach A). This basis is also consistent with the basis used in IPSASs when acquiring assets or incurring

¹ Although the AASB acknowledges that IFRS 3 is soon to be subject to a post-implementation review, it is too early to pre-empt any outcomes of that review with regard to any proposed changes to IFRS 3, including any reinstatement of the merger concept.

AASB submission on IPSASB CP *Public Sector Combinations*

liabilities individually, including 'non-exchange' transactions.

The AASB is not convinced by the arguments supporting Approach B. The AASB thinks it would be inappropriate to regard consideration as a determining factor when measuring identifiable assets acquired and liabilities assumed. Further, the AASB is concerned that requiring different accounting treatments in circumstances where consideration is transferred (above a nominal amount) and circumstances where consideration is not transferred may lead to structuring opportunities. This may particularly be the case for combinations UCC.

Specific Matter for Comment 5 (following paragraph 5.46)

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
- (c) A loss for all acquisitions?

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

In Australia, the requirements of Australian Accounting Standard AASB 3 *Business Combinations* (which incorporates the requirements of IFRS 3) in relation to goodwill apply to both for-profit and not-for-profit entities.² The AASB is not aware of any resulting significant implementation issues specific to public sector entities. Based on the experience in Australia, the AASB supports option (b), the recognition of goodwill for all acquisitions. The AASB does not support the view that goodwill can only be associated with for-profit entities.

In addition, the AASB considers that the CP should acknowledge that combinations might involve a non-exchange component. Consequently, the AASB thinks the IPSASB should consider the relationship between the IPSASB's work on this project and IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Specific Matter for Comment 6 (following paragraph 6.26)

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);

² The only exception to the general requirements of AASB 3 relate to restructures of local governments in paragraphs Aus63.1-Aus63.9.

AASB submission on IPSASB CP *Public Sector Combinations*

- (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).

In Australia, Australian Accounting Standard AASB 1004 *Contributions* specifies 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)³. 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).

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.

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.

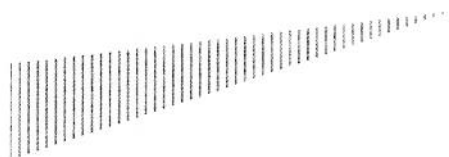
Specific Matter for Comment 7 (following paragraph 6.31)

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

In general terms, the AASB agrees that logically the contribution/distribution or gain/loss recognised by the recipient and transferor of an acquisition UCC should be symmetrical. However, due to the nature of the assets being transferred, and the requirement for different measurement bases across Standards, the AASB acknowledges that in some circumstances the accounting outcome may not be symmetrical.

In relation to the question of symmetry, the AASB particularly considers that thought should be given to complex groups where there may be a chain of entities and how entities that fall between an ultimate parent and a transferee or transferor may be affected.

³ 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).



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CANADA

16 October 2012

Consultation Paper: Public Sector Combinations

Dear Ms Fox,

The global organization of Ernst & Young is pleased to comment on the above Exposure Draft (ED).

General comments:

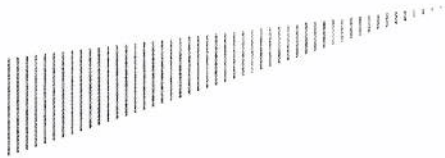
We support and commend the IPSASB's effort in the development of accounting guidance for combinations in the public sector context. However, as a general principle, the IPSASB should maintain its view that deviations from generally accepted private sector accounting standards are only justified, where the nature of the transactions are different in a public sector context.

Amalgamations

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.

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16 October 2012

Acquisitions with nil or nominal consideration

Another significant derivation from general accepted private sector accounting standards is the proposed introduction of a specific accounting treatment for acquisitions not under common control (NUCC) when no or nominal consideration is transferred. We do not support Approach B as indicated in para. 5.15. In our view, IFRS 3 has already established principles and requirements for accounting of bargain purchases, and it should be applied to combinations transacted by way of a non-exchange transaction. Any fair value difference between the assets acquired and liabilities assumed, and consideration transferred (if any) to the acquiree, should be recognized in surplus or deficit on acquisition date. Moreover, nil/nominal consideration transferred in an acquisition may be indicative of the net assets acquired, and not always a 'gift or contribution', and may be an exchange transaction.

Fresh-start accounting for combinations under common control

Finally, the fresh-start accounting has to be mentioned as a general issue. We support the IPSASB's view of using modified Pooling of Interests-Method (POI) for amalgamations for reasons in para 7.12. We do not think that fresh-start accounting, whereby all businesses are re-stated to fair values, are appropriate for combinations under common control. A concern with fresh start accounting is that opportunistic entities may abuse it to inflate assets, and governments may likewise abuse it for structuring opportunities. Furthermore, there are serious doubts, whether the method is appropriate for 'true mergers' not under common control (i.e., a new reporting entity is created). Notwithstanding that fair value information is useful for users of the financial statements, the cost to implement fresh-start method is of concern. Furthermore, the question of validity of fair values is not supported by an acquisition (i.e. not market-tested).

Specific matters for comments and other comments

Our views on the specific matters for comments on which the IPSASB is seeking answers are set out in Appendix A of this letter. In addition, we have included other unsolicited comments following Appendix A.

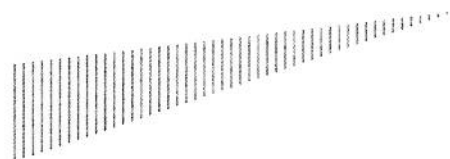
Please contact Mr. Thomas Müller-Marqués Berger, Global Leader for International Public Sector Accounting, at +49 711 9881 15844 or thomas.mueller-marques.berger@de.ey.com should you have any questions on the letter.

Yours sincerely,

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Peter Oser

Thomas Müller-Marqués Berger



Appendix A

Specific Matter for Comment 1:

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

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 activities and assets.¹

Specific Matter for Comment 2:

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

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.

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 operations into one entity, either as an acquisition or an amalgamation", it's not clear why legal form is so important.

For example, consider the following two different legal structures of a combination:

- ▶ 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.

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].



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 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).

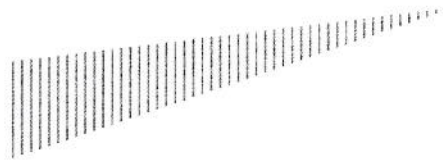
At least, it would be useful to include examples of the types of combinations that would be regarded as being acquisitions rather than amalgamations. For example, I might be argued that all combinations involving a public sector entity and a private sector entity are acquisitions, because such transactions 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.

Further distinction between PSCs NUCC and UCC

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.

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 used for all combinations involving entities UCC, so this proposal may not substantially change the proposed accounting.²

² 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



Specific Matter for Comment 3:

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

In our view, no other characteristics need to be considered.

Specific Matter for Comment 4:

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

(a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);

(b) Distinguishing between different types of acquisitions (Approach B) so that:

(i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and

(ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or

(c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

Approach A is supported for the following two reasons:

First is that the IPSASB has acknowledged during the course of the project that it may be difficult to establish a clear demarcation between all exchange and non-exchange entity combinations [para. 1.7]. A distinction between acquisitions based on whether or not consideration is transferred would result again in this problem. Moreover, a different accounting treatment between those conducted at nil consideration and where some consideration is transferred (but higher than nominal) may open the door for structuring opportunities.

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.



Second is that nil/nominal considerations could reflect the fair value of the net assets/liabilities acquired. Therefore, it is not appropriate to distinguish between those where no (or nominal) consideration is paid and those where consideration is paid. If the acquired entity has net assets close to zero (i.e. FV of assets = FV of liabilities) or has net liabilities, then it is likely to be economically rational that no consideration was paid. Moreover, when a fair value exercise has not been conducted, assets might be overstated and liabilities might be understated (contingent liabilities unrecognized), even with the accounting policies aligned.³

Thus, if we are comfortable that a public sector combination is an acquisition (i.e., not an amalgamation), then acquisition accounting is appropriate (i.e., fair value measurement of assets and liabilities acquired). We suspected that where people argue that book values should be used in transactions in which no consideration was paid, it is because they really believe that this particular situation arises in transactions that are really amalgamations, not acquisitions. Hence, this issue should be dealt with as part of distinguishing between acquisitions and amalgamations for combinations involving entities NUCC, rather than as part of accounting for acquisitions NUCC.

Specific matter for comment 5:

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisitions, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
- (c) A loss for all acquisitions?

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

From a conceptual perspective, we support approach (b) and the reasons set out in paragraph 5.40. If we assume that the recipient is acting economically rational, it must have had a good reason for undertaking such a transaction - treating it as an immediate loss implies that the entity wasted money by paying more than the fair value of the identifiable net assets. However, we acknowledge that it might be politically rational in some rare cases to spend more than the fair value of the identifiable net assets.

³ If IPSASB believes POI be used, perhaps an impairment test for assets acquired at acquisition date should be required.



In the private sector, goodwill represents the synergies from the acquired assets/liabilities to generate a higher rate of return on an assembled collection of net assets than would be expected if those net assets had to be acquired separately. The arguments that support the recognition of goodwill in the acquisition of a cash-generating-unit (the value of the whole can be greater than the sum of the parts, e.g. because of synergies) can also be applied to a service-generating-unit (i.e., greater service potential to constituents). However, where the acquired operation is non-cash-generating operation it is reasonable to assume that it would only be in rare circumstances that a public sector entity would pay a consideration in excess of the net assets acquired.

Nevertheless, we have concerns about the practical application of the proposal regarding the requirement of goodwill impairment test (that should be performed at least annually). In our view, this is a critical aspect and robust guidance on this would be needed. Therefore further work needs to be done to explore what goodwill means, especially for the public sector. Furthermore, the outcome from the framework discussion should be taken into consideration.

If the IPSASB find it practically difficult to develop a robust impairment test for goodwill arising in the acquisition of a service-generating-unit, then we would support approach (a) as the alternative to approach (b) for practical reasons.

Specific matter for comment 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).

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 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).



Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
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Specific matter for comment 7:

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

We support the view that the treatment should to be symmetrical.



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Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
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Dear Ms Fox

Consultation Paper - Public Sector Combinations

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the consultation paper *Public Sector Combinations* ("the paper").

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC supports the development of a standard for public sector combinations (PSCs), given that this is not addressed by other International Public Sector Accounting Standards (IPSASs). However, consistent with IPSASB's goal for convergence of IPSASs with International Financial Reporting Standards (IFRS), HoTARAC is concerned that the paper has not been developed based on modifying IFRS 3 *Business Combinations*, and in accordance with IPSASB's *Process for Reviewing and Modifying IASB Documents*. HoTARAC strongly urges IPSASB to consistently apply these rules when developing IPSASs with a corresponding IFRS.

HoTARAC supports the application of the principles of IFRS 3 for acquisitions Not Under Common Control (NUCC) and the development of proposals for the accounting treatment for combinations Under Common Control (UCC), as suggested by HoTARAC in response to IPSASB's ED 41 *Entity Combinations from Exchange Transactions*. While HoTARAC supports the distinction between PSCs NUCC and UCC, the majority of members do not support the distinction between acquisitions and amalgamations. 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 International Accounting Standards Board was unable to define the difference between mergers and business combinations for IFRS 3. Instead, HoTARAC suggests an alternative approach for consideration where PSCs are classified as either:

- Acquisitions NUCC (based on convergence with IFRS 3); and
- All other PSCs (including PSCs UCC and amalgamations).

HoTARAC further recommends that the scope for a standard on PSCs be broadened to include Government Business Enterprises (GBEs). In Australia some jurisdictions have both for-profit and not-for-profit (NFP) GBEs, and all GBEs are consolidated at the whole of government level. Therefore IPSASBs should be developed to consider including NFP GBEs in the scope of this project.

Comments by HoTARAC on the Specific Matters for Comment in the report are attached.

If you have any queries regarding HoTARAC's comments, please contact Jenny McKinnar from the Victorian Department of Treasury and Finance on +613 9651 5787.

Yours sincerely



for Grant Hehir

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

30th October 2012

International Public Sector Accounting Standards Board (IPSASB)

Public Sector Combinations – Consultation Paper (the CP)

General Comments – Public Sector Combinations

HoTARAC supports the development of a standard for public sector combinations (PSCs), given that this is not addressed by other IPSAS. However, consistent with IPSASB's goal for convergence of IPSASs with IFRS, HoTARAC is concerned that the CP has not been developed based on modifying IFRS 3 *Business Combinations*, and in accordance with IPSASB's *Process for Reviewing and Modifying IASB Documents*. HoTARAC strongly urges IPSASB to consistently apply these rules when developing IPSAS with a corresponding IFRS.

HoTARAC supports the application of the principles of IFRS 3 for acquisitions Not Under Common Control (NUCC) and the development of proposals for the accounting treatment for combinations Under Common Control (UCC), as suggested by HoTARAC in response to IPSASB's ED 41 *Entity Combinations from Exchange Transactions*. However, HoTARAC is disconcerted that IPSASB has not sufficiently justified the UCC approach in the CP.

HoTARAC considers that the use of diagrams and tables as provided in the CP to summarise the proposals is very useful.

However:

- Some HoTARAC members do not support distinguishing amalgamations from other acquisitions.
- HoTARAC recommends clarification on which entity combinations fall within UCC and NUCC. For example, confirmation that UCC includes all public sector entity combinations, including GBEs that are controlled by the government, and that NUCC would include everything else, such as businesses and charities.
- HoTARAC would also recommend providing examples of situations for each proposed distinction e.g. nationalisation and privatisation. This has become prevalent since the Global Financial Crisis e.g. bank nationalisation.
- It is noted that some terms such as 'recipient' and 'transferor' have been aligned with IPSASB 23 *Revenue from Non-Exchange Transactions* rather than 'acquirer' and 'acquiree' as used in IFRS 3, without a strong argument for the deviation from IFRS based on public sector characteristics. HoTARAC recommends the inclusion of a succinct list of definitions similar to the presentation of key definitions in the CP's Preliminary View 1, with the addition of definitions for control and fair value, and/or reference to these terms defined in other IPSAS or IPSASB's *Glossary of Terms*.
- HoTARAC also recommends that IPSASB monitor IFRSs such as IFRS 9 *Financial Instruments*, IFRS 13 *Fair Value Measurement* and IFRS 10 *Consolidated Financial Statements* and may elect to update the CP's definitions in line with the IASB. The

potential impacts of these changes may merit further consideration by IPSASB, and in light of IPSASB's current projects that may potentially change the use of the term control (refer to paragraph 1.11 of the CP).

Specific Matter for Comment 1 (following paragraph 2.49)

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

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 previously 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.

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.

Specific Matter for Comment 2 (following paragraph 2.49)

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.

HoTARAC supports the approach taken in this CP to distinguish between PSCs NUCC and UCC, as these may require different accounting treatments.

However, HoTARAC has split views regarding whether it is 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 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.

