



Public Sector Combinations

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Objective of Session

The objective of this session is to:

- a) **Review** an Issues Paper and draft sections of an Exposure Draft (ED) on Public Sector Combinations; and,
- b) **Provide directions** for further development.

Objective of ED (Issues Paper para 4; ED para 1)

The ED establishes principles and requirements for how:

An acquirer	A resulting entity
<ul style="list-style-type: none">• Determines whether a public sector combination is an acquisition, reorganization or amalgamation	
<ul style="list-style-type: none">• Recognizes and measures assets, liabilities and non-controlling interests• Recognizes and measures goodwill	<ul style="list-style-type: none">• Recognizes and measures assets and liabilities• Recognizes and measures gains, losses, and other adjustments
<ul style="list-style-type: none">• Determines what information to disclose to enable users to evaluate the nature and effects of the combination	

Scope of ED

(Issues Paper paras 5–11; ED paras 2–7)

Scope

Public Sector
Combinations,
including
**donated
operations**

Scope Exclusions

Formation of a
**joint
arrangement** or
joint venture in
the financial
statements of
the joint
arrangement or
joint venture
itself

Receipt of an
asset or a group
of assets that
**does not
constitute an
operation**

Acquisition by an
investment entity
(per IPSAS 35)
of an
**investment in a
subsidiary** that
is required to be
**measured at
fair value**
through surplus
or deficit.

**Government
Business
Enterprises
(GBEs)**

Matter for Consideration 1

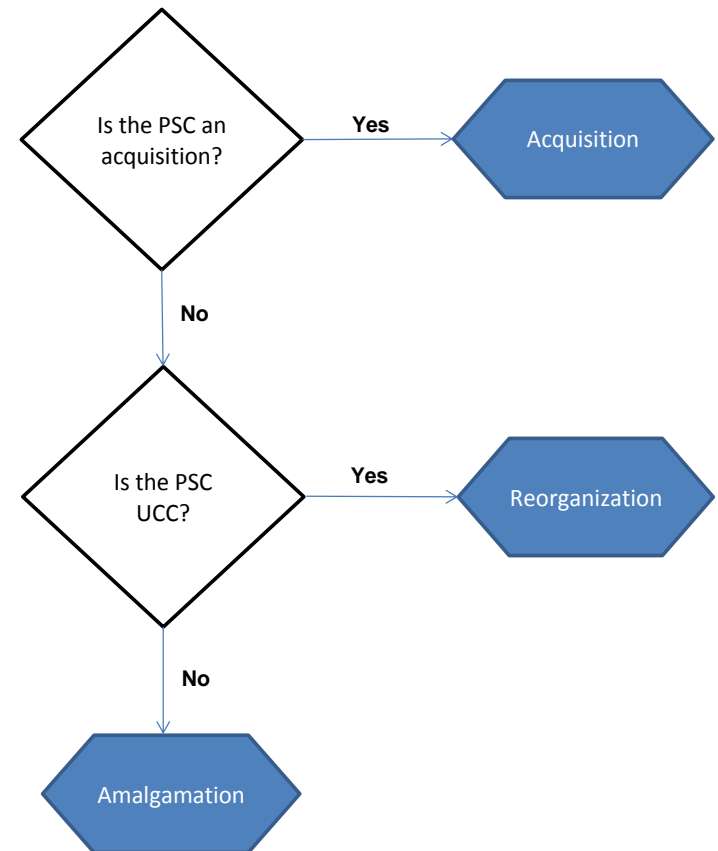
- **Indicate** whether it supports the staff proposals regarding the objective and scope of the ED, **including the treatment of donated operations**; or alternatively to suggest alternative wording.

Classification—December 2014 Decisions (Issues Paper paras 12–14; ED para 8)

Definitions

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

Decision Tree



Classification—Acquisition **(Issues Paper paras 15–16; ED para 8)**

- Wording “not under common control” in the acquisition definition
- Decision tree does not address the issue of being a PSC UCC or NUCC in the acquisition definition

