

Item 8: Public Sector Combinations

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IPSASB Meeting

December 8-11, 2014

Toronto, Canada

Introduction

(Paragraphs 1 – 2)

September 2014 Meeting

- Decisions:
 - Primary Distinction: Under common control (UCC) / Not under common control (NUCC)
 - Acquisition definition based on control
 - Combinations UCC: by default Reorganizations and by exception Acquisitions
 - Combinations NUCC: Acquisitions and Amalgamations
 - Joint Ventures: scope exclusion reviewed in December 2014

Introduction

(Paragraphs 1 – 2)

September 2014 Meeting

- Directions to Staff:
 - Prepare rationale for primary distinction
 - Additional work on change of:
 - Sector
 - Economic entity
 - Control
 - Ownership
 - Discuss reporting entity level for accounting PSC

Classification

(Paragraphs 5 – 14)

- Combinations UCC: Reorganizations
 - Entities inside of economic entities for legal requirements;
 - Controlled entities operate similarly to a division inside of an entity;
 - Internal bookkeeping to reflect changes in intermediate responsibility;
 - Controlled entities do not act independently; are not autonomous in their decisions;
 - Risks and rewards over management of resources lies with same ultimate controlling entity;

Classification

(Paragraphs 18 – 25)

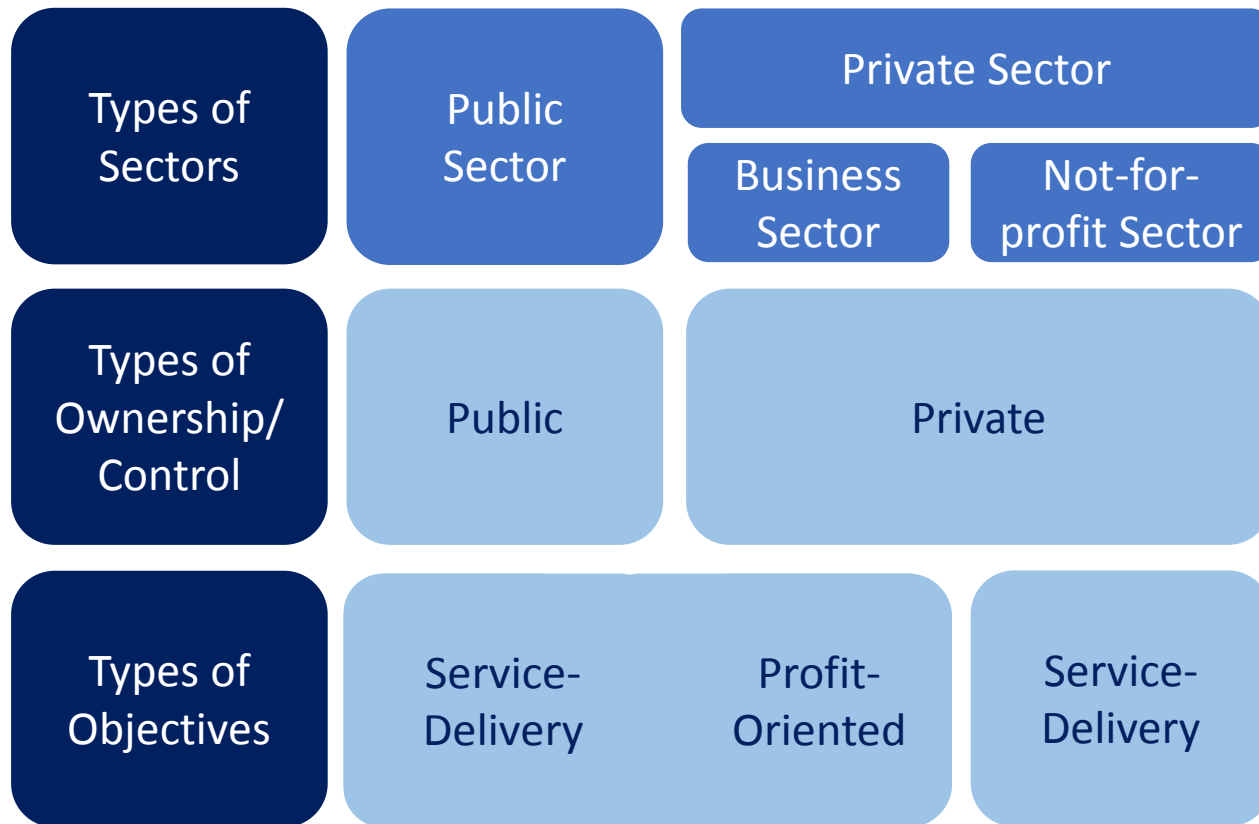
- Combinations NUCC: Amalgamations
 - Occurs only within the public sector
 - It is not possible to identify an acquirer;
 - New entity:
 - Has no control or shared control link to the combining entities;
 - Did not participate in the arrangement of the combination;
 - Did not exchange any value to receive the operation;