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:

- Acquisitions NUCC (based on convergence with IFRS 3); and
- All other PSCs (including PSCs UCC; and amalgamations)

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 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.

Specific Matter for Comment 3 (following paragraph 3.13)

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

HoTARAC interprets that this question refers to any other characteristics that may distinguish amalgamations from acquisitions. As noted in the comments to Specific Matter for Comment 1 and 2 above, HoTARAC disagrees with the distinction between amalgamations and acquisitions.

In general, HoTARAC believes that the assessment of whether one party has gained control of one or more operations (i.e. a PSC acquisition) should be based on the application of the control concept, which is also examined as part of IFRS 10 *Consolidated Financial Statements*.

In considering control, HoTARAC believes examining the authority (e.g. a government decision/legislation/administrative order/other instrument) or sometimes the contract for the combination is important, in particular the intention of the authority. This is a factor that distinguishes PSCs from private sector combinations where the contract is generally the authority.

Specific Matter for Comment 4 (following paragraph 5.25)

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);
- (b) Distinguishing between different types of acquisitions (Approach B) so that:
 - (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and
 - (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or
- (c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

HoTARAC supports Approach A for the measurement of acquisitions NUCC and the reasons provided in paragraphs 5.9-5.14 including:

- consistency with other IPSAS where fair value is used to measure acquisitions of individual assets and liabilities, including in non-exchange transactions, and
- enhancement of comparability, and enables users to assess whether the value of any consideration transferred for the operation reflects the values of the operations net assets.

Approach A also aligns with IFRS 3 (paragraph 18), consistent with IPSASB's goal to converge with IFRS unless there are public sector characteristics that would require an alternative approach.

In addition, HoTARAC is concerned that allowing different accounting treatments where consideration is transferred from where consideration is not transferred or transferred at nominal value, may lead to financial statement structuring opportunities.

It should be noted that while HoTARAC supports Approach A for transactions NUCC, HoTARAC agrees with using carrying amounts for transactions UCC.

Specific Matter for Comment 5 (following paragraph 5.46)

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
- (c) A loss for all acquisitions?

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

HoTARAC generally supports option (c) on the basis that excess consideration for net asset transfers for public sector acquisitions NUCC are unlikely to meet the IFRS 3 definition of goodwill. However, a minority of HoTARAC members support option (b), if IPSASB considers a definition of goodwill that encompasses the notion of service potential.

Specific Matter for Comment 6 (following paragraph 6.26)

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).

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.

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.

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 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.

HoTARAC strongly recommends that the CP clarify these recognition requirements.

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.

Specific Matter for Comment 7 (following paragraph 6.31)

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

HoTARAC strongly believes that in accounting for an acquisition UCC, the accounting treatment for the recipient and transferor should be symmetrical, as at the whole of government level there has been no change to the assets or liabilities subject to the combination. This also aligns with the Government Finance Statistics (GFS) approach.

Symmetry can be achieved by both the transferor and the recipient recognising a contribution from owners or distribution to owners of the same amount. This can be achieved either by transferring net assets at the transferor's carrying amount, or by requiring the transferor (or where applicable the intermediary owner entity) to adjust the carrying amount to the recipients fair value and /or to align with accounting policies immediately prior to transfer to the recipient.

Public Sector Combinations

Attachment A

All other PSCs

Acquisition
NUCC

Recipient

Transferor

Approach
A

Measurement Basis

Carrying
Amount

Derecognition
Carrying
Amount

Fair Value

Treatment of Difference

Contribution/
distribution
from/to
owners

Symmetrical
Transferor/Recipient

Net assets
acquired in excess
of consideration

Gain

Net liabilities
assumed

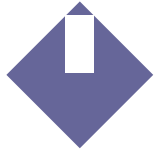
Loss

Consideration in
excess of net
assets acquired

Goodwill¹

Loss

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



**The Japanese Institute of
Certified Public Accountants**

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October 30, 2012

Ms. Stephenie Fox

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, Ontario, Canada M5V 3H2

Comments on the Consultation Paper “Public Sector Combinations”

Dear Ms. Fox,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Consultation Paper (CP) “Public Sector Combinations,” as follows.

Comments on Specific Matters

Specific Matter for Comment 1:

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

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.

Specific Matter for Comment 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.

We agree with the CP's approach that distinguishes between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC.

Specific Matter for Comment 3:

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

We are not aware of any characteristics, other than those described in the CP, that should be considered in determining whether one party has gained control of one or more operations.

Specific Matter for Comment 4:

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date for all acquisitions (Approach A);
- (b) Distinguishing between different types of acquisitions (Approach B) so that:
 - (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and
 - (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition;
- or
- (c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

Our Committee carefully considered these approaches; however, we have divided opinions. Some of the members support Approach A, while other members supported Approach B.

Paragraphs 5.19 to 5.23 only explain, as advantages of Approach B, the usefulness of using carrying amounts, except for the convenience of the operations. Those who support Approach A believe that these reasons cannot justify the special approach for the public sector. Therefore, they suggest that, in public sector acquisitions, all of the acquired operation's assets and liabilities should be measured at fair value, in the same manner as in the IFRS.

On the other hand, those who support Approach B believe that acquisitions in the public sector are usually based on the continuity of operations. If the measurement basis of acquired assets and liabilities would change, users could not assess the entities' financial performance on the basis of the continuity.

Related to this question, we recognize the following additional issues:

- (a) Approach B (i) states "with amounts adjusted to align the operation's accounting policies to those of the recipient." However, there would not be so many cases of different accounting policies, since IPSASs rarely permit alternative accounting treatments.
- (b) Paragraph 5.18 states "the recipient should recognize and measure the net assets acquired on the date of acquisition at the carrying amount in the acquired operation's financial statements, with amounts adjusted to align the operation's accounting policies to those of the recipient." We are concerned that this provision could pose a problem when the transferor adopts the revaluation model for the measurement after recognition of fixed assets, and the recipient adopts the cost model. When they comply with the provision, the fixed assets revaluated by the transferor should be restated to cost, in order to "align the operation's accounting policies to those of the recipient." This adjustment may be difficult to implement, since some entities do not record their historical costs under the revaluation model.

Specific Matter for Comment 5:

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
- (c) A loss for all acquisitions?

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

We support (a) goodwill for acquisitions of cash-generating operations and loss for all other acquisitions.

When the acquired operation is cash-generating, it will provide future economic benefits that meet the definition of an asset. In this case, goodwill can be recognized as an asset. We believe all other acquisitions should be recognized as a loss (or directly recognized in net assets discussed in the following paragraph) where the consideration transferred is in excess of the net assets acquired. It is because we agree with the viewpoint of paragraph 5.41 "service potential that is not capable of being individually identified and separately recognized does not arise" (this is consistent with the view of IPSAS 26).

Also, we suggest that IPSASB should consider another option: the difference is directly recognized as net assets in the recipient's statement of financial position. Public sector entities may acquire operations for the purpose of continuing to provide their service for the residents, rather than for the purpose of making a profit. In this case, we believe that it is appropriate to regard a receipt of "impaired net assets," rather than as a loss of the recipient (performance of the recipient).

Related to this question, we recognize the following additional issues:

- (a) With respect to “where the acquired operation is cash-generating” described in the option (a), Paragraph BC 15 of the IPSAS 21 states to the effect that individual assets (not group of assets) are determined whether cash-generating or non-cash-generating. Paragraph BC 14 of the IPSAS 21 also defines that cash-generating assets are determined by whether its “primary objective is generating a commercial return.” We suggest IPSASB should clarify the relationship between (a) “where the acquired operation is cash-generating”; and (b) where “primary objective is generating a commercial return”
- (b) We do not agree for IPSASB to develop a definition of goodwill that encompasses the notion of service potential.
- (c) It should be considered that, when the primary objective of the acquired operation is not cash-generating, the difference as a result of the acquisition may be recognized as deferred outflow.

Specific Matter for Comment 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).

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 entity (prescribed in the paragraph 51 of IPSAS 6).

Specific Matter for Comment 7:

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

We believe that the accounting treatment for the recipient and transferor of an acquisition UCC should be symmetrical, since the acquisition is merely an internal transfer for the ultimate controlling entity. We suggest that the resulting entity should succeed the combining entity's structure of net assets (each amount of line items) under the amalgamation UCC.

Other Comments

If IPSASB's conceptual framework will prescribe deferred inflow and deferred outflow, another issue may arise on Specific Matter for Comment 4. When the acquired operation NUCC contains deferred items, there would be 3 options: (a) to use the carrying amounts; (b) to eliminate it; or (c) to measure it on fair value basis.

We would not choose option (c), since the deferred items are the inflow (or outflow) of resources in the past which are expected to be taken to income or expense in a specified future period. It depends on the definition and criteria of deferred items. However, as long as it has the specified future period for the use of resource flow, option (a) would be appropriate.

Also, when the pooling of interests method is applied to an amalgamation, accounting policies of combining operations have to be aligned to those of resulting entity. The adjustment of assets and liabilities should be directly accounted for in accumulated surpluses or deficits on the amalgamation date (or at the beginning of the first period presented) in accordance with Paragraphs 27 of IPSAS 3, Retrospective Application.

Yours sincerely,

Naohide Endo

Executive Board Member

Public Sector Accounting and
Audit Practice

JICPA

Tadashi Sekikawa

Executive Board Member

Public Sector Accounting and
Audit Practice

JICPA



The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 Canada

Per e-mail

30 October 2012

Dear Stephanie,

COMMENT ON THE CONSULTATION PAPER ON PUBLIC SECTOR COMBINATIONS

We support the development of guidance on the accounting treatment of public sector combinations in the general purpose financial statements of entities that use accrual based IPSASs. We believe that such guidance will provide consistent, comparable and useful information to users for accountability and decision-making purposes. We therefore welcome the opportunity to comment on the Consultation Paper on *Public Sector Combinations*.

Our comment to you is set out in three parts: Part I outlines comment to the preliminary views, Part II outlines comment to the specific matters for comment and Part III outlines other matters for consideration by the IPSASB.

The comment on the Consultation Paper is that of the Secretariat and not the Accounting Standards Board (Board). In formulating our comment, the Secretariat consulted with a range of stakeholders including auditors, preparers, consultants, professional bodies and other interested parties.

Board Members: Mr V Jack (Chairperson), Ms CJ Kujenga, Mr K Kumar, Mr K Makwetu, Mr F Nomvalo, Mr G Paul,
Ms N Ranchod, Mr B Colyvas, Ms R Rasikhinya, Ms T Coetzer
Alternates: Ms L Bodewig, Mr J Van Schalkwyk
Chief Executive Officer: Ms E Swart

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely,

A handwritten signature in purple ink, appearing to read 'Erna Swart'.

Erna Swart

CEO: Accounting Standards Board

PRELIMINARY VIEWS

Preliminary view 1 (following paragraph 2.16)

*A **public sector combination** is the bringing together of separate operations into one entity, either as an acquisition of an amalgamation.*

The key definitions are as follows:

- (a) An **acquisition** is a transaction or other event that results in a recipient gaining control of one or more operations.*
- (b) An **amalgamation** is a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture.*
- (c) A **combining operation** is an operation that combines with one or more other operations to form the resulting entity.*
- (d) An **operation** is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.*
- (e) A **recipient** is the entity that gains control of one or more operations in an acquisition.*
- (f) A **resulting entity** is the entity that is the result of two or more operations combining where none of the combining operations gains control of the other operations.*
- (g) A **transferor** is the entity that loses control of one or more of its operations to another entity (the recipient) in an acquisition.*

We support the proposed definition for a public sector combination as well as the proposed key definitions. We do however have the following comment on, and proposals to the definitions for amalgamation, combining operation and resulting entity.

Definition for amalgamation and combining operation

An amalgamation is defined as a transaction or other event where two or more operations combine, none of the combining operations gain control of the other operations, and the transaction or other event is not the formation of a joint venture.

We question the reference to an operation in the definition of an amalgamation, because an operation (as defined in this Consultation Paper) is an integrated set of activities and related assets and/or liabilities. The pooling of interest method as discussed in IAS 22 *Business Combinations* noted that the combined entity has to recognise the assets, liabilities and equity of the combining entities, thereby assuming that the entire entity is amalgamated into the new combined entity and would be dissolved after the amalgamation. Furthermore the explanatory guidance distinguishing an acquisition from an amalgamation as included in section 3 refers to a combining entity, which also assumes the amalgamation of an entire entity. When reading the proposals concerning the going concern concept in paragraphs 7.13 to 7.15, we also concluded that, after the amalgamation, the entities combining will be dissolved.

If the definition of an amalgamation requires the combination of two or more *operations* it assumes that some of the operations, ie an integrated set of activities and related assets and/or liabilities, may remain in the combining entity after the amalgamation.

We therefore suggest that sufficient explanatory guidance should be included in the text of the proposed pronouncement to explain that an operation can either be a unit of an entity, or a transfer of the entire entity. Sufficient explanatory guidance should also be included to explain how entities should distinguish between an acquisition and an amalgamation if both these transactions can involve the transfer of an integrated set of activities and related assets and/or liabilities.

Definition for resulting entity

We propose that the definition for “resulting entity” could be condensed by deleting the last part of the definition, ie where none of the combining operations gains control of the other operations. This part of the definition is already included in the definition of an amalgamation.

Other proposals

The definition for “an acquisition” refers to “other events”. In discussing the proposals in the Consultation Paper with stakeholders, it was noted that “other events” could include, amongst others, the promulgation of legislation to require the public sector combination.

To ensure that the meaning of “other events” is interpreted consistently when preparers consider the principles in the pronouncement dealing with public sector combinations, we propose that sufficient explanatory guidance should be included in the proposed pronouncement to explain what “other events” can entail.

Preliminary view 2 (following paragraph 2.22)

A public sector combination under common control is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.

We support the proposed definition for a public sector combination under common control.

We acknowledge that entities should apply judgement in determining whether a transaction or event has occurred between entities “under common control” or “not under common control”, but we suggest that the proposed pronouncement dealing with public sector combinations should provide sufficient guidance to assist preparers in selecting the appropriate accounting guidance in accounting for the public sector combination.

In addition, we suggest that concept of “ultimately controlled” should be sufficiently explained in the proposed pronouncement to be developed for public sector combinations.

Preliminary view 3 (following paragraph 3.13)

The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations.

We support the sole criterion for distinguishing between an amalgamation and an acquisition as being that none of the combining operations gains control of the other operations.

We do however suggest that the guidance in the proposed pronouncement dealing with public sector combinations should discuss other criteria that could be considered to explain

when control could, or could not exist, such as representation of management in the resulting entity and the sizes of the entities and/or operations involved in the amalgamation.

Preliminary view 4 (following paragraph 5.5)

An acquisition NUCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation.

We support the view that an acquisition not 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.