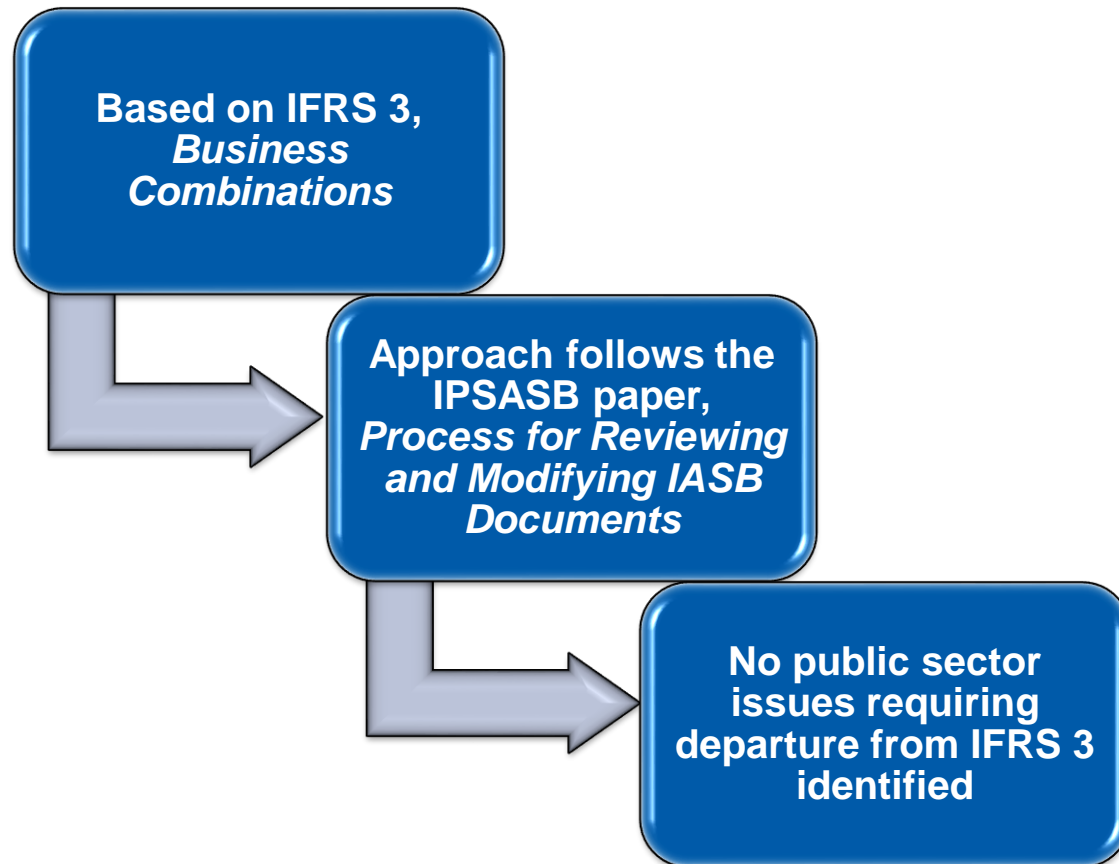
Staff recommendation:

Remove the wording “not under common control” in the acquisition definition.

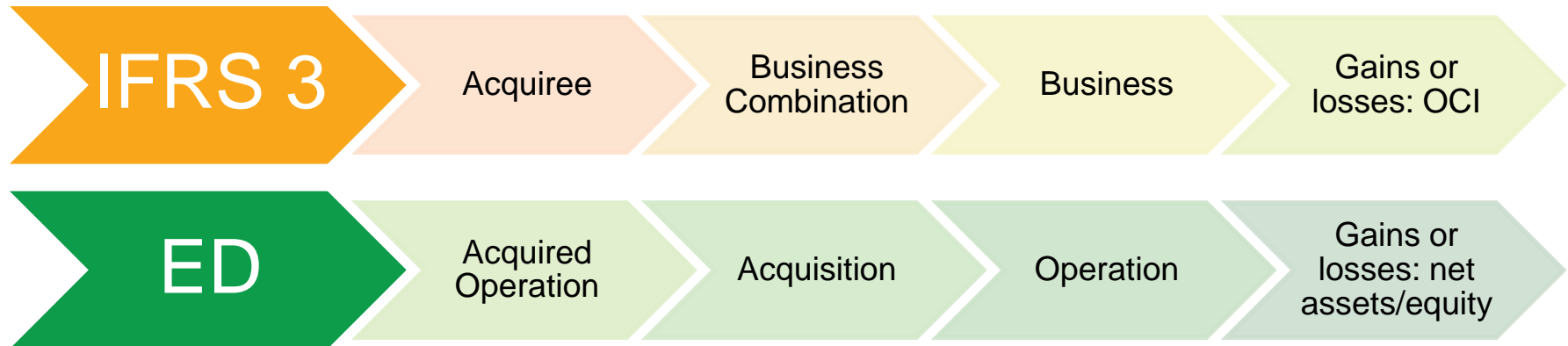
Matter for Consideration 2

- **Indicate** whether it agrees with the staff recommendation to remove the wording “not under common control” from the acquisition definition.

