

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Toronto, Canada

**Meeting Date:** September 20–23, 2016

**From:** Paul Mason

## Agenda Item 9

For:

☐ Approval

☒ Discussion

☒ Information

### PUBLIC SECTOR COMBINATIONS

<b>Project summary</b>	To prescribe the accounting treatment for public sector combinations.	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Instructions up to June 2016 meeting</a>	<a href="#">9.1.1</a>
	<a href="#">Decisions up to June 2016 meeting</a>	<a href="#">9.1.2</a>
	<a href="#">Project roadmap</a>	<a href="#">9.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Scope of the project</a>	<a href="#">9.2.1</a>
	<a href="#">Classification of public sector combinations</a>	<a href="#">9.2.2</a>
	<a href="#">Accounting for amalgamations</a>	<a href="#">9.2.3</a>
	<a href="#">Residual amount in an amalgamation</a>	<a href="#">9.2.4</a>
	<a href="#">Accounting for acquisitions</a>	<a href="#">9.2.5</a>
	<a href="#">Other issues raised by respondents</a>	<a href="#">9.2.6</a>
<b>Other supporting items</b>	<a href="#">Analysis of Respondents by Region, Function, and Language</a>	<a href="#">9.3.1</a>
	<a href="#">Staff summary of responses to Exposure Draft, <i>Public Sector Combinations</i></a>	<a href="#">9.3.2</a>
	Responses to Exposure Draft, Public Sector Combinations (provided as a separate file)	9.3.3

## Agenda Item 9.1.1

### INSTRUCTIONS UP TO JUNE 2016 MEETING

Meeting	Instruction	Actioned
December 2015	All instructions given in the December 2015 meeting or earlier were reflected in <a href="#">Exposure Draft 60, Public Sector Combinations</a> .	

**DECISIONS UP TO JUNE 2016 MEETING**

Date of Decision	Decision
December 2015	All decisions made in the December 2015 meeting or earlier were reflected in <a href="#">Exposure Draft 60, <i>Public Sector Combinations</i></a> .

**PROJECT ROADMAP**

<b>Meeting</b>	<b>Objective: IPSASB to consider:</b>
September 2016	<ol style="list-style-type: none"><li>1. Review of Responses</li><li>2. Discussion and decisions on issues raised</li></ol>
December 2016	<ol style="list-style-type: none"><li>1. Review first draft of proposed IPSAS</li><li>2. Discussion of revisions to proposed IPSAS</li></ol>
March 2017	<ol style="list-style-type: none"><li>1. Review of draft IPSAS</li><li>2. Approval of IPSAS</li></ol>

# Agenda Item

## 9.2.1

### Scope of the project

#### Questions

1. The IPSASB is asked to agree the scope of a future IPSAS on Public Sector Combinations.

#### Detail

2. Respondents were asked to comment on the scope of [Exposure Draft \(ED\) 60, Public Sector Combinations](#):

#### Specific Matter for Comment 1

Do you agree with the scope of the Exposure Draft? If not, what changes to the scope would you make?

3. Staff's summary of the responses to SMC 1 is included in Agenda Item 9.3.2 [below](#).
4. Four respondents disagreed with the scope of the project included in the ED. One further respondent suggested an addition to the Basis for Conclusions. Their proposed amendments are summarized below:

Proposed amendment to scope	Staff comments
<a href="#">Respondent 08</a> proposes widening the scope of the project to include joint ventures and joint arrangements.	In developing the ED, the IPSASB concluded that "the concept of joint control does not reflect the issues addressed in this [draft] Standard" (see ED paragraphs BC12 and BC13). Staff does not consider there is sufficient justification to depart from this approach.
<a href="#">Respondent 17</a> commented that clarification of the required accounting treatment may be useful when public sector entities are involved in what might be initially intended as relatively temporary measures e.g., the bailout of a strategically important private sector entity.	The IPSASB is asked whether it wishes to comment on this issue in the Basis for Conclusions or elsewhere in the Standard.
<a href="#">Respondent 21</a> , <a href="#">Respondent 22</a> and <a href="#">Respondent 23</a> suggest including transferor accounting in the scope of the project.	Apart from the limited guidance included in paragraph IE183, the IPSASB agreed not to include transferor accounting in the scope of the project. Staff does not consider there is sufficient justification to depart from this approach as other IPSASs provide guidance on derecognition.

Proposed amendment to scope	Staff comments
<a href="#">Respondent 21</a> suggests that the Standard should clarify in the objective section that it does not reconsider consolidation principles that are already addressed in IPSAS 35, <i>Consolidated Financial Statements</i> .	The objective (paragraph 1) could be amended to clarify that the Standard applies to both the consolidated financial statements and individual financial statements if the IPSASB agrees this would be helpful.
<a href="#">Respondent 21</a> suggest that the Standard should include guidance on combinations where an entity absorbs an operation.	Staff considers that such transactions are already covered by the classifications approach.
<a href="#">Respondent 22</a> suggests that the Standard should include control criteria other than those in IPSAS 35, as in the public sector, control generally does not rely on the ownership links and therefore quantifiable property rights.	In developing the ED, the IPSASB agreed that control should be consistent with IPSAS 35. Staff also notes that the control criteria in IPSAS 35 do not rely on ownership links.
<a href="#">Respondent 23</a> notes that some common control transactions involve splitting an existing entity into two or more new entities, and questions whether the IPSASB consciously excluded these common control transactions from the scope of the ED.	The splitting of entities does not involve a combination, and raises different accounting issues. The IPSASB did not set out to cover all common control transactions in this project.

5. Staff does not consider that any changes to the scope of the project are required. The IPSASB may wish to consider clarifying the scope of the project and/or its reasons for not extending the scope as suggested by respondents, either in the objective or in the Basis for Conclusions.

#### Decisions required

6. Does the IPSASB support the staff view that no changes to the scope of the project are required?
7. Does the IPSASB wish to include any clarification on the scope of the project and/or its reasons for not extending the scope, as suggested by respondents?

# Agenda Item

## 9.2.2

### Classification of public sector combinations

#### Questions

1. The IPSASB is asked agree the approach to classifying public sector combinations in a future IPSAS.

#### Detail

2. Respondents were asked to comment on the approach to classifying public sector combinations in ED 60:

#### Specific Matter for Comment 2

Do you agree with the approach to classifying public sector combinations adopted in this Exposure Draft (see paragraphs 7–14 and AG10–AG50)? If not, how would you change the approach to classifying public sector combinations?