We 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 (due to, for example budgetary issues), to ensure that the principles are applied consistently in accounting for the public sector combination.

We also propose that the concept of “acquisition date” and how it should be determined should be explained in the proposed pronouncement.

Preliminary view 5 (following paragraph 5.46)

The recipient in an acquisition NUCC recognizes in its financial statements on the date of acquisition, the difference arising as:

- (a) *A gain where the recipient acquires net assets in excess of consideration transferred (if any); and*
- (b) *A loss where the recipient assumes net liabilities.*

We support the view that the difference arising in an acquisition not under common control should be recognised in the statement of financial performance as either a gain or a loss.

Preliminary view 6 (following paragraph 6.6)

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

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.

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.

We also propose that the concept of “acquisition date” and how it should be determined should be explained in the proposed pronouncement.

Preliminary view 7 (following paragraph 6.9)

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 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.

The proposal to use carrying amounts is supported because:

- 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.

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:

- (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 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.

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.

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.

- (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.

Preliminary view 8 (following paragraph 7.12)

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

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).

Preliminary view 9 (following paragraph 7.15)

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.

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.

SPECIFIC MATTERS FOR COMMENT

Specific matter for comment 1 (following paragraph 2.49)

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

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.

Specific matter for comment 2 (following paragraph 2.49)

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.

We support the approach used in the Consultation Paper to distinguish acquisitions and amalgamations and public sector combinations under common control and not under common control.

Specific matter for comment 3 (following paragraph 3.13)

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

We are not aware of any other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations.

Specific matter for comment 4 (following paragraph 5.25)

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);*
- (b) Distinguishing between different types of acquisitions (Approach B) so that:*
 - (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and*
 - (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or*
- (c) Another approach?*

Please explain why you support Approach A, Approach B or another approach.

We support option (a) that requires the application of fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of the public sector combination not under common control.

We are of the view that it would be difficult to determine when the consideration received is “nominal” in as this will require a high degree of judgement which could effect comparability between entities. What one entity sees as a “nominal consideration” might be different to what another entity sees as “nominal” due to nature of the arrangement or due to different circumstances under which the transaction or event is undertaken.

Specific matter for comment 5 (following paragraph 5.46)

In your view, where the consideration transferred in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;*
- (b) Goodwill for all acquisitions (which would require development if a definition of goodwill that encompasses the notion of service potential); or*
- (c) A loss for all acquisitions?*

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

We support option (c) that requires that the difference arising in an acquisition not under common control, where consideration is transferred, should be recognised as a loss in the recipient's financial statements.

For an item to meet the definition of an asset, future economic benefits or service potential should be obtainable from that item. In applying that principle to the excess of the net assets acquired, the recipient should be able to demonstrate that the projected future results of operations of the acquired entity would be sufficient to recover the purchase premium over its amortisation period. The transferor should be able to provide supportive evidence on projected future results through, for example a realistic and specific business plan.

As public sector entities are not focused on generating a commercial return but rather on providing goods and services to achieve their objectives, and because the excess is likely to have been paid for policy reasons, we are of the view that it is more appropriate to recognise the excess as a loss. In our view the definition of goodwill, as defined in IFRS 3 *Business Combinations*, has not been met.

Specific matter for comment 6 (following paragraph 6.26)

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 of distribution to owners?*

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

We do not support alternative (a) or (b) provided under this matter for comment.

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).

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).

Specific matter for comment 7 (following paragraph 6.31)

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

We are of the view that the accounting treatment for the recipient and transferor in an acquisition under common control should be symmetrical as it represents a transaction with owners.

Even though we support the symmetrical accounting treatment, we suggest that the proposed pronouncement dealing with public sector combinations should note that the values at which the assets and liabilities are transferred by the transferor, and the values at which the assets and liabilities are assumed by the recipient might be different in certain instances. These differences result, for example, from the application of different accounting bases applied by the recipient and transferor (see our response and proposed suggestions to preliminary view 7 above).

OTHER MATTERS

Summary of methods of accounting

In table 2: Summary of methods of accounting, it is concluded that under the pooling of interest method and the modified pooling of interest method the consideration transferred only involves the exchange of shares.

We suggest that the basis for conclusions of the proposed pronouncement dealing with public sector combinations should explain why the consideration only involves the exchange of shares.



31 October 2012

Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox

**Consultation Paper
Public Sector Combinations**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Consultation Paper referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'S O'Neill', is positioned above the printed name.

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

Consultation Paper Public Sector Combinations

ACAG provides the following comments in response to the IPSASB's request for comments on the Preliminary Views and feedback on the specific matters in the Consultation Paper (CP).

Overall Comments

ACAG supports the development of a single standard identifying the accounting requirements for Public Sector Combinations (PSCs). In this regard, ACAG supports the development of an accounting standard which is consistent with existing requirements of IFRS 3 *Business Combinations*, modified where appropriate, to reflect public sector considerations.

While ACAG supports the development of an accounting standard, ACAG does not support the proposed approach of distinguishing between "amalgamations" and "acquisitions" in relation to PSCs Under Common Control (UCC). The distinction between "acquisitions" and "amalgamations" for PSCs Not Under Common Control (NUCC) is supported.

Detailed comments are provided below in relation to the Specific Matters for Comment. Additional comments are provided in relation to a number of matters for which ACAG believes further consideration should be given in developing a future accounting standard.

These comments have been provided based on ACAG's experience in accounting for PSCs in Australia.

Specific Matter for Comment 1

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

ACAG believes the scope of the CP is generally appropriate as it deals with PSCs that involve:

- entities UCC and NUCC
- consideration and no or nominal consideration
- transfers of net assets and net liabilities.

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.

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.

ACAG believes that in developing a future accounting standard, consideration should also be given to providing guidance/clarification in relation to the following areas:

- 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
- 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)
- 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
- 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
- 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.

Specific Matter for Comment 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.

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.

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”.

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.

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.

Specific Matter for Comment 3

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

In Australia, AASB 127 *Consolidated and Separate Financial Statements* identifies a number of factors that may indicate the existence of control in a public sector environment, including:

- the entity is accountable to Parliament, or the Executive or a particular Minister as evidenced by:
 - the existence of a Ministerial or other government power enabling the government to direct the entity's governing body to achieve the government's policy objectives;
 - Ministerial approval is required for operating budgets;
 - the government has the ability to veto operating and capital budgets of the entity;
 - the government has broad discretion, under existing legislation, to appoint or remove a majority of the members of the governing body of the entity;
 - the entity is required to submit to Parliament reports on operations, including audited financial statements under legislative requirements applying generally to public sector entities or the entity's own enabling legislation; or
 - the mandate of the entity being established or limited by its enabling legislation.
- the government has a residual financial interest in the net assets of the entity arising from:
 - the government being exposed to residual liabilities of the entity; or
 - the government having the right to receive the residual net assets of the entity if that entity is dissolved.

Specific Matter for Comment 4

In your view, should the recipient in an acquisition NUCC recognise in its financial statements, the acquired operation's assets and liabilities by:

- (a) *Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);*
- (b) *Distinguishing between different types of acquisitions (Approach B) so that:*
 - (i) *For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognised, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and*
 - (ii) *For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or*
- (c) *Another approach?*

Please explain why you support Approach A, Approach B or another approach.

ACAG supports the use of Approach A. Under Australian Accounting Standard AASB 3 *Business Combinations*, an acquisition NUCC would normally be accounted for by applying fair value measurement to the assets acquired and liabilities assumed. However, AASB 3

provides an exemption where there is a transfer of assets between local governments. In these circumstances, AASB 3 (Aus63.2) provides:

Assets transferred to a local government from another local government at no cost, or for nominal consideration, by virtue of legislation, ministerial directive or other externally imposed requirement shall be recognised initially either at the amounts at which the assets were recognised by the transferor local government as at the date of the transfer, or at their fair values.

In Australia, local governments are considered to be NUCC. Generally, transfers between local governments are recorded at the carrying amounts recognised by the transferor local government.

Specific Matter for Comment 5

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognised in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;*
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or*
- (c) A loss for all acquisitions?*

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

ACAG supports option (a) on the basis that the recognition of goodwill in public sector entities would have limited impact for the entities within the scope of the CP since, in Australia, the objective of public sector entities is generally to deliver goods and/or services rather than the generation of cash returns, particularly as the accounting treatment of a combination in the financial statements of Government Business Enterprises is excluded from the scope of this CP.

Specific Matter for Comment 6

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

- (a) A gain or loss recognised in surplus or deficit (in the statement of financial performance);*
- (b) A contribution from owners or distribution to owners recognised directly in net assets/equity (in the statement of financial position); or*
- (c) A gain or loss recognised 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?*

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.

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:

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.

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 Owners Made to Wholly-Owned Public Sector Entities*.

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.

Specific Matter for Comment 7

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

ACAG supports the symmetrical treatment of acquisitions UCC in the accounts of the recipient and transferor. However, ACAG recommends that any accounting standard developed should include additional guidance on how this symmetry can be achieved where the transfers are to be accounted for as a contribution from/distribution to owners and adjusted directly through equity.

Specific guidance should be provided as to how distributions to owners are to be accounted for where the value of the net assets transferred is greater than the Contributed Equity of the transferor. In particular, can the difference be adjusted by the transferor against another equity account such as accumulated surpluses, or should the difference be accounted for as a loss by the transferor and a gain by the recipient? Similar issues may arise where a recipient entity assumes net liabilities under a PSC UCC.

This is an area where the current accounting requirements in Australia are silent. Some jurisdictions within Australia have developed their own requirements for accounting for the equity adjustments, resulting in different accounting treatments between jurisdictions.

Another issue to be considered relates to the treatment of asset revaluation surpluses on the transfer of the related assets. In particular, can a recipient entity recognise the asset

revaluation surpluses relating to the transferred assets where either an operation is transferred to a single entity or a new entity is created? At present, it would appear that such a transfer is not allowed under existing accounting standards in Australia. As such, examples have been identified in the restructures of administrative arrangements where property, plant and equipment is transferred from one government department to another under the restructure. In these circumstances, the asset revaluation surplus cannot be transferred to the new department. However, at the Whole-of-Government level the asset revaluation surplus remains as there has been no change to the position of the economic entity.

The above points can be demonstrated through the following example:

Entity A is required to transfer an operation with assets of \$700,000 and liabilities of \$300,000 to Entity B as part of a PSC UCC. At the time of the PSC, Entity A's Statement of Financial Position identifies the following:

	Entity A	Operation
Total Assets	\$1,000,000	\$700,000
Total Liabilities	\$500,000	\$300,000
Net Assets	\$500,000	\$400,000
Contributed Equity	\$100,000	\$100,000
Accumulated Surplus	\$200,000	
Asset Revaluation Surplus	\$200,000	\$200,000
Total Equity	\$500,000	

Assuming the transfer meets the definition of a distribution to owners, how is this accounted for against equity in the accounts of Entity A? In particular:

- is the distribution to owners limited to the \$100,000 in Contributed Equity and \$200,000 in Accumulated Surplus? If so, what happens to the remaining \$100,000? IPSASB guidance is required as to which equity line items constitute equity that is available to be transferred in a distribution from owners.
- can the distribution be used to turn the Accumulated Surplus into a deficit without going through the Statement of Comprehensive Income? Is this consistent with a distribution to owners which should, in theory, be limited to a return of equity and a distribution of profits?
- Although we acknowledge the guidance in IPSAS 17 *Property, Plant and Equipment* paragraph 57, how should the Asset Revaluation Surplus be treated if the asset classes to which they relate are (i) transferred, (ii) not transferred? Without the transfer of the Revaluation Surplus to Entity B, Entity B may be required to record any future revaluation decrements through surplus/deficit even though, from the perspective of the economic entity, these could be offset against the Asset Revaluation Surplus.
- Can the distribution to owners be shown as a separate debit balance of \$400,000 in equity?
- To what extent would the accounting be "symmetrical" in the accounts of Entity B?

IPSASB Consultation Paper

Public Sector Combinations

response to consultation

31 October 2012

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/121031 SC0187

Stephenie Fox
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Dear Stephenie Fox

IPSASB Consultation Paper - *Public Sector Combinations*

CIPFA is pleased to present its comments on this Consultation Paper, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

As noted in successive responses, CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's project to develop and maintain IFRS converged IPSASs or through wholly public sector specific IPSASs.

Specific Matters for Comment

CIPFA responses to the Specific Matters on which IPSASB would particularly value comment are set out in an attached annex.

I hope this is a helpful contribution to the development of the Board's guidance in this area.

Yours sincerely

Paul Mason

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ANNEX

Specific Matters for Comment

<p>Specific Matter for Comment 1 (following paragraph 2.49)</p> <p>In your view, is the scope of this CP appropriate?</p>
<p>CIPFA agrees that the scope of the Consultation Paper, which covers all public sector combinations, is appropriate.</p>
<p>Specific Matter for Comment 2 following paragraph 2.49)</p> <p>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.</p>
<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>
<p>Specific Matter for Comment 3 (following paragraph 3.13)</p> <p>In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?</p>
<p>CIPFA agrees with the analysis set out in paragraphs 3.1 to 3.13, which explains that certain private sector characteristics cannot be straightforwardly applied to the generality of public sector combinations.</p> <p>We note and agree with the discussion of other indicative factors. We are not aware of any further public sector characteristics which could be used in testing for transfer of control.</p>

Specific Matter for Comment 4 (following paragraph 5.25)

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

(a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);

(b) Distinguishing between different types of acquisitions (Approach B) so that:

(i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and

(ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition;

or (c) Another approach?

CIPFA supports Approach B, mainly to promote comparability between mainstream public sector, GBEs and private sector IFRS appliers. For 'business like' combinations per b (ii) there may be some benefit from consistent treatment with IFRS and in these cases the information may be important or useful.

Specific Matter for Comment 5 (following paragraph 5.46)

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

(a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;

(b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential);

or

(c) A loss for all acquisitions?

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

The amounts involved will often not be material in the mostly revaluation-based accounts in the UK public sector. On balance CIPFA supports approach (c).

Specific Matter for Comment 6 (following paragraph 6.26)

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).

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.

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.

Specific Matter for Comment 6 (following paragraph 6.31)

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

CIPFA agrees that the accounting treatment for the recipient and transferor of an acquisition UCC should be symmetrical.



Paris, le 30 OCT 2012

DIRECTION GÉNÉRALE DES FINANCES PUBLIQUES

Service comptable de l'État / Service des collectivités locales

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Ms Stephenie FOX

Technical director

International Public Sector Accounting Standards
Board

International Federation of Accountants

277 Wellington Street, 4th Floor

Toronto

Ontario M5V 3H2 CANADA

Object: Response to the Consultation Paper: Public Sector Combinations.

I am writing on behalf of "Direction Générale des Finances Publiques" (DGFIP) to express our views on the mentioned above public consultation on Public Sector Combinations.