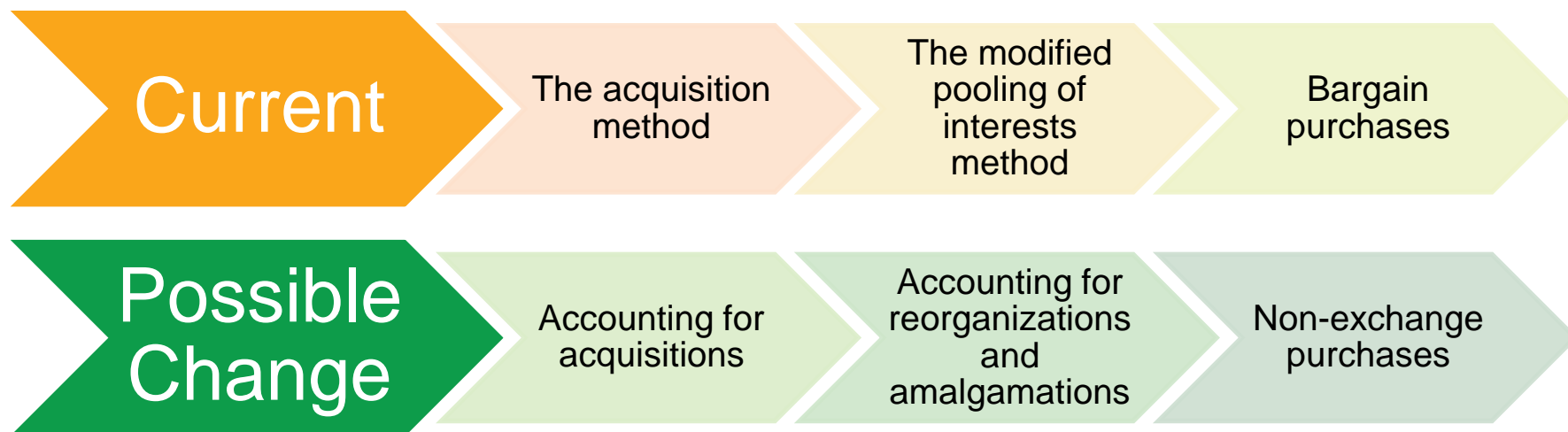
The Acquisition Method – Approach (Issues Paper para 30–31)



The Acquisition Method – Terminology Changes (Issues Paper para 32)



The Acquisition Method – Possible Terminology Changes (Issues Paper para 33)



Matter for Consideration 8 (a)–(c)

Acquisition Method - Process

- a) **Confirm** that it is appropriate for staff to rely on the IPSASB's *Process for Reviewing and Modifying IASB Documents* when developing the acquisition method;
- b) **Indicate** whether it agrees with the terminology changes made by staff; or to suggest alternatives;
- c) **Indicate** whether it supports:
 - i. Replacing the headings “acquisition method” and “modified pooling of interests method” with “accounting for acquisitions” and “accounting for reorganizations and amalgamations”; and
 - ii. Replacing the term “bargain purchases” with the term “non-exchange purchases”.

Matter for Consideration 8 (d) & (e) (Issues Paper para 34) Acquisition Method – Contingent Liabilities

- d) Decide** whether a contingent liability should be recognized in all acquisitions, or only where there is a transfer of consideration
- Required as goodwill determined as a residual
 - May not meet recognition criteria in Conceptual Framework
 - See ED para 53
- e) Indicate** whether the provisions relating to a contingent liability recognized as part of an acquisition should include a reference to IPSAS 23
- Subsequent measurement – refers to cumulative amortization
 - See ED para 92

Matter for Consideration 8 (f) (Issues Paper para 34)

Acquisition Method – Income Tax

f) Decide whether to replace the guidance on income tax with the more generic wording included in this Issues Paper

- ED paras 54 & 55 refers to deferred tax assets and liabilities, temporary differences
- Similar wording in paras 121 & 122 (pooling of interests)
- Alternative wording:

“The acquirer shall account for items taxation items included in or arising from an acquisition in accordance with the relevant international or national standard dealing with income taxes.”