3. Staff's summary of the responses to SMC 2 is included in Agenda Item 9.3.2 [below](#).

	Agree	Partially Agree	Disagree
Number of Respondents	19	5	7

4. Staff has summarized respondents' comments below. Staff notes that many of the issues raised have already been debated in detail by the IPSASB. In analyzing the comments, staff has first considered whether a respondent has provided new information or new rationale. Where this is the case, staff has considered the merits of the comments. Where a respondent has not provided new information or new rationale, staff has noted the IPSASB's previous decisions and reasoning.
5. The classification of public sector combinations has been the most challenging part of this project since its inception. Respondents to the 2012 Consultation Paper expressed a wide range of views, and this has continued in the responses to the ED.
6. Some respondents provided comments that staff will need to consider when drafting the standard, once the IPSASB has finalized the approach to classification. These are summarized briefly in [Appendix A](#) to this Issues Paper.

#### Rebuttable presumption

7. [Respondent 01](#) comments that it is unusual that the ED has a rebuttable presumption that will be rebutted in most instances. [Respondent 05](#) considers that the presumption could be reversed, so that there is a presumption that a combination is an amalgamation. However, both respondents support the proposals in the ED.
8. Staff notes the logic behind these comments, but considers that the primacy of the control factor makes any alternative drafting difficult. Staff also notes that, in developing the ED, the IPSASB

attempted to develop this type of drafting without success. Consequently, staff does not recommend any changes in response to these comments.

#### *Common control*

9. [Respondent 17](#) suggests that it appears that combinations under common control will always be amalgamations, and that this should be reflected in the definitions.
10. Staff notes that the IPSASB debated this issue over a number of meetings without reaching a conclusion. Consequently, staff does not recommend any changes in response to this comment.

#### *Control*

11. [Respondent 24](#), who supports the proposals in the ED, considers that the gaining of control may be difficult to assess in practice, and wonders whether this needs to be the first step of the process. Other respondents, who either disagree with the proposals or only partially support them (see, for example, [Respondent 08](#) and [Respondent 23](#)), raise similar issues.
12. Staff notes these concerns. For the reasons given in paragraph 8, staff does not recommend changes to the classification approach.
13. However, staff considers that, despite the primacy of the control factor, it may be possible to apply the approach in practice without needing to resolve complex control issues in every case. For example, it may not be clear whether one party to the combination has gained control of another party to the combination. However, it might be clear that the combination has been imposed by a third party in such a way that, if one party has gained control, the presumption that the combination is an acquisition would be rebutted. In such circumstances, it would be possible to conclude that the combination is an amalgamation, based solely on the fact that the presumption would be rebutted, and that consequently no further work on determining whether one party to the combination has gained control of another is required. For cost-benefit reasons, the control issue does not need to be resolved, as the outcome would be the same – if control has been gained, the presumption will be rebutted and the combination is an amalgamation; if control has not been gained, the combination is an amalgamation.
14. Staff recommends that guidance is included in the Standard to highlight that pragmatic approaches to classification can be taken in practice in those cases where it is difficult to determine whether one party to the combination has gained control of the other parties to the combination.

#### *Alternative classification approaches*

15. A number of respondents suggested alternative approaches to classifying public sector combinations. These are summarized below:

Proposed classification approach	Staff comments
<a href="#">Respondent 06</a> would distinguish an amalgamation from an acquisition based solely on whether one party to a combination gains control. Three sub-categories of acquisition would be recognized – those under common	These suggestions reflect the approach proposed by the IPSASB in the CP. Respondents had concerns with this approach, and the IPSASB had moved away from this approach in developing the ED (see paragraphs



Proposed classification approach	Staff comments
control, those not under common control without commercial substance (both of which would be accounted for using the modified pooling of interests method) and those not under common control with commercial substance.	BC17–BC25). Some respondents to the CP found the concept of acquisitions that were not accounted for as acquisitions confusing.
<a href="#">Respondent 07</a> proposes simplifying the approach, while retaining the same outcomes. All combinations under common control would be classified as amalgamations. All other combinations would be classified as acquisitions except where no acquirer can be identified, or the combination is a genuine merger of equals.	Staff accepts that this will produce the same results in most cases in the respondent's jurisdiction, but considers that this may not apply in all jurisdictions, especially where combinations are not under common control. It is not clear from the response what constitutes a "genuine merger of equals". Staff notes the IASB's views on this issue in BC 35 of IFRS 3.
<a href="#">Respondent 09</a> generally supports the approach proposed in the ED, but would adopt the individual weighting approach rather than the rebuttable presumption approach.	The individual weighting approach, and the IPSASB's reasons for not proposing this approach, are discussed in paragraphs BC33–BC36 of the ED. Staff also notes that, from the example, Respondent 09 seems to view all combinations within the public sector as amalgamations, unless consideration is paid. The IPSASB did not take this view in developing the ED (see paragraph BC28 of the ED).
<a href="#">Respondent 11</a> suggests three classifications should be adopted: <ul style="list-style-type: none"> <li>• An amalgamation of two government entities, for example two government agencies combining into one new agency</li> <li>• A combination of two government entities that that meets the description of an acquisition, but where there is no consideration.</li> <li>• An acquisition by a government entity of another entity for a consideration.</li> </ul>	Respondent 11 would account for the first two classifications in the same manner (a pooling of interests type approach), while the third classification would be accounted for using IFRS 3.  Staff considers that the current proposals achieve these outcomes, and does not identify a requirement to introduce a third classification.
<a href="#">Respondent 14</a> favors an approach that is more strictly based on the concept of control with some modifications for circumstances unique to the public sector. The starting point for this approach considers whether a combination crosses the public/private sector boundary. Only combinations under common control or forced combinations within the public sector would be classified as amalgamations.	In developing the ED, the IPSASB considered change of sector as a factor. The IPSASB noted that classifying entities into sectors was a feature of GFS, not IPSAS. The IPSASB's reasons for rejecting this factor are explained in paragraph BC29(a) of the ED.  The remainder of the proposal is the same as the proposal from Respondent 18, and is discussed <a href="#">below</a> .