1. GENERAL COMMENTS

The body of International Public Sector Accounting Standards (IPSAS) in effect does not currently include specifics with regard to the accounting treatment of combinations or acquisitions of entities in the public sector. In this regard, we welcome the June 2012 publication of this Consultation Paper on Public Sector Combinations.

We regret, however, that this Consultation Paper is so inadequately suited to the specific characteristics of the public sector. In fact, it:

- takes little account of the specific characteristics of public-sector entities and, in particular, the lack of ownership links between them;
- is based on concepts underlying IFRS 3 "Business Combinations" such as acquisitions at market price, which remain marginal in the public sector;
- is unclear, particularly with regard to the notion of "amalgamation"¹, which is nevertheless a central concept of the proposed standard, given that the standard deals with public-entity combinations that are acquisitions and those that are "amalgamations".

As we see it, this pitfall stems, among other things, from the instability of the other IPSASs. The ongoing work on the conceptual framework does not allow the standards setter to draw from a base of robust principles to develop standards appropriate to the specific characteristics of the public sector. These are not, at the moment, clearly formulated.

Furthermore, it seems premature to address the accounting methods applicable to changes in the consolidation scope, while IPSAS 6 "Consolidated Financial Statements – Accounting for Controlled Entities", which defines the scope, has not been revised.

¹ "An amalgamation is a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture."

Consequently, in its current version, this standard defines scope of consolidation according to the control exercised by the consolidating entity. It is based on two elements: power and benefits². In accordance with IPSAS Board practice, this standard should be updated upon publication of IFRS 10 "Consolidated Financial Statements," which expands the notion of control³ previously defined in IAS 27 "Consolidated and Separate Financial Statements"⁴. As part of this revision, it would seem appropriate to initiate a discussion on the control criteria suited to the public sphere (such as engaging in public policy or majority financing by another public entity) and not simply copied from those used in the private sphere.

Lastly, for a subject so fundamental, complex and technical, the deadline for comments on this Consultation Paper is extremely tight (the Consultation Paper was published at the end of June 2012 with comments requested by October 31, 2012).

The DGFIP therefore considers that this standard cannot be published as it currently stands, and requires an extensive revision that should be completed after the publication of the conceptual framework and revision of IPSAS 6. Consequently, the comments provided on this Consultation Paper are deliberately succinct, pending a text that will correspond more to the specific needs of the public sector.

² IPSAS 6 §28 "the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity)."

³ IFRS 10 provides a definition of control that includes the following three components:

- power over the other entity;
- exposure, or rights, to variable returns from this other entity; and
- the ability to use its power to affect the amount of its returns.

⁴ IFRS 10 amended IAS 27 "Consolidated and Separate Financial Statements" which, as from that same date, was amended and is henceforth titled "Separate Financial Statements" (IAS 27 2011).

2. RESPONSES TO THE QUESTIONS

Specific Matter for Comment 1 / In your view, is the scope of this CP appropriate?

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.

Specific Matter for Comment 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.

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 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.

Specific Matter for Comment 3 / In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

As mentioned in the introduction, this text takes little account of the characteristics of the public sector. As long as the conceptual framework and IPSAS 6 are not revised, the publication of this standard seems premature. In view of defining a scope of consolidation, the notion of control should, as we see it, be supplemented by the concepts of directing and/or executing public policies and engaging in non-market activity mainly financed by public resources.

Specific Matter for Comment 4 / In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);*
- (b) Distinguishing between different types of acquisitions (Approach B) so that:*

- (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and*
- (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition;*

or

(c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

As mentioned in the introduction, entity acquisitions are very marginal in the public sphere. Furthermore, the concept of fair value is hardly appropriate to the public sphere. Historical cost seems best suited to the public sector.

Specific Matter for Comment 5 / In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;*
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or*
- (c) A loss for all acquisitions?*

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

As mentioned in the introduction, the concept of goodwill seems inappropriate to the public sphere.

Goodwill represents the excess price that the acquiring entity agrees to pay in consideration of the benefits that it gains from taking control of the entity: elimination of a competitor, ensuring supplies or a market opportunity, improved production conditions, expansion abroad, etc.

Considering the non-market nature of the activities of government and of other public entities, the capitalization of goodwill is inappropriate. This capitalization is also inappropriate to government ownership stakes in market-sector entities, since the government acts as economic and social regulator, and not from the standpoint of streamlining its activity or a trading activity.

Specific Matter for Comment 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).

No comments as the text currently stands.

Specific Matter for Comment 7 / In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

No comments as the text currently stands.

For all that, logically, the accounting treatment in the public sector, where mergers and acquisitions are viewed differently than in the market sector, should be symmetrical for the buyer and the seller.

Le Directeur,
adjoint au directeur général
des finances publiques,
chargé de la gestion publique

Vincent MAZAURIC

FRENCH VERSION

Le corpus de normes IPSAS en vigueur ne comprend pas, jusqu'à présent, de précisions sur le traitement comptable des regroupements ou des acquisitions d'entités au sein du secteur public. En ce sens, nous saluons la publication, en juin 2012, de ce document de consultation relatif aux « Public sector Combinations ».

Nous regrettons cependant que ce document de consultation soit si peu adapté aux spécificités du secteur public. En effet, il :

- tient peu compte des spécificités des entités du secteur public et, notamment, de l'absence de lien capitalistique entre elles ;
- s'appuie sur des concepts inspirés de la norme IFRS 3 « Regroupements d'entreprises » tels que l'acquisition au prix de marché, qui reste un cas marginal dans le secteur public ;
- est peu compréhensible, notamment sur la notion « d'amalgamation⁵ » qui est pourtant un concept central du projet de norme, la norme traitant des regroupements d'entités publiques qui sont des acquisitions et de ceux qui sont des « amalgamations ».

A notre sens, cet écueil tient, entre autres, au manque de stabilité des autres normes IPSAS. En effet, les travaux en cours sur le cadre conceptuel ne permettent pas au normalisateur de s'appuyer sur un socle de principes robustes pour élaborer des normes adaptées aux spécificités du secteur public, celles-ci n'étant pas, pour l'instant, clairement énoncées.

Par ailleurs, il nous semble prématuré de traiter des méthodes comptables applicables aux variations du périmètre de consolidation, alors que la norme IPSAS 6 « États financiers consolidés et comptabilisation des entités contrôlées », qui définit le périmètre, n'est pas refondue.

⁵ « An amalgamation is « a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture. »

Ainsi, dans sa version actuelle, cette norme définit le périmètre de consolidation en fonction du contrôle exercé par l'entité consolidante. Celui-ci repose sur deux éléments que sont le pouvoir et les avantages⁶. Conformément à la pratique de l'IPSAS Board, cette norme devrait être mise à jour lors de la publication de la norme IFRS 10 « États financiers consolidés », qui élargit la notion de contrôle⁷ précédemment définie dans la norme IAS 27 « États financiers consolidés et individuels »⁸. Dans le cadre de cette refonte, il apparaîtrait opportun d'amorcer une réflexion sur des critères de contrôle adaptés à la sphère publique (tels que l'exercice d'une politique publique ou le financement majoritaire par une autre entité publique) et non simplement calqués sur ceux retenus dans la sphère privée.

Enfin, les délais de réponse à cette consultation sont extrêmement contraints (publication de la consultation fin juin 2012 avec une demande de réponse avant le 31 octobre 2012), pour un sujet qui est structurant, complexe et technique.

La Direction générale des finances publiques considère ainsi que cette norme ne peut être publiée en l'état, et nécessite une révision profonde qui devrait intervenir après la publication du cadre conceptuel et la révision de la norme IPSAS 6. Ainsi, les réponses formulées au présent document de consultation sont volontairement succinctes, dans l'attente d'un texte qui correspondra davantage aux besoins spécifiques du secteur public.

⁶ IPSAS 6 §28 « le pouvoir (le pouvoir de diriger les politiques financières et opérationnelles d'une autre entité) et les avantages (qui représentent la capacité de l'entité contrôlante à obtenir des avantages de l'autre entité). »

⁷ La norme IFRS 10 fournit une définition du contrôle qui comprend les trois éléments suivants :

- pouvoir sur l'autre entité ;
- exposition, ou droits, à des rendements variables de cette autre entité ; et
- capacité d'utiliser son pouvoir afin d'impacter ses rendements.

⁸ IFRS 10 vient amender IAS 27 "Etats financiers consolidés et individuels" qui, à compter de cette même date, a été modifiée et s'intitule dorénavant "Etats financiers individuels" (IAS 27 version 2011).

Specific Matter for Comment 1 /

Comme évoqué en introduction, le traitement de ce sujet est fondamental. En revanche, il aurait dû succéder à la publication du cadre conceptuel et à la révision de la norme IPSAS 6. En effet, ces textes normatifs fondamentaux auraient permis à l'IPSAS Board de rédiger une norme adaptée aux spécificités du secteur public, tant du point de vue du périmètre de consolidation que de la nature des regroupements.

Specific Matter for Comment 2 /

Comme évoqué en introduction, bien que les regroupements par acquisition soient assez rares dans le secteur public, la notion d'acquisition est très explicite et largement développée dans le projet de norme, alors que celle « d'amalgamation », qui tendrait davantage à répondre aux besoins du secteur public, est peu compréhensible dans le texte proposé. Il est donc difficile de répondre à la question.

Specific Matter for Comment 3 /

Comme évoqué en introduction, ce texte tient peu compte des caractéristiques du secteur public. Tant que le cadre conceptuel et la norme IPSAS 6 ne sont pas refondues, la publication de cette norme apparaît prématurée. En vue de définir un périmètre de consolidation, la notion de contrôle devrait, à notre sens, être complétée par celles de pilotage et/ou d'exécution des politiques publiques, et de réalisation d'une activité non marchande principalement financée par des ressources publiques.

Specific Matter for Comment 4 /

Comme évoqué en introduction, les cas d'acquisition d'entité sont très marginaux dans la sphère publique. Par ailleurs, le concept de « fair value » est peu adapté à la sphère publique. Le coût historique apparaît le plus adapté dans le secteur public.

Specific Matter for Comment 5 /

Comme évoqué en introduction, le concept de « Goodwill » apparaît inadapté à la sphère publique.

En effet, l'écart d'acquisition (goodwill) représente le surcoût que l'entité acquéreuse accepte de payer en contrepartie des avantages que procure la prise de contrôle de l'entreprise : élimination d'une entreprise concurrente, assurance d'un approvisionnement ou d'un débouché, amélioration des conditions de production, expansion à l'étranger...

Compte tenu de la nature non marchande des activités de l'État et des autres entités publiques, son activation est inapproprié. Cette activation est également inapproprié aux prises de participation de l'État dans des entités du secteur marchand, l'État agissant dans son rôle de régulateur économique et social, et non dans une perspective de rationalisation de son activité ou d'activité de trading.

Specific Matter for Comment 6 /

Pas de commentaires dans l'état actuel du texte.

Specific Matter for Comment 7 /

Pas de commentaires dans l'état actuel du texte.

Pour autant, en toute logique, dans le secteur public pour lequel les fusions et acquisitions relèvent d'une optique différente du secteur marchand, le traitement comptable devrait être symétrique chez l'acquéreur et le cédant.



EUROPEAN COMMISSION
Budget

The Accounting Officer of the Commission

Brussels,
BUDG.DGA.C02/MK/mt

**NOTE FOR THE ATTENTION OF PROF ANDREAS BERGMANN,
CHAIR OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD**

Subject: Consultation on the Public Sector Combinations paper

Thank you for the opportunity to comment on your consultation paper on Public Sector Combinations (PSC). The following comments are made in my capacity as Accounting Officer of the European Commission responsible for, amongst other tasks, the preparation of the annual consolidated accounts of the European Union which comprise more than 50 European Agencies, Institutions and other European Bodies with an annual budget of more than EUR 140 billion. Given our experience in defining and implementing the accounting framework for a large governmental organisation with a significant number of consolidated bodies, I believe that our input can be of value to the work of the IPSAS Board in this matter. I would stress, that this note does not represent a communication of the European Commission or any other Commission's service, rather it is my professional opinion on the consultation paper issued.

First of all, I would like to express my satisfaction that the IPSAS Board has addressed the issue of PSCs and issued some preliminary views on that topic. The transfer of operations either as acquisition or as amalgamation under both control distinctions has happened relatively often in the European Union institutions in recent years. This is due to the fact that the EU's enlargement process and the constantly increasing political activities on Union level have often triggered reorganisations that are described by your consultation paper. It is expected that these kinds of PSCs will continue to happen for us in the future.

As there was in the past no specific accounting guidance for PSCs available we had to look at generally accepted private sector guidance. In our opinion this did not fully reflect public sector reality and specificities. So it was necessary to adjust the existing guidance to our needs. Looking at the discussions that the IPSAS Board had so far on this we are confident that you will have a high quality standard on PSCs available in due time. We would like to stress the importance of disclosures on PSC transactions as these are often the most important source of information for addressees such as Parliamentarians. We do, however, understand your reasoning in deferring this topic until the accounting treatment is defined.

As regards your **specific matter for comment 2** we do think that the distinction between acquisitions and amalgamations based on the control criterion¹ 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 differentiated²:

- Acquisitions NUCC where consideration is transferred; and
- All other PSCs.

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.

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.

Regarding the measurement bases for acquisitions (**specific matter for comment 4**) we are of the opinion that the **modified acquisition method (approach B)** best reflects the economic reality of both acquisitions UCC and acquisitions NUCC. We understand that the Board has taken the **preliminary view 7** that acquisitions UCC should be recognised at carrying amount and we fully support that view for the same reasons mentioned in the consultation paper. As regards acquisitions NUCC, we believe as well that the modified acquisition method leads to a fair presentation of the accounts of the recipient. The statements in the following paragraph relate to acquisitions NUCC without consideration as we believe that when a consideration has been transferred, the application of the "normal" acquisition method is appropriate.

We would in particular point out that an acquisition NUCC **without consideration** is public sector specific and it makes sense to differentiate in terms of accounting approaches. Many of the arguments for our preferred approach in the case of acquisitions NUCC are in principle already expressed in **paragraphs 5.18-5.23** in your consultation paper. We do not believe that for acquisitions NUCC without consideration the transferred fair value has information advantages as compared to the carrying amount approach. One of the main reasons for revaluing net assets of the operations received is to allocate the consideration transferred to the items for which the acquirer has paid more than the book value of the net assets. The fact that no consideration has been transferred or intended to be transferred to the transferor indicates that no real economic change has taken place. This would in particular be true in cases where the transfer was imposed by governments and both the transferor and the recipient had no choice to do so. It could and indeed has happened that operations of an entity controlled or jointly controlled³ by EU member states that is not an EU institution may be transferred to the EU institutions as a result of a political agreement of the member states⁴ independently of efficiency

¹ Control over the resulting entity.