Matter for Consideration 8 (g) (Issues Paper para 34) Acquisition Method – Non-Current Assets Held for Sale

- g) Decide** on the approach to be taken in the draft ED regarding non-current assets held for sale
- IFRS 3 refers users to IFRS 5 for measurement requirements
 - Different approaches to non-current assets held for sale in other IPSASs, e.g.
 - IPSAS 21 – within scope
 - IPSAS 26 – excluded from scope (reference to international or national standards)
 - ED para 61 refers to international or national standards for measurement requirements

Matter for Consideration 8 (h) & (i) (Issues Paper para 34) Acquisition Method – Additional Public Sector Guidance

- h) Indicate** whether it supports the inclusion of the additional guidance on goodwill
 - Public sector examples where goodwill does not arise or is limited
 - ED paras 63 & 64

- i) Indicate** whether it supports the inclusion of the public sector specific examples of acquisitions
 - Public sector examples of non-exchange acquisitions
 - ED paras 73–76

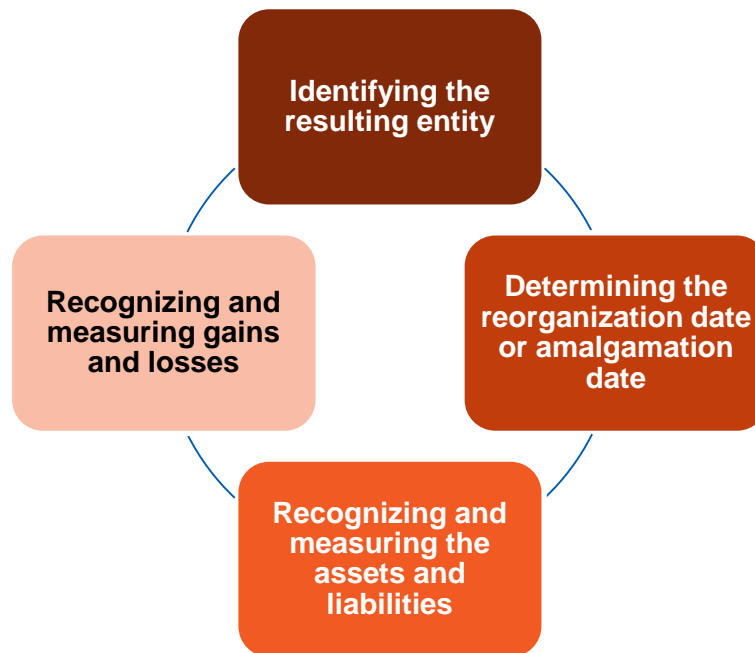
Matter for Consideration 8 (j) & (k) (Issues Paper para 34)

Acquisition Method – Equity Interests, No Consideration

- j) Decide** whether to replace the term “equity interest” with “quantifiable ownership interests” where the context would not automatically require a share-based approach in the public sector
 - See ED paras 77 & 78
- k) Indicate** whether it supports the staff proposal in respect of acquisitions achieved without the transfer of consideration
 - May be outside the definition of an acquisition as no exchange of value - staff proposes to develop guidance
 - See ED paras 79 & 80

Modified Pooling of Interests Method – Approach (Issues Paper paras 36–38)

- Structure of ED based on Acquisition Method
- Four Stages:



Appropriateness of Pooling of Interests Method (Issues Paper paras 39–41, ED para 102)