Classification

(Paragraphs 15 – 17)

- Combinations NUCC: Amalgamations

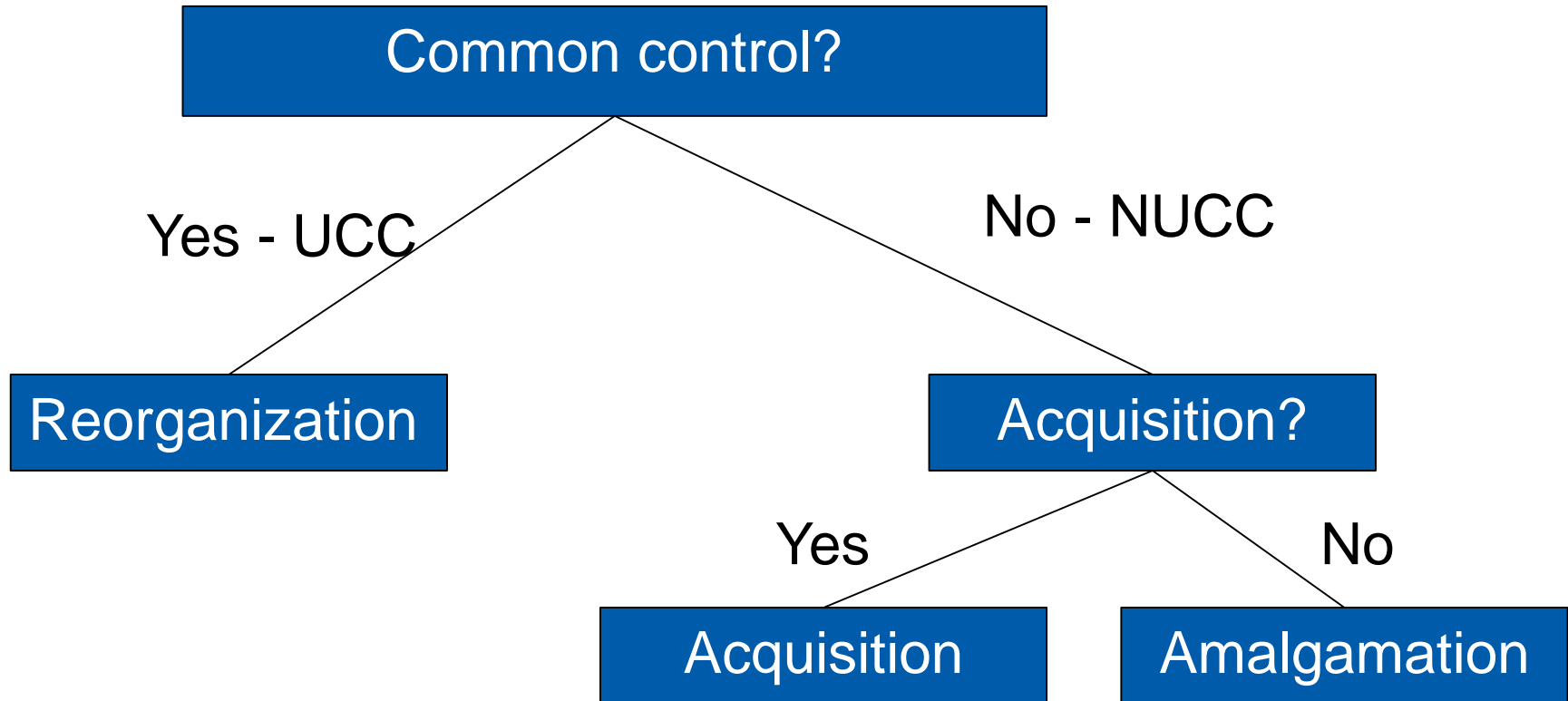
- Differences between sectors



Classification

Control	UCC	NUCC	
Combinations	Reorganizations	Acquisitions	Amalgamations
Original Entity	Reorganized Entity	Transferor	Remaining Entity
Operation	Reorganizing Operation	Acquired Operation	Combining Operation
Finishing Entity	Receiving Entity	Recipient	Resulting Entity
Sectors Involved	Public Sector	Public and Private Sector	Public Sector
Independence	No	Yes	
Change of Control	Common Control does not Change	A Recipient Gains Control	No Remaining Entity Gains Control / Shared Control

Classification Approach



Matter(s) for Consideration 1

Overarching definitions

- A **reorganization** is a public sector combination under common control
- An **acquisition** is a public sector combination not under common control in which an entity exchanges value to gain control of an operation
- An **amalgamation** is a public sector combination not under common control that is not an acquisition

Acquisitions Method – Measurement

(Paragraphs 117 – 145 / Matter for Consideration 5)

Option	IFRS 3 – Consistent Wording?	IFRS 3 – Consistent Application?
Retain “fair value” in IPSAS	✓	? ✗
Refer to “market value” in IPSAS	✗	✗
Refer to “current value” in IPSAS	✗	?
Develop measurement guidance in IPSAS	✗	? ✓

Acquisition Method – Goodwill

(Paragraphs 146 – 168 / Matter for Consideration 5)

- Recognize Goodwill:
 - Consideration > Fair Value of Net Assets Acquired
 - Excess Represents:
 - Generation of Cash Inflows
 - Reduction in Net Cash Outflows
- Otherwise Don't Recognize Goodwill

(Modified) Pooling of Interests Method

(Paragraphs 175 – 191 / Matter for Consideration 6)