² 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.

³ The same applies to operations of Joint Ventures between the EU and other supranational organisations that are transferred into the economic entity EU.

⁴ In this case there would not be an amalgamation as suspected in para. 3.12 since there is no common economic entity and the economic entity EU would gain control.

gains or the delivery of better quality of service, which is always the intention behind the transfer. This case is in fact very similar to the "normal reorganisation" as in the scope of acquisitions UCC. We thus believe that in our specific cases the discrimination based on the control criteria in IPSAS 6 should not lead to a different accounting treatment of similar transactions. Consequently, accountability should be assessed on the same basis as before the PSC.

We would also like to point out that the "carrying amounts" under approach B may include fair values (e.g. financial instruments) depending on the asset / liability category. So a general statement that approach B would not provide relevant information is incorrect. Likewise the argument implies that the application of IPSASs without PSC does not provide relevant information which is clearly not the case. In some cases, reliability of information should be given more weight since in the public sector some assets are unique and so no valuation technique can deliver useful results, or some transactions might be unique and no input for valuation models can be found. In those cases it is questionable whether an artificial fair value provides more relevant and reliable information.

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.

I look forward to our continued co-operation in the area of public sector accounting and remain at your disposal for any question you may have on the above.



Manfred Kraff

Copy: S. Fox, J. Stanford, IFAC
F. Lequiller, ESTAT D
R. Aldea Busquets, BUDG C
M. Koehler, BUDG C.2



Treasury Board of Canada
Secrétariat

Secrétariat du Conseil du Trésor
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Ms. Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario
M5V 3H2

Dear Ms. Fox:

SUBJECT: Public Sector Combinations

Thank you for the opportunity to comment on the Consultation Paper – *Public Sector Combinations* that was issued in June 2012.

By way of background, the Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Our government is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS have become increasingly important as a secondary source of generally accepted accounting principles (GAAP) for Canadian governments. Consequently, we have read the exposure draft with interest, and our responses to the Preliminary Views and Specific Matters for Comment raised in the Consultation Paper (CP) are included in the attached Appendix.

If you have any further questions related to these comments, please do not hesitate to contact either Annie Boyer at Annie.Boyer@tbs-sct.gc.ca (613-957-9671) or myself at Sylvain.Michaud@tbs-sct.gc.ca (613-952-0886).

Yours sincerely,

Sylvain Michaud,
Executive Director,
Financial Management Sector
Office of the Comptroller General

Attachment

c.c.: James Ralston, Comptroller General of Canada
Tom Scrimger, Assistant Comptroller General, Financial Management & Analysis Sector

Appendix

Consultation Paper – Public Sector Combinations

Comments on Preliminary Views

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.

We agree that the accounting treatment of combinations under common control should be considered separately to those that are not under common control. However, there is no other guidance in IPSAS for recognition and measurement of related party transactions. Therefore, preparers may analogize other types of transactions, such as the acquisition of an item of property, plant and equipment through a non-exchange transaction between related parties, to the guidance on public sector combinations. Additional clarification may be required to avoid such interpretation by preparers.

Specific Matter for Comment 1:

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

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.

Specific Matter for Comment 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?

Please see comments on preliminary views above.

Specific Matter for Comment 3:

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

We agree that the characteristics to be considered to determine whether one party has gained control over the transferred operations are those established in IPSAS 6, *Consolidated and Separate Financial Statements*, which define a controlling entity.

Specific Matter for Comment 4:

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);*
- (b) Distinguishing between different types of acquisitions (Approach B) so that:*
 - (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and*
 - (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or*
- (c) Another approach?*

We agree with Approach (b).

For combinations that do not involve the exchange of significant consideration, we agree that the assets and liabilities transferred should be measured at the carrying amounts adjusted to align to the accounting policies of the acquirer. This reflects the view that this is a continuation of the operations provided by the transferring entity and there is no basis for a fresh start approach to the measurement of the assets and liabilities transferred.

For combinations with significant consideration, i.e. exchange transactions, we agree that the most appropriate approach is to measure the assets acquired and liabilities assumed at fair value. This is consistent with the accounting treatment in IFRS 3, *Business Combinations*, as the exchange of significant consideration

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provides the justification to establish a new cost base for the assets acquired and liabilities assumed.

The CP distinguishes the accounting treatment for acquisitions with no or nominal consideration and those with consideration. We believe that a transaction should be accounted for at fair value if there is significant consideration exchanged, since payments may be made to the transferring entity as a form of compensation rather than consideration. In that case, the assets and liabilities should be transferred at their carrying amounts rather than at fair value since there is no justification to establish a new cost base for the items transferred. Determining whether significant consideration is exchanged is a decision that will require a review of the economic substance and agreements governing the transfer, e.g. whether or not the amount exchanged is based on the fair values of the net assets transferred.

Specific Matter for Comment 5:

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:
(a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
(b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
(c) A loss for all acquisitions?
Please explain why you support (a), (b), or (c).

We support view (c), that the excess of consideration over the fair value of the net assets acquired is a loss for all acquisitions. We have given due consideration to combinations when the acquired operation is cash-generating (alternative (a)), such as in the case of acquiring a Government Business Enterprise (GBE), since there is an argument to be made that the excess could meet the definition of goodwill in IFRS 3. However, the nature of government is to provide services, and the operations of a GBE, or other cash-generating operation, are acquired for that purpose whether or not the operation is financially self-sustaining. In the private sector, goodwill represents intangibles such as brand recognition, an established customer base and market share, that are not separately identified as assets in the acquisition but have value to the entity in a competitive environment. In the public sector, GBEs do not generally compete as a business with private sector entities, therefore the intangibles usually represented by goodwill do not necessarily result in an increase in future economic benefits to a public sector entity. In addition, we do not believe that goodwill is created through an increase in future service potential, since it does not represent an increase in the resources of the government that can be used to provide future services.

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Specific Matter for Comment 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).

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 entities within an economic entity.

Specific Matter for Comment 7:

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

Yes, we believe that the accounting treatment should be symmetrical when the recipient and transferor entities are under common control. Increases in the controlling entity's interest in one entity should be offset by decreases in the other entity. Although these transactions will be eliminated on consolidation of the entities, the accounting treatment in both of the separate financial statements should reflect the economic substance of the transaction in the same manner. This will provide more clarity and transparency from the users' perspective.

Consequently, guidance will be required from the transferor's perspective for entities under common control, as the guidance provided in existing IPSASs with respect to the derecognition of assets and extinguishment of liabilities may result

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in an accounting treatment for the transferred operation by the transferor that is not symmetrical with the corresponding treatment by the recipient.



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October 31, 2012

541/584

Dear Mr. Bergmann,

Re.: Consultation Paper: Public Sector Combinations

The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with its comments on the Consultation Paper: Public Sector Combinations (hereinafter referred to as the "CP"). We have included our responses to each of the Specific Matters for Comment (SMCs) in an appendix to this letter. We also submit some general comments as follows:

Support for the Project

As IPSAS 6 explicitly does not deal with the methods for accounting for public sector combinations, we support the IPSASB developing a consultation paper to initiate discussion in this area and elicit the views of its constituents. Whilst we continue to support the principles behind the IPSASB conversion project, we agree that this is a particular area in which the rationale, motives and methods of combining operations or entities may often differ significantly from those prevalent in the private sector.

Terminology – Modified Pooling of Interests Method

In our view, in respect of accounting for amalgamations it is appropriate that the differences between the private and public sectors be given due consideration. Given this, we support the IPSASB's Preliminary View 8, whereby a resulting entity in an amalgamation should apply a modified pooling of interests method

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feid, WP StB CPA;
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of accounting. We do not support the fresh start approach for public sector amalgamations.

As mentioned in our responses to the SMCs, we appreciate that, mainly due to the propensity for misuse within the profit-oriented private sector, the pooling of interests method of accounting is no longer permitted under IFRS nor in favour throughout much of the private sector, but agree that in the public sector context an approach based on this method may be appropriate. In this context, we wonder whether the proposed term "modified pooling of interests method of accounting" might be replaced with a more appropriate term e.g., "predecessor accounting", or similar. Such a term might be preferable in order to deflect negative associations with the term pooling of interests. Furthermore, it is not clear what, if any, the difference is between the so-called "modified pooling of interests method of accounting" and the proposed treatment for acquisitions under common control (UCC) and those not UCC where there is no or only nominal consideration in practical terms, since both entail carrying values being adjusted to align to policies of the resultant combined entity. Thus a different term to reflect this aspect might be preferable.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours truly,

Klaus-Peter Naumann
Chief Executive Officer

Gillian G. Waldbauer
Technical Manager



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APPENDIX

Specific Matter for Comment 1:

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

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.

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 has been reviewed. In our view, this is an appropriate course of action.

Specific Matter for Comment 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.

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 combi-



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nations 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 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.

Further distinction between not under common control (NUCC) and UCC

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.

In contrast, acquisitions that occur within an area under common control may, by their nature, effectively be reorganization initiatives rather than "true" acquisition initiatives.

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.

Specific Matter for Comment 3:

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

IPSAS 6 deals with control for financial reporting purposes. Characteristics may vary from jurisdiction to jurisdiction, as well as by type of entity. The way in which combinations are undertaken may well be subject to very different provisions under prevailing laws and regulations. We therefore believe that sufficient



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flexibility needs to be given such that individual circumstances may be taken into consideration in any determination of whether control has or has not been gained.

Paragraph 3.12 seems to us to constitute a questionable argument for identifying whether the combination constitutes an amalgamation as opposed to an acquisition. It is equally conceivable that imposition by another level of government could also relate to an acquisition and may also be achieved without consideration being paid. There is a marked difference between control over an operation as defined and explained in IPSAS 6 and the situation described in paragraph 3.12 of the CP, whereby a higher level of government has the authority to order a public sector combination; however both demonstrate control relationships. In our view, further explanation as to these indicative circumstances is needed as is a discussion as to what control is and is not deemed to be for the purposes of differentiating between acquisitions and amalgamations. For example, there may be some confusion as to whether there is a difference between the "ultimate controlling entity" (Para. 6.1(c)) and the "another level of government" (Para. 3.12) in terms of ability to specify the terms of a combination, including level of consideration to be transferred.

Specific Matter for Comment 4:

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- a) *Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);*
- b) *Distinguishing between different types of acquisitions (Approach B) so that:*
 - i. *For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and*
 - ii. *For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or*
- c) *Another approach?*

Please explain why you support Approach A, Approach B or another approach.



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As explained in more detail below, conceptually we have some sympathy with Approach B, however, we tend to support Approach A, from a practicability perspective.

In our view, the substance of those public sector acquisitions NUCC where no or nominal consideration is transferred will usually differ considerably from the (for-profit) acquisition scenario common to the private sector. As public sector entities are aimed at service provision rather than profit generation, we suggest that political factors need to be considered in determining how to account for such acquisitions. In our view, any negotiation process that results in the transfer of no or nominal consideration, as referred to in paragraph 5.16, would generally not be comparable to a market-driven negotiation common in the private sector, particularly when directed by another level of government. Furthermore, as noted above, clarification as to the capacity of that instance to exercise control is an issue that we believe needs further explanation.

If the transaction is in substance a reorganizational initiative without "true" commercial purpose, measuring the net assets acquired at fair value and computing the difference with the consideration transferred together with the resultant impact on the recipient entity's financial performance – irrespective of whether accounted for on acquisition or over time – will not lead to a fair presentation of the underlying transaction. The "difference" between the fair value of net assets acquired and the consideration transferred would not represent a so-called "lucky buy" (private sector term) or "clever" use of resources on the part of management, but would likely be perceived as an accounting complexity not reflecting reality. From a conceptual viewpoint, where no or only nominal consideration is transferred we do not believe that the measurement at fair value of net assets acquired is likely to be entirely appropriate.

We also note the reasons given in the CP in support of this approach.

In contrast, where commensurate consideration is transferred in a public sector acquisition NUCC the situation may well generally be more similar to an acquisition in the private sector. This type of acquisition is covered by Approach B (ii).

However, we are concerned that it may neither make sense nor be practicable to categorize public sector acquisitions according to Approach B (i) and (ii). Such categorization will be even more problematical when consideration transferred is intended to be neither nominal nor commensurate, but is more of the nature of a token sum, perhaps resulting from adherence to budget, rather being market-driven.



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Therefore, from a purely conceptual viewpoint, whether it would be appropriate for fair value measurement to be applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition ought to depend on the individual circumstances, including the motives underlying the individual.

In view of the above discussions, we would, however, tend to support Approach A, but suggest the IPSASB consider whether the accounting treatment could be determined based on a rebuttable presumption that may be challenged in the individual circumstances as appropriate.

One further issue we would like to mention in this context relates to the understanding of the term "fair value". Whilst we appreciate that the IPSASB is currently discussing the definition as well as methods of measuring fair value as part of its ongoing Conceptual Framework Project, we would like to note that the measurement method to be applied is also a factor that will need to be given consideration in this context, since for example, rather than aiming to use observable exit prices, replacement cost may be more relevant in the context of public sector combinations.

Specific Matter for Comment 5:

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;*
- b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or*
- c) A loss for all acquisitions?*

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

In our opinion, the subsequent accounting treatment of goodwill, and in particular the impact on the recipient's statement of financial performance has to be taken into account in forming a view as to initial accounting treatment at acquisition in response to this SMC. From a conceptual viewpoint the IDW strongly favors amortization of goodwill over time rather than the impairment only approach of IAS 36, because there are significant conceptual flaws in the latter approach, which we would like to explain in the next paragraphs.



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From a conceptual point of view, acquired goodwill is an asset with a limited useful life and therefore should be amortized on a systematic basis over its expected useful life like any other non-current wasting asset. If an entity is able to maintain over time the original overall value of goodwill acquired in a combination, the acquired goodwill will be consumed but continuously replaced with internally generated goodwill. There should, however, be no exception to the general principle that internally generated goodwill cannot be recognized. Amortization of acquired goodwill over its limited useful life with regular impairment testing ensures that the carrying amount of acquired goodwill is reduced to zero at the end of its estimated useful life. In our view, this leads to a more faithful representation of the acquired goodwill than the impairment-only approach.

The IDW is on record as disagreeing with the IASB's conclusion reached in paragraph BC131G of IAS 36 that "if a rigorous and operational impairment test could be devised, more useful information would be provided to users of an entity's financial statements under an approach in which goodwill is not amortized, but instead tested for impairment (at least) annually." In addition to the fact that we do not support the recognition of internally generated goodwill at all, we question the informative value of an asset reflecting internally generated goodwill that is not necessarily recognized comprehensively, but restricted to the amount previously recognized as acquired goodwill, even when the internally generated goodwill can, in fact, exceed this amount.