Proposed classification approach	Staff comments
<p><a href="#">Respondent 15</a> proposed an approach that does not rely on control, but instead uses three factors – consideration, decision-making and whether the combination is under common control.</p>	<p>The IPSASB agreed that control is an important factor for classification (see paragraph BC27 of the ED). Staff also has doubts that this approach will produce the intended outcomes (see staff’s detailed comments to this response).</p>
<p><a href="#">Respondent 18</a> proposes an approach where combinations under common control and “forced transactions” should be classified as amalgamations, with all other combinations being classified as acquisitions.</p>	<p>Staff notes that this approach would result in more combinations (including some combinations of municipalities) being classified as acquisitions than the proposals in the ED. Staff considers that this would be contrary to the feedback received from respondents to both the CP and the ED that most combinations in the public sector will be amalgamations.</p>
<p><a href="#">Respondent 19</a> considers that the approach in the ED allows for too much judgment. They suggest making the indicators in paragraphs 12 and 13 of the ED criteria. Respondent 19 would also remove the provisions in paragraphs 11 and 14 that allow preparers to consider the economic substance of the combination when other factors are inconclusive.</p>	<p>Staff notes that, in developing the ED, the IPSASB considered that the relative importance of the factors would depend on jurisdictional issues such as the legislation in effect. Making the indicators criteria might run counter to this.</p> <p>Staff notes that <a href="#">Respondent 12</a> shares Respondent 19’s concerns over paragraphs 11 and 14, whereas <a href="#">Respondent 24</a> welcomes the inclusion of paragraphs 11 and 14.</p>
<p><a href="#">Respondent 23</a> proposes a simplified approach that would classify combinations as acquisitions where there is:</p> <ul style="list-style-type: none"> <li>• A controlling entity and a controlled entity relationship between parties in a combination;</li> <li>• A combination that has commercial substance;</li> <li>• A payment of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement;</li> <li>• A donation of the net assets of an operation;</li> <li>• An uncompensated seizure or nationalization; or</li> <li>• A public sector combination not under common control.</li> </ul>	<p>Staff considers that, in practice, this approach is likely to become a rules-based rather than a principles-based approach.</p> <p>This is not consistent with the approach taken in IPSASs.</p> <p>Staff also considers that a rules-based approach may not be easy to apply in all jurisdictions.</p>

16. Staff notes the alternative approaches proposed by respondents. Staff notes that most approaches proposed are only supported by one or two respondents, and in some cases the basis of the approach has already been considered by the IPSASB.
17. Consequently, staff does not consider that any of these approaches should be adopted. Staff notes that a concern of respondents is the complexity of the proposals in the ED, with a number of respondents proposing simplified approaches. Staff considers that the proposal in paragraph 14 will help address the concerns over complexity. Staff therefore recommends that the classification approach in the ED is retained in the Standard.

**Decision required**

18. Does the IPSASB support the staff view that the classification approach in the ED should be retained, with additional guidance included in the Standard to highlight that pragmatic approaches to classification can be taken in practice?

## Appendix A to Agenda Item 9.2.2

### Detailed comments for later review

[Respondent 02](#) would welcome more detail in the explanation of “rebuttal”.

[Respondent 04](#), [Respondent 10](#) and [Respondent 21](#) comment that the examples use the term “imposed” to describe both a combination imposed by a third party and a combination imposed by a party to the combination, and consider that greater clarity is required.

[Respondent 13](#) proposes greater a clarity on “the bringing together” phrase in the definition of a public sector combinations, as Respondent 13 considers that this is more suggestive of amalgamations than acquisitions.

[Respondent 16](#) considers that the reference to a “new entity” in paragraph AG22 may need to be revised (staff considers that this might be dependent on decisions taken at this meeting).

[Respondent 17](#) proposes alternative definitions for “amalgamation” and “acquisition”.

[Respondent 20](#) proposes adding the words “or an enabling law” to paragraph 13(b).

[Respondent 21](#) proposes some drafting amendments to the indicators in paragraphs 12 and 13.

[Respondent 25](#) considers that additional guidance is required on combinations that occur over several financial reporting periods.

[Respondent 30](#) proposes some drafting amendments to the indicators and the related Application Guidance and Illustrative Examples.

# Agenda Item

## 9.2.3

### Accounting for amalgamations

#### Question

1. The IPSASB is asked to agree that the default accounting treatment for amalgamations should be the modified pooling of interests method, with the optional presentation of comparative information permitted.

#### Detail

2. Respondents were asked for their views on the accounting method to be used for amalgamations:

#### Specific Matter for Comment 3

Do you agree that the modified pooling of interests method of accounting should be used in accounting for amalgamations? If not, what method of accounting should be used?

3. Staff's summary of the responses to SMC 3 is included in Agenda Item 9.3.2 [below](#).

	Agree	Partially Agree	Disagree
Number of Respondents	22	7	1

4. Respondents' concerns with the modified pooling of interests method of accounting are summarized below.

#### *Residual Amount*

5. A number of respondents commented on the treatment of the residual amount. These comments are addressed, along with responses to SMC 4, in Issues Paper [9.2.4](#).

#### *Modified pooling of interests method or pooling of interests method?*

6. Only one respondent ([Respondent 14](#)) does not support the use of the modified pooling of interests method for amalgamations. This respondent supports the (unmodified) pooling of interests method, which requires comparative information to be presented. However, Respondent 14 could accept the use of the modified pooling of interests method on cost / benefit grounds.
7. Respondent 14 proposes that, if the IPSASB decides to maintain the use of the modified pooling of interests method, the Basis for Conclusions is amended to reflect cost / benefit as the primary reason for adopting this method. Respondent 14 further comments that "the final Standard should not conclude that the modified pooling of interests method assists comparability of current period with prior period results."
8. Although they ultimately supported the use of the modified pooling of interests method, [Respondent 18](#) also considers that the (unmodified) pooling of interests method better satisfies comparability. This respondent only supports the modified pooling of interests method on cost / benefit grounds.

9. Some respondents ([Respondent 06](#), [Respondent 07](#) and [Respondent 24](#)) consider that some combinations, particularly those under common control, will give rise to resulting entities that are continuing entities rather than new entities. These respondents would permit or require the resulting entity to prepare comparative information, as they consider that, in those circumstances, providing information for comparative periods better meets users' needs. This is equivalent to adopting the (unmodified) pooling of interests method.
10. [Respondent 21](#) has a similar view, but considers that primary financial statements for the period prior to the combination should be published without being restated. This respondent would also treat the amalgamation date as occurring at the start of the reporting period in limited circumstances, to simplify the financial reporting.
11. Staff acknowledges that, for some common control combinations, the resulting entity may have the substance of a continuing operation. For this reason, staff would support the inclusion of an option to allow the resulting entity to present comparative periods where this better satisfies the qualitative characteristics of faithful representation, relevance and comparability. In these circumstances, providing comparative information is likely to better meet users' needs.
12. Staff also notes the comments from respondents that the use of the modified pooling of interests can be justified on cost / benefit grounds. For this reason, staff does not support requiring the provision of comparative information.
13. If the IPSASB supports the staff view, staff recommends that the Basis for Conclusions is amended accordingly.