- Recognition of Difference
 - UCC: Transaction with Owners
 - NUCC: Gain or Loss Recognized In Equity
- Carrying Amounts
 - UCC: Ultimate Controlling Entity

Accounting Treatments (Paragraphs 196 – 233)

(Matters for Consideration 7–9)

	Reorganization	Amalgamation	Acquisition
Accounting Method	Modified Pooling of Interests	Modified Pooling of Interests	Acquisition
Difference	Distribution to / Contribution from Owners	Recognized in Equity	Goodwill, Gain or Loss
Prior Period Information	Required to be Available	Not Required	Not Required

Joint Ventures (Paragraphs 234 – 240) (Matter for Consideration 10)

- Different Issues Arise
- Complex
- Proposal: Outside Scope of Project
 - Consistent with CP
 - Address either in definitions or as scope exclusion

Terminology – Acquisitions (Paragraphs 241 – 245) (Matter for Consideration 11)

- Retain “Acquisition”
- IFRS 3 Terminology or CP Terminology:
 - “**Acquirer**” or “Recipient”
 - “Acquiree” or “Acquired Operations”
 - “Former Owners” or “**Transferor**”

Terminology – Other (Paragraphs 246 – 252) (Matter for Consideration 11)

- Retain “Amalgamation”?
- Reorganization:
 - Administrative Reorganization
 - Public Sector Reorganization
 - Government Reorganization
- Restructurings – Consequential Amendments
- “Modified Pooling of Interests Method” or “Predecessor Accounting Method”?

Presentation – Objectives (Paragraphs 253 – 255) (Matter for Consideration 12)

- Evaluate nature and financial effect of public sector combination
- Evaluate financial effects of adjustments recognized that relate to public sector combinations



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Amalgamations of Operations / Remaining Entities