Moreover, we do not agree with the IASB's argument in paragraph BC131E of IAS 36 that "the useful life of acquired goodwill (...) is not possible to predict" and therefore, "the amount amortized (...) can be described as at best an arbitrary estimate of the consumption of acquired goodwill during a period". The problem of determining the useful life not only applies to acquired goodwill, but also to other tangible and intangible assets. Generally, estimations are necessary for many accounting issues; thus this does not constitute a compelling argument against the amortization of goodwill. In any case, all sources of estimation uncertainty have to be disclosed.

From an auditor's point of view, whilst estimations and judgment are unavoidable, the impairment test is overall highly subjective and open to abuse. For example, determining whether an indication for impairment exists or not is almost completely at the discretion of an entity's management. Auditors can often only evaluate whether the underlying assumptions are plausible as opposed to being completely unrealistic. The auditability of impairment testing is therefore problematical. Therefore, from our point of view, amortization of acquired goodwill would be the best solution, since the significance of the impairment test and



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thus difficulties in achieving a reliable measurement as well as the corresponding audit risk would decline over time.

Furthermore, we are not convinced that a differentiation as to whether an acquired operation is cash-generating or not is appropriate, and therefore do not support Approach A.

Equally we do not believe Approach C would be appropriate in the majority of circumstances, since this would imply that funds had not been well managed in allocating compensation, which in turn would likely have a reputational impact. There may however be cases where such accounting treatment is wholly justified, i.e., any goodwill that would otherwise be recognized is seen to be impaired on acquisition.

On balance, we therefore favor Approach B for those acquisitions that have been made with the aim of equating compensation transferred with the net assets received, and on the basis that the difference between these two amounts has a value to the future service potential of the recipient entity in terms of efficiencies, synergies etc.

Specific Matter for Comment 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).

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.

Whether B or C might be appropriate would depend on the individual circumstances, although we suspect this is likely more often to be C.



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Specific Matter for Comment 7:

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

We are not aware of any public-sector specific reasons to the contrary.

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31 October 2012

Stephanie Fox,
IPSASB Technical Director,
International Public Sector Accounting Standards Board,
International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2,
Canada.

Dear Madam:

RE: CONSULTATION PAPER - CONSULTATION ON PUBLIC SECTOR COMBINATION

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Consultation Paper Public Sector Combination issued by the International Public Sector Standards Board (IPSASB) of the International Federation of Accountants.

The Institute believes that the need for guidance in the area of public sector combinations is both relevant and timely. The IPSASB's efforts to address these issues are critical and will help to ensure that accounting for such transactions is consistent and that the results are useful. The Institute supports the approach suggested in the Consultation Paper of accounting for such transactions as either an acquisition or an amalgamation. This is similar to an approach proposed by GASB in their recent exposure draft "*Government Combinations and Disposals of Government Operations*" where it was proposed that transaction be accounted for as either an acquisition or a merger. The presence of consideration is a factor in determining whether an acquisition has taken place for both GASB (the determining factor) and IPSAS (characteristic among others) to be considered.

Following are ICPAK's response to the areas for specific comment.

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

We believe that the scope of the CP is appropriate to address the matter of Public Sector Combinations.

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.

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.

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 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.

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:-

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.

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.

3. In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

We would prefer if the IPSASB focused its classification of the transaction as either an acquisition or an amalgamation on the presence of significant consideration rather than a matter of control after the combination is complete. In this case, the distinction between amalgamation and acquisition would be based upon whether an exchange of significant consideration is present within the combination transaction.

4. In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:
- a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);
 - b) Distinguishing between different types of acquisitions (Approach B) so that:
 - i. For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and
 - ii. For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or
 - c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

ICPAK supports approach B in accounting for acquisitions. We believe that where significant consideration has been exchanged, an acquisition has been executed and the transaction should be accounted for using a fair value measurement approach. We believe that this aligns the accounting with fundamental nature of the transaction. As we reviewed the Consultation Paper, we found that if approach B is adopted related to acquisitions, there is little distinction between the accounting treatments for most transactions, except for an acquisition where consideration has been exchanged. The accounting for amalgamations and acquisitions without consideration seems to be on a similar basis and adds a level of complexity to the accounting issues that may not be warranted.

5. In your view, where the consideration is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:
- a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
 - b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
 - c) A loss for all acquisitions?

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

We believe that where necessary a gain or a loss should be recognized in all cases provided the gain or loss is computed using fair value and not depreciated historical costs. We are not for the inclusion of goodwill in the public sector environment since no goodwill is expected to be derived from operations of public sector entities.

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).

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.

7. In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

ICPAK believes that the accounting for the recipient and the transferor should be symmetrical.

We would like to thank you for allowing us to submit our comments to the exposure draft. Should there be any questions regarding our comments, please contact Nixon Oindi at nixon.omindi@icpak.com

Yours sincerely,



Nixon Oindi
For: ICPAK-Professional Standards Committee



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29th October, 2012.

Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board (IPSASB)
529 Fifth Avenue, 6th Floor
New York
NY 10017

Dear Stephenie,

IPSASB Consultation Paper on Public Sector Combinations

The Institute of Chartered Accountants of Nigeria (ICAN) is pleased to submit its comments on the above referred document. The Institute was established by the Act of Parliament no.15 in 1965 and has the responsibility to determine the standards of knowledge and skill to be attained by persons seeking to become members of the accountancy profession in Nigeria and to raise such standards from time to time as circumstances may require.

With its current membership both at Fellowship and Associate levels working across various sectors of the Nigerian economy, the Institute continues to be a major stakeholder in the development of the accountancy profession in Nigeria and will continue to make its contributions towards development of the accountancy profession worldwide.

The Institute is particularly pleased to note the increased attention by the International Public Sector Accounting Standards Board (IPSASB-the Board) being paid to development of more transparent and wider acceptable accounting standards for the public sector, particularly at this time that concerns are growing for a more robust system and standards of accounting in the public sector across the world.

Detailed below are the Institute's comments in the context of the Consultation Paper (CP).

Preliminary View 1

A **public sector combination** is the bringing together of separate operations into one entity, either as an acquisition or an amalgamation.

The key definitions are as follows:

- (a) An **acquisition** is a transaction or other event that results in a recipient gaining control of one or more operations. **Agreed**
- (b) An **amalgamation** is a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture. **Agreed**
- (c) A **combining operation** is an operation that combines with one or more other operations to form the resulting entity. **Agreed**
- (d) An **operation** is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services. **Agreed**
- (e) A **recipient** is the entity that gains control of one or more operations in an acquisition. **Agreed**
- (f) A **resulting entity** is the entity that is the result of two or more operations combining where none of the combining operations gains control of the other operations. **Agreed**
- (g) A **transferor** is the entity that loses control of one or more of its operations to another entity (the recipient) in an acquisition. **Agreed**

Preliminary View 2

A **public sector combination under common control** is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.

Agreed,

However, the Institute does not believe that the use of the word "before" is appropriate as entities or operations could be brought into the combining entities that were not under the common control before the combination became consummated. We therefore, suggest that the sentence should be modified to exclude 'both before and'.

Preliminary View 3

The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations. **Agreed**

Preliminary View 4

An acquisition NUCC should be recognised in the financial statements of the recipient on the date the recipient gains control of the acquired operation. **Agreed**

Preliminary View 5

The recipient in an acquisition NUCC recognises in its financial statements on the date of acquisition, the difference arising as:

- (a) A gain where the recipient acquires net assets in excess of consideration transferred (if any); and **Agreed**
- (b) A loss where the recipient assumes net liabilities. **Agreed**

Preliminary View 6

An acquisition UCC should be recognised in the financial statements of the recipient on the date the recipient gains control of the acquired operation. **Agreed**

Preliminary View 7

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. **Agreed**

Preliminary View 8

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

However, the Institute does not believe that the consideration transferred should be specified as "exchange of shares only" under the modified pooling of interests. Although, this is the practice in the private sector, public sector entities do not issue shares and therefore, would not have shares to transfer. We suggest that the exchange of shares should be replaced with the words 'Instruments of assets' (showing value) transferred.

Preliminary View 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. **Agreed.**

Specific Matter for Comment 1

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

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.

Specific Matter for Comments 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?

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 public sector entities move to adopt the requirements of IFRS as this is the case in some jurisdictions.

Specific Matter for Comments 3

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

The Institute does not believe that other methods designed to account for the control of an entity such as power to appoint majority of members of board of an entity through which it controls decision-making of the entity. These bases of asserting control may not be appropriate in the public sector, where the driving objective is not profit making.

Specific Matter for Comment 4

In your view, should the recipient in an acquisition NUCC recognise in its financial statements, the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A).
- (b) Distinguishing between different types of acquisitions (Approach B) so that:
 - (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statement are recognised, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition, and
 - (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition:

Or

- (c) Another approach?

The Institute supports the treatment under Approach B where there is a mixture of accounting for assets acquired and liabilities assumed in recognition of acquisition made of an entity that is not a public sector and where the approach B(ii) is appropriate but approach B(i) where the acquisition is made of public sector entity with the assets acquired and liabilities assumed accounted for in the financial statements of the acquired entity at the carrying amount.

Specific Matter for Comment 5

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and loss for all other acquisitions;
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
- (c) A loss for all acquisitions?

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

The Institute does not support the use of the word 'goodwill' for both approaches in the public sector. However, under approach A, where the fair value measurement is being proposed for use for the identifiable assets acquired and liabilities assumed, the resulting difference would be appropriately identified as goodwill if this relates to an entity not in the public sector. If however, other measurement basis such as cost is used, where there has been alignment of accounting policies across the acquired entities, a more appropriate measure of any difference would be to transfer such whether gain or loss to the Statement of Financial Performance at the date of acquisition.

Specific Matter for Comment 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?

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.

Specific matter for comment 7

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

The Institute also believes that the accounting treatment of the recipient and transferor on acquisition UCC should be symmetrical given the absence of fair value measurement.

Thank you for giving the Institute the opportunity to contribute to the work of the Board.

Thanks

Yours sincerely



Emmanuel Ogbonnaya
Secretary, Technical, Research and Public Policy Committee and
Director, Research & Technical

cc: Mr. O. A. Adepate
Registrar/Chief Executive

1 November 2012

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
TORONTO ONTARIO CANADA M5V 3H2

Email: stepheniefox@ipsasb.org

Dear Stephenie

Consultation Paper Public Sector Combinations

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper (CP) Public Sector Combinations. CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the Consultation Paper and our comments follow.

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

We welcome the decision of the IPSASB to initiate discussion on the development of an accounting standard that includes within its scope a public sector combination (PSC) of entities under common control (UCC) and a combination of entities not under common control (NUCC). However we do not consider it appropriate that the IPSASB continues on this path without the involvement of the International Accounting Standards Board (IASB). It is clear that this issue is not just an issue for the public sector, but also for the private sector. Hence a joint project with the IASB would be an appropriate way to move forward on this issue.

Our responses to the questions asked are provided in the attached Appendix.
If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au

Yours sincerely



Alex Malley
Chief Executive Officer
CPA Australia Ltd



Lee White
Chief Executive Officer
Institute of Chartered Accountants Australia

Representatives of the Australian Accounting Profession



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Institute of
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Appendix

Specific Matter for Comment 1 (following paragraph 2.49)

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

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.

Specific Matter for Comment 2 (following paragraph 2.49)

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.

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.

Specific Matter for Comment 3 (following paragraph 3.13)

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

We believe the establishment of 'control' is the appropriate mechanism to use in determining the existence of a combination of entities. We understand that in the public sector the existence of control is typically demonstrated in a formal way such as through a formal direction from an authorised person or body.

Specific Matter for Comment 4 (following paragraph 5.25)

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- a. Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);
- b. Distinguishing between different types of acquisitions (Approach B) so that:
 - I. For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and
 - II. For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or
- c. Another approach?

Please explain why you support Approach A, Approach B or another approach.

We support Approach A as it is consistent with both the approach taken in IFRS 3 and the approach taken in other IPSASs that apply fair value measurement.

Specific Matter for Comment 5 (following paragraph 5.46)

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- a. Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
- b. Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
- c. A loss for all acquisitions?

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

Approach (b) is supported as it is the approach required by IFRS 3 - to recognise goodwill for all acquisitions. We acknowledge that this will require the definition of goodwill to be amended to encompass the notion of service potential.

Specific Matter for Comment 6 (following paragraph 6.26)

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).

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.

Specific Matter for Comment 7 (following paragraph 6.31)

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

Yes. We note that symmetrical accounting aligns with a principle that is fundamental to reporting under Government Finance Statistics.

October 31, 2012

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

Re: PSAB Staff Comments on Consultation Paper Public Sector Combinations

Thank you for the opportunity to comment on the Public Sector Combinations Consultation Paper (CP).

We agree with the preliminary views in the CP. However, we recognize the challenge of developing practical guidance to help determine whether a combining operation gains control of the other operation(s) in an amalgamation of operations of different sizes.

Based on the question asked in Specific Matter for Comment 4, it seems that IPSASB is opened to consider whether the presence or absence of consideration in public sector combinations can make a difference in accounting. We encourage IPSASB to further explore this possibility as it may lead to accounting for public sector combinations that would better represent the economic substance of the nature of combinations. Combinations that are of a purchase nature would be appropriately accounted for following acquisition accounting. Combinations that are 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.

Please note that the views expressed in this letter and the specific comments in the Appendix are those of PSAB staff and not the Public Sector Accounting Board.

Lastly, we would like to congratulate IPSASB on achieving the first milestone of this project.

Sincerely,

A handwritten signature in blue ink that reads "Lydia So." The signature is written in a cursive style with a period at the end.

Lydia P. So, CA
Principal
Public Sector Accounting

APPENDIX: RESPONSES TO IPSASB SPECIFIC MATTERS FOR COMMENT CONSULTATION PAPER: PUBLIC SECTOR COMBINATIONS

Specific Matter for Comment 1

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

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.

Specific Matter for Comment 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?

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.

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.

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.

Specific Matter for Comment 3

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

We recognized this challenge and suggested an alternative approach in our comments to Specific Matter for Comment 2 above.

Determining whether one party has gained control of one or more operations based on whether the public sector combination is imposed on one level of government by another level of government is not useful as a government can also impose one government to transfer operations to another government.

Specific Matter for Comment 4

In your view, should the recipients in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);
- (b) Distinguishing between different types of acquisitions (Approach B) so that:
 - (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and
 - (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or
- (c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

We support Approach B because, in our view, the consideration provided in a public sector combination establishes a new cost basis for the assets and liabilities acquired. It is similar to the purchase cost of an asset becoming its new cost. Carrying amounts would be more appropriate in the absence of consideration as there is no basis to establish a new cost for the assets and liabilities transferred.

Specific Matter for Comment 5

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipients' financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
- (c) A loss for all acquisitions?