*Combinations to which the modified pooling of interests method is applied*

14. Some respondents ([Respondent 06](#) and [Respondent 23](#)) proposed amendments to the range of combinations to which the modified pooling of interests method of accounting should be applicable. In the case of Respondent 06, the proposed amendments were linked to their alternative classification approach.
15. Staff considers that the IPSASB will have effectively dealt with these concerns in its discussions on the classification approach. On the assumption that the IPSASB has not made significant changes to the classification approach in its earlier discussions, staff considers that the modified pooling of interests method of accounting will be appropriate for those combinations classified as amalgamations.

*Requests for additional guidance*

16. Some respondents requested additional guidance be included in the Standard on various issues:

Issue raised	Staff comments
How to address the situation where combining entities have different revaluation cycles ( <a href="#">Respondent 04</a> ).	Staff considers that the requirements in other IPSASs that revalued amounts are not materially different from fair value at the reporting date is sufficient to address this issue.

Issue raised	Staff comments
<p>What adjustments have to be made when amalgamating entities had previous adopted different useful lives for the same kind of infrastructure assets or, more generally, had previously chosen a different accounting option. (<a href="#">Respondent 08</a>).</p>	<p>Paragraphs IE166–IE171 provide an example of the adjustments required to reflect different accounting policies.</p> <p>With regards to asset lives, the previous adoption of different lives may have been appropriate, as the combining entities may have adopted different strategies (for example, low maintenance costs but shorter lives versus higher maintenance costs but longer lives).</p> <p>Staff considers that asset lives would usually be adjusted prospectively, and that guidance this effect could be included in the example cited above.</p>
<p>How the comparative information for the “resulting entity” should be derived in its first financial statements, since it is a new entity (<a href="#">Respondent 13</a>).</p>	<p>Staff notes that comparative information is not currently required by the ED. Where there is a gap in the historical information, this is met by providing information from the combining operations (without restatement).</p> <p>Staff notes that this may change, depending on the IPSASB’s decisions at this meeting.</p>

*Exemptions from recognition and measurement principles*

17. Some respondents ([Respondent 04](#), [Respondent 21](#) and [Respondent 22](#)) questioned the exemption to both the recognition and measurement principles for tax forgiveness and (in the case of Respondent 04) employee benefits. These respondents consider that the remeasurement of these items should be part of subsequent measurement or (in the case of Respondent 21), tax forgiveness should only be treated as part of the combination where there is prior documentation.
18. Staff considers that tax forgiveness might arise as part of the combination where, for example, the tax authority is a combining operation, or where the combination is imposed by a third party government that forgives the tax as part of the combination. In other cases, any tax forgiveness is likely to arise subsequent to the combination. Staff recommends that both scenarios are included in the Standard.
19. Staff considers that the current exemption for employee benefits is appropriate. Entities will currently be measuring employee benefits in accordance with IPSAS 25, and in most cases, the treatment will be unchanged after the combination.
20. However, paragraph 33 of IPSAS 25 permits entities to account for multi-employer defined benefit plans as if they were defined contribution plans where there is insufficient information to apply defined benefit accounting. This may occur where there is insufficient information to determine each employer’s share of the liability.
21. Where the combining entities are part of the same multi-employer plan, the inability to determine each employer’s share of the liability might be removed. In such circumstances, it would be

appropriate to account for the plan as a defined benefit plan from the commencement of the combination.

22. Similar issues will arise for the acquisition method, and staff recommends that the accounting treatments for tax forgiveness and employee benefits is consistent between the two methods of accounting.
23. [Respondent 16](#), in their general comments, suggested that the IPSASB seek to identify further exemptions. Staff notes that the ED included all those exemptions the IPSASB could identify when developing the ED. Staff does not recommend any further exemptions be added.

*Other issues raised by respondents*

Issue raised	Staff comments
<a href="#">Respondent 16</a> , in their general comments, suggests that paragraph 30 be deleted, as they consider it overlaps with paragraph 31.	Paragraph 30 provides signposting. It is consistent with the drafting in the acquisition method, which is based on IFRS 3. Staff proposes no changes.
<a href="#">Respondent 17</a> considers that the term “modified pooling of interests method” may be misleading for preparers who are used to the pooling of interests method. In their response to the CP, this respondent suggested the term “predecessor accounting”.	Staff notes that this term is currently in use in some jurisdictions, and that there are different forms of predecessor accounting.  Staff also notes that the term “modified pooling of interests” had been used in both the CP and the ED, and changing the term at this stage may be more likely to cause confusion.

**Decisions required**

24. Does the IPSASB support the staff views that:
  - (a) The modified pooling of interests method of accounting will be appropriate for those combinations classified as amalgamations, and should be retained as the default treatment;
  - (b) The Standard should permit (but not require) the resulting entity to present comparative periods where this better satisfies the qualitative characteristics of faithful representation, relevance and comparability (which consequential amendments to the Basis for Conclusions);
  - (c) The Standard should address tax forgiveness arising both as part of an amalgamation and subsequent to the amalgamation?
  - (d) No further amendments to the exemptions are required;
  - (e) Paragraph 30 should be retained; and
  - (f) The term “modified pooling of interests method” should be retained?
25. Does the IPSASB wish to incorporate any additional guidance (see paragraph 16 above)?



### Residual amount in an amalgamation

#### Question

1. The IPSASB is asked to agree that a future IPSAS on public sector combinations should not prescribe where in net assets/equity amounts are recognized.

#### Details

2. The ED proposed that all amounts of net assets/equity be recognized in the residual amount rather than other components of net assets/equity, for example the revaluation surplus. Respondents were asked for their views on these proposals:

#### Specific Matter for Comment 4

Do you agree to adjustments being made to the residual amount rather than other components of net assets/equity, for example the revaluation surplus? If not, where should adjustments be recognized?

Do you agree that the residual amount arising from an amalgamation should be recognized:

- (a) In the case of an amalgamation under common control, as an ownership contribution or ownership distribution; and
  - (b) In the case of an amalgamation not under common control, directly in net assets/equity?
- If not, where should the residual amount be recognized?