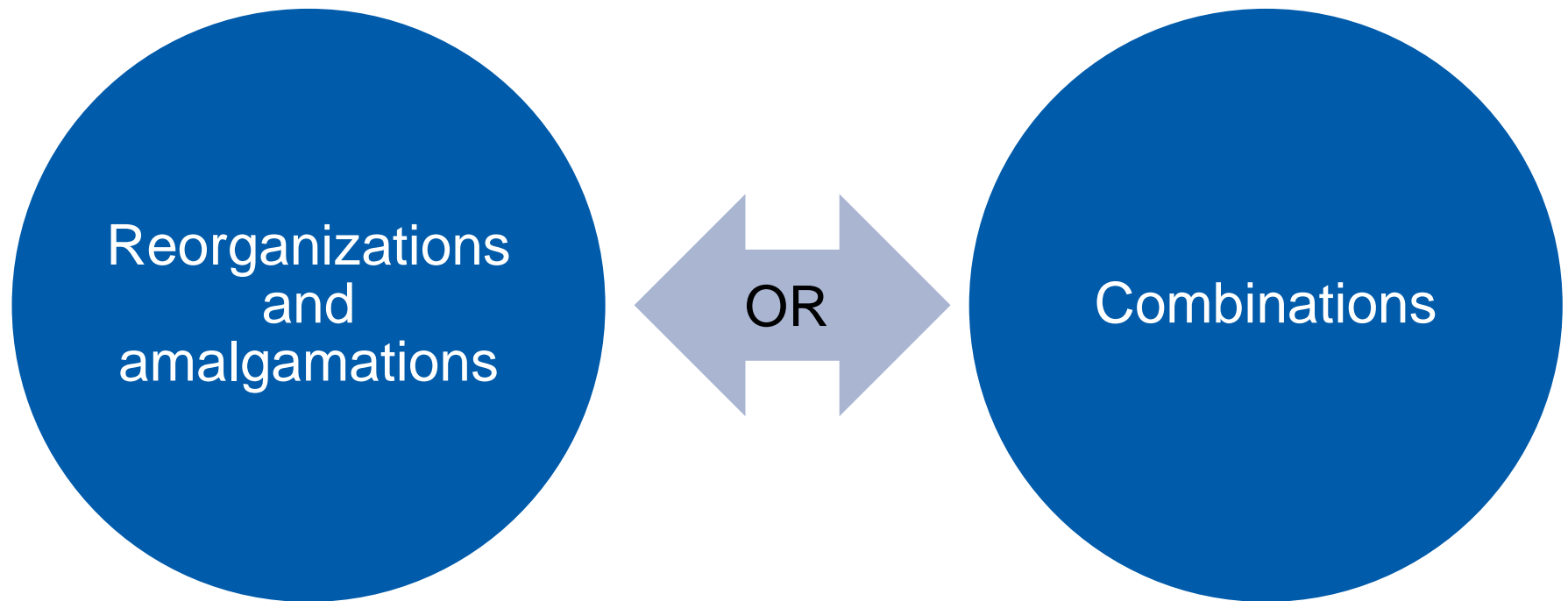
<p>All operations previously under IPSAS</p> <ul style="list-style-type: none">• Apply Modified Pooling of Interests Method	<p>Some operations previously under IPSAS</p> <ul style="list-style-type: none">• Apply Modified Pooling of Interests Method	<p>No operations previously under IPSAS</p> <ul style="list-style-type: none">• First time adoption under IPSAS 33
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Matter for Consideration 10 (a)

- a) Indicate** whether the modified pooling of interests method should be applied to:
- i. Reorganizations and amalgamations where at least one of the combining operations has previously prepared financial statements in accordance with accruals-basis IPSASs (the staff proposal);
 - ii. All reorganizations and amalgamations; or
 - iii. Reorganizations and amalgamations where all of the combining operations have previously prepared financial statements in accordance with accruals-basis IPSASs.

Matter for Consideration 10 (b) (Issues Paper paras 42–44) Pooling of Interests Method – Structure

- b) **Indicate** whether it supports the terminology used in the Modified Pooling of Interests section of the draft ED



Matter for Consideration 10 (c) & (d) (Issues Paper paras 45–47)

Pooling of Interests Method – Structure

- c) Indicate** whether requirements that are common to the acquisition method and modified pooling of interests method should be included in a separate section of the draft ED
- E.g., treatment of income taxes
 - IAS 22 included common requirements in separate section
- d) Indicate** whether the structure of the draft ED should be changed so that the modified pooling of interests method appears before the acquisition method

Matter for Consideration 10 (e) (Issues Paper paras 48) Pooling of Interests Method – Uncommon Transactions

- e) Indicate** whether it supports staff proposals in respect of the inclusion of the guidance on issues that may not be common in reorganizations and amalgamations
- Non-controlling interests (ED para 118)
 - Share-based payments (ED para 124)

Matter for Consideration 10 (f) (Issues Paper paras 49–51) Pooling of Interests Method – Recognizing a Gain or Loss

- f) Indicate** whether it supports the staff proposals in respect of recognizing a gain or loss
- ED paragraphs 125–127

Reorganization	Amalgamation
Transaction with Owners	In Net Assets/Equity
Calculated after Adjustments to Conform Accounting Policies	
Adjustments to Conform Accounting Policies in Net Assets/Equity	

Matter for Consideration 10 (g) (Issues Paper paras 52–53) Pooling of Interests Method – Measurement Period

- g) Indicate** whether it supports the staff proposal in respect of the measurement period
- One year as acquisition method
 - Combining entities not applying IPSASs
 - ED paras 128–132



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