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

We support (a) because we consider goodwill can and only exist in acquisitions of government business enterprises (GBEs). Goodwill based on service potential would be too subjective and difficult to estimate or substantiate. Not recognizing goodwill in acquisitions may not result in fair representation of the transaction.

Specific Matter for Comment 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).

We support (a) because:

- *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 entities under common control.*
- *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.*

Specific Matter for Comment 7

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

Our view is that they should be symmetrical for better transparency and understandability. Both transferor and recipient should disclose in their notes to the financial statements the gain or loss arising from an acquisition UCC and the fact that it will be eliminated upon consolidation by their controlling entity.



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29th October 2012

**The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2
CANADA**

Dear Stephenie,

Comments on Consultation Paper on Public Sector Combinations

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the Consultation Paper issued by the International Public Sector Accounting Standards Board (IPSASB), in June 2012 entitled Public Sector Combinations.

The Institute supports the IPSASB's efforts to serve the public interest by setting high-quality public sector accounting standards, thereby enhancing the quality and consistency of practice throughout the world.

Our comments on the Consultation Paper on Public Sector Combinations are as follows:

Question 1

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

Comment

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.

Question 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.

Comment

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.

Question 3

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

Comment

We have not identified other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations.

Question 4

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);
- (b) Distinguishing between different types of acquisitions (Approach B) so that:

- (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and

- (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or

- (c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

Comment

The Institute supports approach B in accounting for acquisitions. As highlighted in paragraph 5.15 the use of fair value as a measurement basis for all acquisitions in the public sector is not appropriate when no or nominal consideration is transferred. We therefore, support the view that a distinction between different types of acquisitions is required so that the appropriate measurement basis or approach can be applied. A fair value of the asset taken over makes sense only in a commercial transaction, when a price is paid and a cash generating unit is taken over.

Question 5

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
- (c) A loss for all acquisitions?

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

Comment

The Institute supports approach (b). We believe that a gain or loss should be recognized in all cases provided fair value has been used. This approach would be in line with IFRS 3, business combinations.

Question 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).

Comment

We support Approach (c): the profit/loss should not be recognized in income, but in equity (in the statement of financial position).

Question 7

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

Comment

We are of the view that, the accounting treatment for the recipient and transferor of an acquisition UCC should be symmetrical.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Musonda Boniface

Technical Officer



PUBLIC SECTOR COMBINATIONS

RESPONSE FROM ICAS (THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
SCOTLAND) TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARDS BOARD

12 November 2012

Introduction

The Public Sector Committee of ICAS (The Institute of Chartered Accountants of Scotland) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) consultation paper "Public Sector Combinations". The Public Sector Committee is a broad based committee of ICAS members with representation from across public services in the UK.

The Institute's Charter requires its committees to act primarily in the public interest; our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key points

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](#) (FReM) 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. We prefer the pooling of interests approach to accounting for amalgamations in the resulting entity compared to the fair value approach, as the latter risks creating unnecessary costs which add little value in this context. The widening of scope to include mergers (unlike IFRS 3) is helpful to reflect a wider range of scenarios which may be applicable in the public sector. Divergences from IFRS should be kept to a minimum and only take place when sufficient evidence is gathered to demonstrate that the need is significant and would otherwise compromise true and fair presentation. In the UK, public sector bodies' accounting frameworks require them to apply IFRS "as adapted" so divergences are permissible. This link could be clarified in guidance.

Response to Specific Matters for Comment

Specific Matter for Comment 1 (following paragraph 2.49)

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

Yes.

Specific Matter for Comment 2 (following paragraph 2.49)

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.

Definitions appear reasonable although further clarification is required to identify the circumstances whereby amalgamation not under common control might happen.

Specific Matter for Comment 3 (following paragraph 3.13)

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

No.

Specific Matter for Comment 4 (following paragraph 5.25)

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- (a) *Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);*
- (b) *Distinguishing between different types of acquisitions (Approach B) so that:*
 - (i) *For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and*

- (ii) *For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or*

- (c) *Another approach?*

Please explain why you support Approach A, Approach B or another approach.

Our preference is (b) as this better enables the true substance of the transaction to be reflected, which in some cases will mean that “merger accounting” needs to be adopted. Option (a) suggests there would always be an acquirer and acquire, which may not be the case in practice.

Specific Matter for Comment 5 (following paragraph 5.46)

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) *Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;*
- (b) *Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or*
- (c) *A loss for all acquisitions?*

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

Our preference is option (b) for consistency with IFRS 3. Where goodwill arises, a thorough evaluation would be required of the entity being acquired including intangibles and unidentified assets to ensure this value is justified and represents an accurate reflection of the situation.

Specific Matter for Comment 6 (following paragraph 6.26)

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).

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.

Specific Matter for Comment 7 (following paragraph 6.31)

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

Symmetrical accounting treatment is a good starting point. Entities under common control and applying IFRS should in theory not have major differences and fair value would be the same in the hands of the buyer and seller.



NZ ACCOUNTING
STANDARDS
BOARD

12 November 2012

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The Technical Director
International Public Sector Accounting Standards Board
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Submitted to: www.ifac.org

Dear Stephenie

Consultation Paper *Public Sector Combinations*

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on Consultation Paper *Public Sector Combinations* (the CP). The CP has been issued for comment in New Zealand and as a result you may also have received comments directly from New Zealand constituents.

The CP clearly explores all the issues considered by the IPSASB regarding public sector combinations and has helped us to develop our views.

The NZASB has considered the CP and, while supportive of the overall project to create an accounting standard addressing combinations in the public sector, is of the opinion that the approach taken in the CP is not the most appropriate.

The main concerns that the NZASB has with the CP are:

1. the approach taken in the CP to determining the type of public sector combination;
2. accounting for an acquisition under common control; and
3. the distinction between an acquisition and an amalgamation of entities NUCC.

These concerns are discussed in the General comments section of the appendix to this letter together with our response to the specific questions posed in the CP. If you have any queries or require clarification of any matters in this submission, please contact Sarah Bate (sarah.bate@xrb.govt.nz), Vanessa Sealy-Fisher (vanessa.sealy-fisher@xrb.govt.nz) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michele Embling', enclosed within a large, loopy circular flourish.

Michele Embling

Chairman – New Zealand Accounting Standards Board

Email: Michele.Embling@xrb.govt.nz

APPENDIX

General comments

The NZASB is of the view that:

- 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.

When developing IFRS 3 *Business Combinations*, 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.

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.

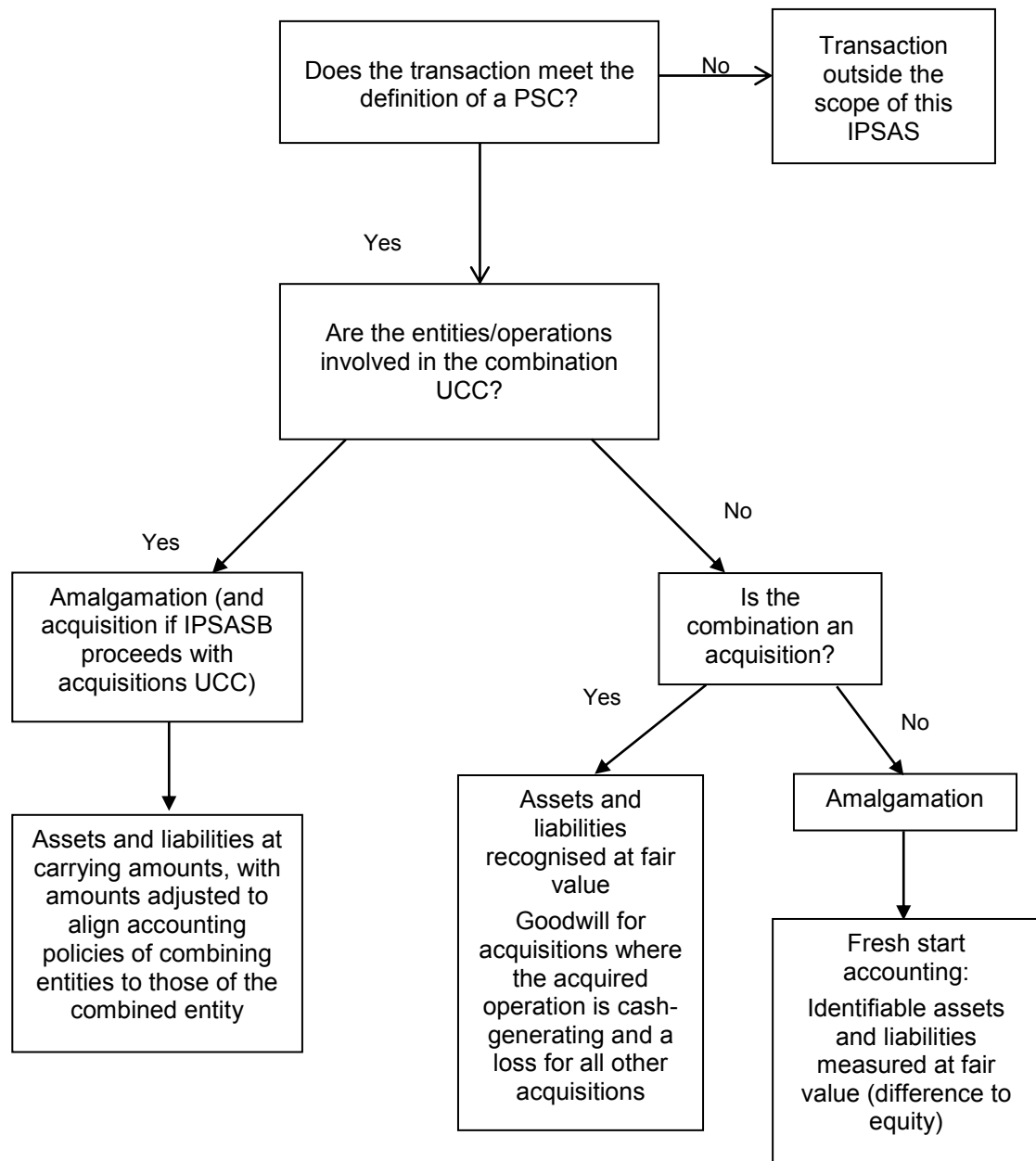
Approach taken in CP

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.

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).

The approach outlined in paragraph 1.10 would be shown diagrammatically as follows (based on the NZASB's view that an acquisition UCC would be uncommon in the public sector as discussed below):

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



Under Common Control

Appendix A defines a public sector combination under common control as

"a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination." [Emphasis added]

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 *Business Combinations*.

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 another entity.

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.

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.

Distinction between an amalgamation and an acquisition of entities NUCC

The NZASB does not agree that the sole 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.

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.

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.

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.

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.

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.

The NZASB recommends that in developing a final standard, the IPSASB clarifies that legal form is not the determinant of the type of combination.

Response to Preliminary Views and Specific Matters for Comment

The responses to the preliminary views and the specific matters for comment are in the order in which they arise in the CP.

Preliminary View 1

A **public sector combination** is the bringing together of separate operations into one entity, either as an acquisition or an amalgamation.

The key definitions are as follows:

- (a) An **acquisition** is a transaction or other event that results in a recipient gaining control of one or more operations.
- (b) An **amalgamation** is a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture.
- (c) A **combining operation** is an operation that combines with one or more other operations to form the resulting entity.
- (d) An **operation** is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.
- (e) A **recipient** is the entity that gains control of one or more operations in an acquisition.
- (f) A **resulting entity** is the entity that is the result of two or more operations combining where none of the combining operations gains control of the other operations.
- (g) A **transferor** is the entity that loses control of one or more of its operations to another entity (the recipient) in an acquisition.

Apart from the definitions discussed below, the NZASB supports the proposed definitions in the CP. In particular, the NZASB supports the efforts of the IPSASB to align the definitions of 'acquisition', 'operation', 'recipient' and 'transferor' with the relevant definitions in IFRS 3 *Business Combinations*. The NZASB also supports the use of 'recipient' and 'transferor' being consistent with the way in which those terms are used in IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Definition of Public Sector Combination

The definition of a Public Sector Combination as per the CP is *"the bringing together of separate operations into one entity, either as an acquisition or an amalgamation"*.

The definition requires the forthcoming IPSAS to be applied to all types of PSCs. The words "either as an acquisition or an amalgamation" are not needed in the definition of a PSC as "the bringing together of separate operations into one entity" would encompass all types of combinations.

Definition of Amalgamation

The CP defines an amalgamation as *a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture.*

The NZASB is of the view that this definition 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). The Board considers that more emphasis should be put on the outcome of a combination, rather than on the process, which appears to be the main focus of the CP. To this end a future ED should be drafted in two separate sections, one addressing pure acquisitions and the other addressing amalgamations or reorganisations. The NZASB considers it is important that the type of combination is identified clearly before any accounting treatment is considered.

Preliminary View 2

A **public sector combination under common control** is a public sector combination in which all of the entities or operations involved are *ultimately controlled* by the same entity both before and after the public sector combination. [Emphasis added]

The NZASB agrees with Preliminary View 2 as it is consistent with the explanation of a business combination of entities under common control in paragraph B1 of IFRS 3.

Specific Matter for Comment 1:

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

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.

Specific Matter for Comment 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.

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, 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.

Preliminary View 3

The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations.

Specific Matter for Comment 3:

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

The NZASB does not agree that the sole definitive criterion for distinguishing an amalgamation from an acquisition should be that in an amalgamation, none of the combining operations gains control of the other operations.

Please refer to our earlier comments on this point.

Preliminary View 4

An acquisition NUCC should be recognised in the financial statements of the recipient on the date the recipient gains control of the acquired operation.

The NZASB agrees that an acquisition NUCC should be recognised in the financial statements of the recipient on the date the recipient gains control of the acquired operation. This is consistent with IFRS 3 and is appropriate for an acquisition.

Specific Matter for Comment 4:

In your view, should the recipient in an acquisition NUCC recognise in its financial statements, the acquired operation's assets and liabilities by:

- (a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);
- (b) Distinguishing between different types of acquisitions (Approach B) so that:
 - (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and
 - (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition; or
- (c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

The NZASB supports Approach (a) because this is consistent with IFRS 3 and is the most appropriate method to account for an acquisition. This conclusion assumes that the combination is, in fact, an acquisition. As discussed in our earlier comments, this matter requires further consideration. However, if the combination is an acquisition, the NZASB is of the view that Approach (a) above should be applied to all acquisitions, irrespective of whether the entities involved in the combination are in the public sector or the for-profit sector.

Furthermore, we note that if no or nominal consideration is transferred, that does not mean that the combination should be accounted for in a different way. If the entity's net assets are close to zero (i.e., total assets are approximately equal to total liabilities) or the entity has net liabilities (such as when a public sector entity acquires a failing private sector entity), it is likely that the lack of consideration simply reflects the acquiree's financial position.