3. Staff's summary of the responses to SMC 4 is included in Agenda Item 9.3.2 [below](#).

*Adjustments made to the residual amount rather than other components of net assets/equity*

	Agree	Partially Agree	Disagree
Number of Respondents	17	0	11

4. The IPSASB expected the proposed treatment of the residual amount to generate differing views, and this is reflected in the numbers of respondents who support the proposed approach and who disagree with the proposed approach.
5. Those respondents who support the proposed approach generally do so because they consider reserve balances are entity specific and, because the resulting entity is a new entity, it will not have built up any reserve balances of its own (see, for example, [Respondent 19](#)). This reasoning is consistent with that of the IPSASB in developing the ED.
6. Those respondents who disagree with the proposed approach do so for the following reasons:
  - Retaining existing reserves better represents the combination ([Respondent 01](#)), is more transparent ([Respondent 02](#)) and better meets users' needs ([Respondent 24](#));
  - The proposals will result in reliable information on the revaluation reserve being discarded ([Respondent 04](#));

- The combining entities are effectively continuing as one entity rather than as two or more separate entities (see, for example, [Respondent 15](#));
  - Reporting subsequent revaluation losses as an expense risks misrepresenting financial performance in future years (see, for example, [Respondent 10](#));
  - The proposals will produce ongoing consolidation adjustments where the amalgamation takes place under common control ([Respondent 24](#));
  - Retaining existing reserves would be consistent with the pooling approach required under IAS 22 (revised 1993) *Business Combinations* ([Respondent 30](#)); and
  - The proposals will impact on a wide range of reserves, including those relating to employee benefits, hedging and reserves restricted by legislation (see, for example, [Respondent 24](#)), which would be inconsistent with the ED's requirement the existing classifications and designations are maintained ([Respondent 14](#) and [Respondent 15](#)).
7. Staff is persuaded by some of the reasons provided by those respondents who disagree with the approach proposed in the ED, in particular the final bullet which highlights an internal inconsistency in the ED.
8. Staff notes that, if the IPSASB supports the staff proposal in Issues Paper [9.2.3](#) that the Standard should permit entities to present comparative information (effectively using the unmodified pooling of interests method), this would require separate components of net assets/equity to be carried forward.
9. Consequently, staff recommends that the Standard does not require all adjustments to be made to the residual amount, but allows adjustments to be made to other components of net assets/equity. [Respondent 14](#) and [Respondent 18](#) suggest that the IPSASB should not prescribe where in net assets/equity amounts are recognized, but instead leave this to entities to determine the most appropriate treatment. Staff supports this proposal.

*Where should the residual amount be recognized?*

10. The ED proposed that the residual amount be recognized as an ownership contribution or ownership distribution for amalgamations under common control. For amalgamations not under common control, the residual amount would be recognized in net assets/equity.

	Agree	Partially Agree	Disagree
Number of Respondents	18	1	8

11. Some respondents who disagree with this proposal consider that no distinction should be made between amalgamations under common control and those not under common control. Others consider that, as discussed earlier in this Issues Paper, all elements of net assets/equity should be carried forward from the combining operations.
12. In paragraph 9, staff recommends that the Standard should not prescribe where in net assets/equity amounts are recognized, but instead leave this to entities to determine the most appropriate treatment. Staff considers that entities should similarly be able to determine whether to recognize an ownership contribution or ownership distribution for amalgamations under common control.

**Decision required**

13. Does the IPSASB support the staff view that the Standard should not prescribe where in net assets/equity amounts are recognized?

# Agenda Item

## 9.2.5

### Accounting for acquisitions

#### Question

1. The IPSASB is asked to agree that the acquisition method of accounting should be used in accounting for acquisitions.

#### Details

2. Respondents were asked for their views on the accounting method to be used for acquisitions.

#### Specific Matter for Comment 5

Do you agree that the acquisition method of accounting (as set out in IFRS 3, *Business Combinations*) should be used in accounting for acquisitions? If not, what method of accounting should be used?

3. Staff's summary of the responses to SMC 5 is included in Agenda Item 9.3.2 [below](#).

	Agree	Partially Agree	Disagree
Number of Respondents	22	6	2

4. Respondents' concerns with the acquisition method of accounting are summarized below.

#### *Do not support the acquisition method*

5. Only one respondent ([Respondent 12](#)) does not support the use of the acquisition method of accounting for acquisitions under any circumstances. This respondent does not consider the acquisition method appropriate in the public sector because many combinations do not involve quantifiable ownership interests or do not include consideration.
6. Staff considers that the changes the IPSASB made to the classification approach in developing the ED effectively address Respondent 12's concerns, and that the acquisition method of accounting is appropriate for the limited number of combinations that will be classified as acquisitions. (This assumes that the IPSASB has not made significant changes to the classification approach in its earlier discussions.)

#### *Combinations to which the acquisition method is applied*

7. Some respondents ([Respondent 06](#), [Respondent 11](#) and [Respondent 23](#)) proposed amendments to the range of combinations to which the acquisition method of accounting should be applicable. In the case of Respondent 06, the proposed amendments were linked to their alternative classification approach.
8. Staff considers that the IPSASB will have effectively dealt with these concerns in its discussions on the classification approach. Assuming the IPSASB has not made significant changes to the classification approach in its earlier discussions, staff considers that the acquisition method of accounting will be appropriate for those combinations classified as acquisitions.

Goodwill

Issue raised	Staff comments
<p><a href="#">Respondent 05</a> disagrees with the inclusion of paragraph 85 of the ED, and considers that it is open to abuse (for example, by paying a notional amount). Respondent 05 also notes that the acquisition of net liabilities without any consideration could still include intangible assets such as customer lists or patents.</p> <p>Paragraph 85 states:</p> <p><i>Except as required by paragraph 86, the acquirer shall not recognize goodwill where no consideration is transferred. The acquirer shall treat an excess of (a) over (b) in paragraph 83 above as a loss in surplus or deficit. An excess of (b) over (a) in paragraph 83 shall be treated as a bargain purchase in accordance with paragraphs 87–89 below.</i></p>	<p>This paragraph was intended to address scenarios where goodwill either does not arise (non-exchange transactions) or is limited (for example, where the difference does not relate to future cash flows).</p> <p>However, staff recognizes the issues raised by Respondent 05. The general requirements in paragraph 84 state that goodwill shall only be recognized to the extent that an acquisition will result in the generation of future cash flows or a reduction in the net cash outflows of the acquirer. If the IPSASB is content that these requirements will cover non-exchange transactions and differences that are not related to cash flows, staff proposes that paragraph 85 could be deleted.</p>
<p><a href="#">Respondent 06</a> and <a href="#">Respondent 22</a> note that, as public sector entities' primary focus is not to generate a commercial return, goodwill should not be recognized, and the difference between any consideration paid and the net assets received should be recognized directly in net assets/equity.</p>	<p>Staff notes that the proposals in the ED allow for goodwill to be recognized in the consolidated financial statements of a public sector entity where a controlled public sector commercial entity acquires another commercial entity (whether from the public or private sector). For this reason, staff does not propose removing the requirement to recognize goodwill.</p>
<p><a href="#">Respondent 06</a> comments that, if the IPSASB retains the requirement to recognize goodwill, it should only be recognized by an acquirer if it is able to demonstrate that the projected future cash inflows of the operations of the acquired entity would be sufficient to recover the purchase premium.</p>	<p>The general requirements in paragraph 84 state that goodwill shall only be recognized to the extent that an acquisition will result in the generation of future cash flows or a reduction in the net cash outflows of the acquirer. Staff considers that these requirements will address Respondent 06's concerns</p>
<p><a href="#">Respondent 17</a> proposes requiring goodwill to be amortized, rather than reviewed annually for impairment.</p>	<p>In developing the ED, the IPSASB agreed to maintain consistency with IFRS for the treatment of goodwill. Staff also notes that the IASB has a research project on goodwill and impairment. For this reason, staff does not propose requiring the amortization of goodwill in the Standard. It would be appropriate to review this once the IASB has completed its project.</p>

*Proposed amendments to the acquisition method*

Issue raised	Staff comments
In their general comments, <a href="#">Respondent 06</a> suggests that the measurement period be extended to two years for the acquisition method, as fair values may be difficult to obtain.	Staff notes the equivalent period in IFRS 3 is one year.  The IPSASB is asked whether it wishes to extend the measurement period for the acquisition method.
In their general comments, <a href="#">Respondent 15</a> identifies a need for clarity about the circumstances in which the requirements of paragraphs 100 and 101 (which cover issues such as stapling arrangements) apply, rather than other parts of the Exposure Draft.	Staff agrees that these circumstances will be very unusual, and that additional clarity will be beneficial for preparers. Staff considers that this can be addressed in the headings.
In their general comments, <a href="#">Respondent 15</a> proposes a disclosure of the loss on acquisition recognized in surplus or deficit, similar to the disclosure requirements for a bargain purchase in paragraph 118(n) of the ED.	Staff considers this information would be useful to the users of the financial statements, and proposes that this disclosures be added to paragraph 118.
<a href="#">Respondent 19</a> suggests including additional guidance on the measurement requirements for items (such as heritage assets / specialized intangible assets) where fair value may not be available. The respondent suggests measuring all assets for which the fair value cannot be reliably measured at carrying value/deemed cost as per IPSAS 33, <i>First-time Adoption of Accrual Basis (IPSASs)</i> .	While acquisitions of such items are likely to be relatively rare, they may occur. Staff considers that, pending completion of the IPSASB's measurement project, it would be appropriate to measure all assets for which the fair value cannot be reliably measured at carrying value / deemed cost.
<a href="#">Respondent 21</a> expresses concerns regarding the requirements in respect of tax forgiveness.	The respondent raises the same concerns under the modified pooling of interests method; the IPSASB's decisions in that discussion (see Issues Paper <a href="#">9.2.3</a> ) are likely to apply here also.
<a href="#">Respondent 23</a> comments that, since this is not an IFRS convergence project, the new IPSAS can be simplified if material that is not relevant to public sector is removed.	In developing the ED, the IPSASB agreed to include all the IFRS guidance as this may be relevant where consolidated financial statements include public sector commercial entities that may undertake commercial acquisitions. For this reason, staff does not propose removing any material from the ED.

**Decisions required**

9. Does the IPSASB support the staff views that:
  - (a) The acquisition method of accounting will be appropriate for those combinations classified as acquisitions;
  - (b) Paragraph 85 of the ED should be deleted, but no further changes to the treatment of goodwill are required;
  - (c) The headings above paragraphs 100 and 101 of the ED should clarify the circumstances in which these paragraphs apply;
  - (d) A disclosure of the loss on acquisition recognized in surplus or deficit should be added to paragraph 118 of the ED;
  - (e) The ED should include provision to measure all assets for which the fair value cannot be reliably measured at carrying value / deemed cost under the acquisition method; and
  - (f) The requirements in respect of tax forgiveness should be consistent with the treatment under the modified pooling of interests method.
10. Does the IPSASB wish to extend the measurement period for the acquisition method?

# Agenda Item

## 9.2.6

### Other issues raised by respondents

#### Question

1. The IPSASB is asked to consider how to address other issues raised by respondents.

#### Details

2. In addition to providing responses to the SMCs in the ED, respondents also raised a number of other issues. These are summarized, along with staff's comments, in the tables below.

#### Disclosure Issues

Issue raised	Staff comments
<p><a href="#">Respondent 06</a> proposes additional disclosures that inform the users of the financial statements of the intended public sector combination, prior to the combination being effected. The disclosures would cover:</p> <ul style="list-style-type: none"> <li>(a) the reason for undertaking the intended public sector combination;</li> <li>(b) facts and circumstances that can influence the public sector combination, or leading to the expected combination; and</li> <li>(c) the expected manner and timing of the public sector combination.</li> </ul> <p>The disclosures would apply to both the transferring and receiving entities.</p>	<p>IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, requires the recognition of provisions, and the disclosure of contingent assets and liabilities. IPSAS 19 applies to restructuring, including operations being discontinued.</p> <p>Staff accepts that there may be combinations that will not give rise to provisions, contingent liabilities or contingent assets, and therefore not be within the scope of IPSAS 19. Information about the intended combination may be helpful to users in assessing service performance.</p> <p>Staff notes that the proposal covers the transferring as well as the receiving entity. The IPSASB has previously agreed not to include transferor accounting.</p> <p>The IPSASB is asked whether it wishes to include the proposed disclosures, and if so, whether these should be included for both the transferring and receiving entities.</p>
<p><a href="#">Respondent 06</a> proposes additional disclosures to allow the users of the financial statements to understand the financial effect and implications of the combination on the entity who has transferred the operations.</p>	<p>The IPSASB has previously agreed not to include transferor accounting.</p> <p>The IPSASB is asked whether it wishes to include the proposed disclosure.</p>



Issue raised	Staff comments
<p><a href="#">Respondent 08</a> comments that the disclosure requirements will be demanding. Respondent 08 would therefore welcome it if the IPSASB could, following the materiality principle, declare only the most important disclosures to be necessary.</p>	<p>Materiality is dealt with in IPSAS 1, <i>Presentation of Financial Statements</i>, where paragraph 47 states that “Applying the concept of materiality means that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material.” Staff does not consider any further declaration is required. However, a note to the example disclosures could state that some of the example disclosures may not be material in all cases if the IPSASB considers this would be helpful to preparers.</p>