Preliminary View 5

The recipient in an acquisition NUCC recognises in its financial statements on the date of acquisition, the difference arising as:

- (a) A gain where the recipient acquires net assets in excess of consideration transferred (if any); and
- (b) A loss where the recipient assumes net liabilities.

Specific Matter for Comment 5:

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;
- (b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or
- (c) A loss for all acquisitions?

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

Conceptually, the NZASB supports Approach (b) – the difference arising in an acquisition NUCC should be recognised as goodwill. The recognition of goodwill is consistent with the acquisition method in IFRS 3.

However, from a practical perspective, the NZASB supports Approach (a) because of the difficulty of measuring the impairment of goodwill in respect of non-cash-generating activities.

Preliminary View 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.

In the rare event that a PSC is an acquisition UCC, the NZASB agrees with this Preliminary View.

Preliminary View 7

The recipient in an acquisition UCC recognizes in its financial statements of 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.

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.

Specific Matter for Comment 6:

In your view, should the recipient in an acquisition UCC recognise 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).

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.

Specific Matter for Comment 7

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical.

If the IPSASB decides to proceed with treating some combinations of entities UCC as acquisitions, the NZASB agrees that the accounting should be symmetrical with the accounting treatment of acquisitions of entities UCC. In a transaction between entities UCC any "gain" or "loss" on derecognition is likely to reflect the common control nature of the transaction, rather than an arm's length economic gain or loss of the transferor. Therefore, treating this difference as a contribution from/distribution to owners more accurately reflects the nature of the transaction.

Preliminary View 8

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

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.

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.

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).

Preliminary View 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 fulfil the responsibilities of the combining operations.

The NZASB is of the view that Preliminary View 9 is appropriate.

Denise Silva Ferreira Juvenal

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Accountant

Commentary individual

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Sir

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October 31, 2012

Public Sector Combinations

I'm Denise Juvenal this pleasure to have the opportunity to comment on this consultation. This is my individual commentary for IFAC-IPSAS about Public Sector Combinations.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this Consultation Paper. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The Preliminary Views for Comment in this Consultation Paper are provided below. Paragraph numbers identify the location of the Preliminary View in the text.

Preliminary View 1 (following paragraph 2.16)

A public sector combination is the bringing together of separate operations into one entity, either as an acquisition or an amalgamation.

The key definitions are as follows:

(a) An acquisition is a transaction or other event that results in a recipient gaining control of one or more operations.

(b) An amalgamation is a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture.

(c) A combining operation is an operation that combines with one or more other operations to form the resulting entity.

(d) An operation is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.

(e) A recipient is the entity that gains control of one or more operations in an acquisition.

(f) A resulting entity is the entity that is the result of two or more operations combining where none of the combining operations gains control of the other operations.

(g) A transferor is the entity that loses control of one or more of its operations to another entity (the recipient) in an acquisition.

These paragraphs, letters a- g, are clear and rationale.

Preliminary View 2 (following paragraph 2.22)

A public sector combination under common control is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.

This paragraph 2.22 is clear and rationale, but I suggest if board agrees, consult local regulators for to know about entities or operations about common control of public sector. I think that in some countries the public sector has diversity types of companies, that I don't know if can be impact for this standard.

Preliminary View 3 (following paragraph 3.13)

The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations.

I agree with this comments elaborated for IFAC Board about criterion for distinguishing an amalgamation from an acquisitions, I suggest for the Board some discussions elaborated for PCAOB.¹

Preliminary View 4 (following paragraph 5.5)

An acquisition NUCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation.

In relation this point is very important consult local regulators, but I agree with recognized in the financial statements of the recipient on the date the recipient gains controls of the acquired operation².

Preliminary View 5 (following paragraph 5.46)

The recipient in an acquisition NUCC recognizes in its financial statements on the date of acquisition, the difference arising as:

(a) A gain where the recipient acquires net assets in excess of consideration transferred (if any); and

(b) A loss where the recipient assumes net liabilities.

I agree with these definitions, but for public sector is very important observed and consult local regulators for application and implementation of Business Combinations.

Preliminary View 6 (following paragraph 6.6)

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

I agree with comments, but I don't know if is possible for implementation in others jurisdictions, I suggest contact others regulators³.

Preliminary View 7 (following paragraph 6.9)

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

¹ <http://pcaobus.org/Standards/Auditing/Pages/AU420B.aspx> and <http://pcaobus.org/Standards/Auditing/Pages/AU316a.aspx>

² <http://www.ifrs.org/Archive/Documents/0605ifricob10v.pdf>

³ <http://www.ifrs.org/search/Pages/results.aspx?k=common%20control>

acquired operation's financial statements, with amounts adjusted to align the operation's accounting policies to those of the recipient.

I agree with comments, but I don't know if is possible for implementation in others jurisdictions, I suggest contact others regulators⁴.

Preliminary View 8 (following paragraph 7.12)

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

I agree with comments, but I don't know if is possible for implementation in others jurisdictions, I suggest contact others regulators⁵.

Preliminary View 9 (following paragraph 7.15)

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

I agree with comments, but I don't know if is possible for implementation in others jurisdictions, I suggest contact others regulators.⁶

The Specific Matters for Comment requested in this Consultation Paper are provided below. Paragraph numbers identify the location of the Specific Matter for Comment in the text.

Specific Matter for Comment 1 (following paragraph 2.49)

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

For this moment is appropriate the scope of this CP, but I suggest if board agrees the consult EUROSTAT⁷ and IASB⁸ 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.

⁴ <http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Meeting-Summaries-and-Observer-Notes/Documents/AIP0901b7obs.pdf>

⁵ <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>

⁶ <http://xrb.govt.nz/includes/download.aspx?ID=124031>

⁷ http://epp.eurostat.ec.europa.eu/portal/page/portal/public_consultations/consultations/ipsas

⁸ <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>

Specific Matter for Comment 2 (following paragraph 2.49)

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.

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 future⁹ and Business Combinations¹⁰ if board agree¹¹.

Specific Matter for Comment 3 (following paragraph 3.13)

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

I think that every characteristics that should be considered in determining whether one party has gained control of one or more operations, but I don't know if is possible, because the public sector has specific laws that can be impact this point, I suggest for the board that consult local regulators.

Specific Matter for Comment 4 (following paragraph 5.25)

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

(a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);

(b) Distinguishing between different types of acquisitions (Approach B) so that:

(i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and

⁹ http://pcaobus.org/News/Speech/Pages/06072012_HansonAICPA.aspx

¹⁰ http://pcaobus.org/News/Releases/Pages/10222007_ReportIssuesIdentifiedinspectionsPublicCompanies.aspx

¹¹ <http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Discussion-Paper-and-Comment-Letters/Comment-Letters/Documents/CL29.pdf>

(ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or

(c) Another approach?

Please explain why you support Approach A, Approach B or another approach.

In relation this point I suggest for the board consult local regulators, but I observed that Approach A is complete, every organizations of public sector, need to make, but I have doubt if is possible, considering the problems in relations internal control, systems in the public sector considering transparency and clearly.

The Approach B is adequate considering that is separate the definitions and more easy, I don't know of internal control and modify internal laws about public sector. So, I suggest in the first time or integrated a form that consolidated the both methods or use Approach B.

Specific Matter for Comment 5 (following paragraph 5.46)

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

(a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;

(b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or

(c) A loss for all acquisitions?

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

In relation this point I suggest for the board consult local regulators, but I observed that Approach A is complete, every organizations of public sector, need to make, but I have doubt if is possible, considering the problems in relations internal control, systems in the public sector considering transparency and clearly.

The Approach B is adequate considering that is separate the definitions for goodwill and more easy, I don't know of internal control and modify internal laws about public sector. So, I suggest in the first time or integrated a form that consolidated the both methods or use Approach B.

Specific Matter for Comment 6 (following paragraph 6.26)

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).

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.

Specific Matter for Comment 7 (following paragraph 6.31)

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

Yes, I think that the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical, I suggest for the board if agrees¹².

Thank you for opportunity for comments this proposal, if you have questions don't hesitate contact to me, rio1042370@terra.com.br.

Yours,

Denise Silva Ferreira Juvenal

rio1042370@terra.com.br

552193493961

¹² <http://www.iasplus.com/en/news/2012/october/iasb-updates-work-plan-for-recent-decisions>

Schweizerisches Rechnungslegungsgremium für den öffentlichen Sektor (SRS)
Conseil suisse de présentation des comptes publics (CSPCP)
Commissione svizzera per la presentazione della contabilità pubblica (CSPCP)
Swiss Public Sector Financial Reporting Advisory Committee

Swiss Comments to

Consultation Paper Public Sector Combinations

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1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the intercantonal Conference of Cantonal Finance Directors (Finance Ministers at the States level). One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPSP has discussed *Consultation Paper Public Sector Combinations* and comments as follows.

2. General Remarks to Consultation Paper

The SRS-CSPCP believes that it is important that such a Consultation Paper is being circulated for comment, because in Switzerland mergers of municipalities are becoming more frequent. However it is doubtful that Swiss municipalities will adopt IPSAS in the near future and on a large scale since there are already some standards (together with a chart of accounts) that are provided nationwide to them by the so-called "Harmonised Accounting Model for the cantons and municipalities".

2.1. Specific Matter of Comment 1

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

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.

2.2 Specific Matter of Comment 2a

In your view, is the approach used in this CP of distinguishing between acquisitions and amalgamations appropriate? If you do not support this approach, what alternative should be considered ? Please explain your reasoning

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”.

2.3 Specific Matter of Comment 2b

In your view, is the approach used in this CP of distinguishing between acquisitions and amalgamations appropriate? If you do not support this approach, what alternative should be considered? Please explain your reasoning

The SRS-CSPCP agrees with this distinction.

2.4 Specific Matter of Comment 3

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

The SRS-CSPCP holds the view that the definition of a merger under lit. b) ("whether one of the combining operations appoints significantly more of the governing board of the resulting entity") does not fully reflect reality. In practice, the question is not the takeover of control of one unit by another. It is rather the fact that the governing bodies, which previously had certain rights (e.g. the citizens) do not lose these rights. In a merger the governing bodies are united as a single body (e.g. the citizens of municipality A and the citizens of municipality B are united as the citizens of municipality C).

2.5 Specific Matter of Comment 4

In your view, should the recipient in an acquisition NUCC recognize in its financial statements the acquired operations's assets and liabilities by:

(a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition (Approach A)

(b) Distinguishing between different types of acquisitions (Approach B) so that

- (i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition ; and**
- (ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition ; or**

(c) Another approach ?

Please explain why you support Approach A, Approach B or another approach.

The SRS-CSPCP prefers Approach B. A revaluation to fair value of the asset taken over makes sense only in a commercial transaction, when a price is paid and a cash generating unit is taken over.

2.6 Specific Matter of Comment 5

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

(a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions ;

(b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential) ; or

(c) A loss for all acquisitions ?

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

The SRS-CSPCP supports Approach (a), because goodwill should be recognized only in commercial transactions, when a price is paid and a cash generating unit is taken over.

2.7 Specific Matter of Comment 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 for owners**

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

The SRS-CSPCP supports Approach (c): the profit/loss should not be recognized in income, but in equity.

2.8 Specific Matter of Comment 7

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical ?

The SRS-CSPCP is of the opinion that in principle takeovers should be recorded symmetrically, because this simplifies the financial statistics. However, this is possible only for public entity UCCs, because they have the same accounting policies. In the case of units NUCC symmetrical recording would be desirable, but hardly feasible, because of the different accounting standards.

Lausanne, October 11 2012



Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

20 December 2012

Dear Stephenie

Re: Consultation Paper *Public Sector Combinations*

1. The Committee on Accounting for Public Benefit Entities (CAPE) welcomes the opportunity to comment on the above Consultation Paper.

Acquisitions

2. 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.
3. 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.
4. 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 a result of a policy directive or regulation, then the carrying amount may be appropriate.
5. For all transactions, where fair value is used, any excess of the consideration over the fair value of the net assets acquired should be treated as goodwill. We agree that it is debateable whether goodwill meets the definition of an asset: however, treating it as such is necessary in order to meet the accountability objective of financial reporting.

6. We also agree that if the fair value of the net assets acquired is greater than the consideration paid (i.e. negative goodwill) then the difference should be treated as a gain.
7. 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.

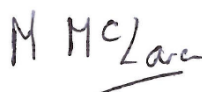
Amalgamations

8. We agree that amalgamations should be accounted for by the modified pooling of interest method. We support the modifications proposed to 'traditional' pooling of interest accounting, which we consider appropriate. We note that the modified pooling of interest method is similar to fresh start accounting, except that assets and liabilities are stated at previous carrying amounts rather than at fair value. That said, we consider that fair value should be permitted as an alternative, where it is judged that its advantages—in particular the superior relevance of current values—outweigh the costs of doing so.

* * * * *

9. We have not commented above on the conceptual basis of fair value, as we agree that this should be considered separately as part of IPSASB's project on its Conceptual Framework. However, we urge IPSASB to consider whether a standard on Public Sector Combinations should be finalised before IPSASB has concluded its work on the Framework.
10. Our comments to the Specific Matters for Comment are set out in the attached Appendix. If you require any further information please contact Joanna Spencer (j.spencer@frc.org.uk) or telephone +44 (0) 7492 2428.

Yours sincerely



Melanie McLaren

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DDI +44 20 7492 2406
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Specific Matters for Comment

Specific Matter Comment 1 (paragraph 2.49)

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

Yes.

Specific Matter for Comment 2 (paragraph 2.49)

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 alternative should be considered? Please explain your reasoning.

We concur with the distinction between acquisitions and amalgamations. However, as noted in the covering letter and in our response to SMC 4, in our view the accounting for NUCCs and some UCCs should be the same.

Specific Matter for Comment 3 (following paragraph 3.13)

In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

We are unaware of any further relevant public sector characteristics.

Specific Matter for Comment 4 (following paragraph 5.25)

In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

- (a) *Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);*
- (b) *Distinguishing between different types of acquisitions (Approach B) so that:*
 - (i) *For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and*
 - (ii) *For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or*

(c) *Another approach?*

Please explain why you support Approach A, Approach B or another approach.

As explained in the covering letter, we support Approach A.

Specific Matter for Comment 5 (following paragraph 5.46)

In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:

- (a) *Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;*
- (b) *Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential);*
- or*
- (c) *A loss for all acquisitions?*

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

As explained in the covering letter, we consider that for acquisitions NUCC where the consideration given is greater than the net assets recognised, goodwill should be recognised for all transactions (b) however, we do not consider that this requires the development of a new definition of goodwill.

Specific Matter for Comment 6 (following paragraph 6.26)

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).

As explained in the covering letter, we consider that the difference arising 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.

Specific Matter for Comment 7 (following paragraph 6.31)

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

In our view the accounting should be symmetrical.