*Other Issues*

Issue raised	Staff comments
<p><a href="#">Respondent 06</a> proposes amending the definition of the amalgamation date to clarify the meaning of control in the definition. This is partly linked to Respondent 06’s proposed classification approach, but may also reflect a more general confusion. The current definition is:</p> <p>“The <u>amalgamation date</u> is the date on which the resulting entity obtains control of the combining operations.”</p>	<p>Staff considers that the current definition of the amalgamation date is appropriate. If the IPSASB considers the current definition could cause confusion, an alternative would be:</p> <p>“The <u>amalgamation date</u> is the date on which the resulting entity gains control of the identifiable assets and liabilities of the combining operations.”</p>
<p><a href="#">Respondent 15</a> has identified a consequential amendment to IPSAS 17, <i>Property, Plant, and Equipment</i>. This amendment is not specific to combinations, but arises from a consequential amendment made by IFRS 3, <i>Business Combinations</i>.</p>	<p>The amendment adds additional guidance relating to the subsequent depreciation following the acquisition of property, plant, and equipment subject to an operating lease in which the acquirer is the lessor. Staff recommends including this consequential amendment to maintain consistency with IFRS.</p>

Issue raised	Staff comments
<p><a href="#">Respondent 16</a> comments that the definitions of inputs and outputs in paragraph AG4 of the ED is different to those used in RPG 3, <i>Reporting Service Performance Information</i>.</p>	<p>Staff considers that the differences are reasonable, as RPG 3 focuses on outputs to external parties, whereas the output referred to in paragraph AG4 of the ED could be to an internal party. However, it may be appropriate to clarify that the definitions in AG4 are only intended to apply to this Standard. If the IPSASB supports this approach, staff proposes amending the final sentence before the definitions to read: “For the purpose of this IPSAS, the three elements of an operation are defined as follows:”</p>
<p><a href="#">Respondent 30</a> provides detailed drafting suggestions.</p>	<p>Staff proposes reviewing these suggestions when finalizing the Standard, as some of the suggestions are dependent on the classification approach adopted by the IPSASB.</p>

#### Decisions required

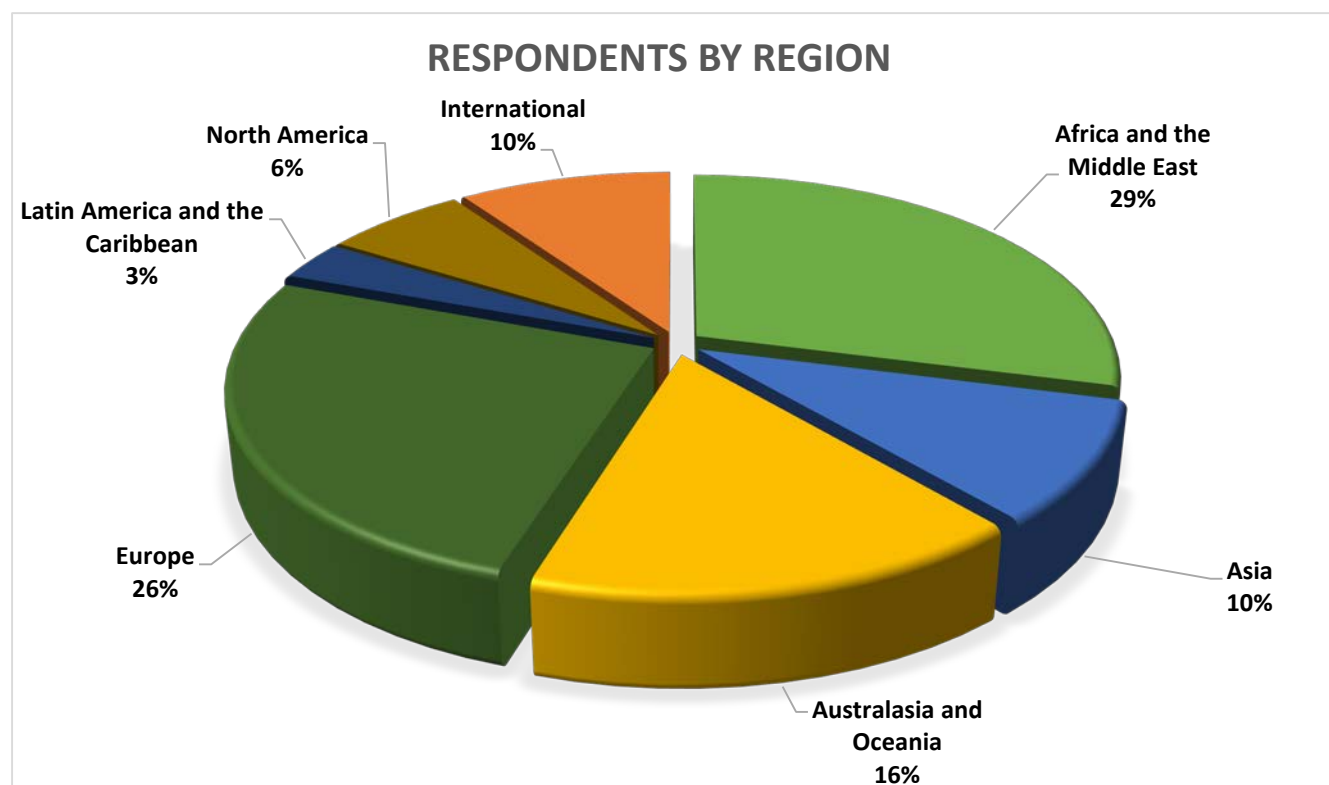
3. Does the IPSASB wish to include the proposed disclosure on intended combinations? If so, should this disclosure be made by both the transferring and receiving entity?
4. Does the IPSASB wish to include the proposed disclosure on the financial effect and implications of the combination on the entity who has transferred the operations?
5. Does the IPSASB wish to include a reference to materiality in the example disclosures?
6. Does the IPSASB wish to modify the definition of the amalgamation date?
7. Does the IPSASB support the staff view that the consequential amendment to IPSAS 17 be incorporated into the Standard?
8. Does the IPSASB wish to include additional wording in paragraph AG4 to clarify that the definitions of inputs and outputs are specific to this Standard?

### PUBLIC SECTOR COMBINATIONS

#### Analysis of Respondents by Region, Function, and Language

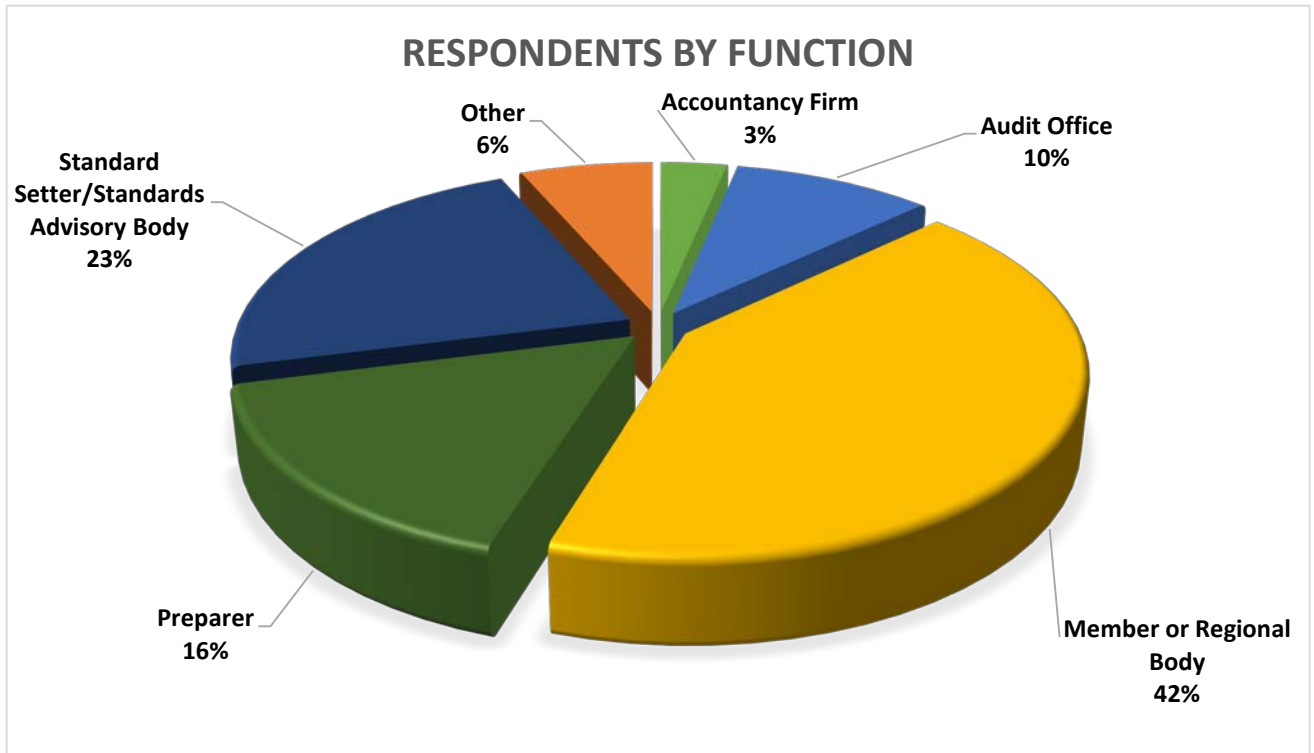
##### Geographic Breakdown

Region	Respondents	Total
Africa and the Middle East	03, 06, 12, 13, 18, 19, 20, 27, 28	9
Asia	16, 30, 31	3
Australasia and Oceania	01, 07, 14, 15, 24	5
Europe	02, 05, 08, 10, 17, 21, 22, 26	8
Latin America and the Caribbean	29	1
North America	09, 23	2
International	04, 11, 25	3
<b>Total</b>		<b>31</b>



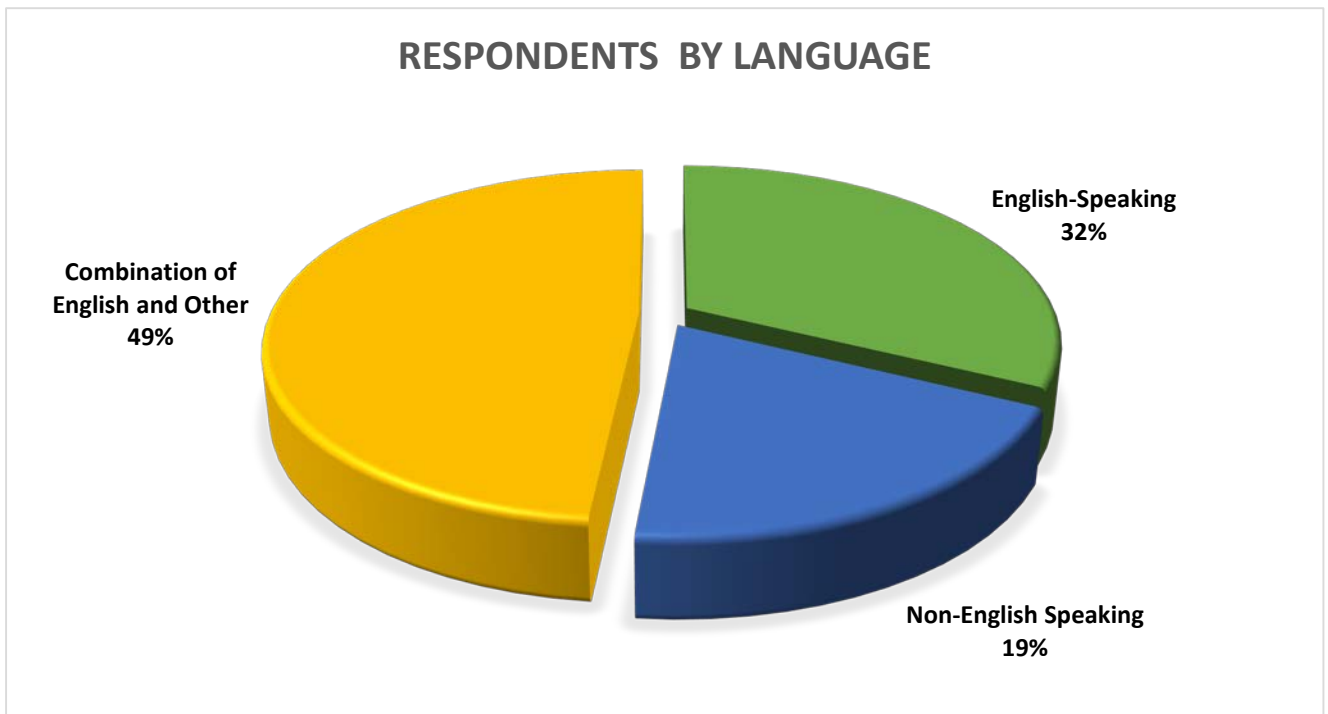
### Functional Breakdown

Function	Respondents	Total
Accountancy Firm	19	1
Audit Office	01, 27, 28	3
Member or Regional Body	02, 03, 04, 05, 10, 12, 16, 17, 18, 20, 26, 30, 31	13
Preparer	07, 09, 22, 24, 25	5
Standard Setter/Standards Advisory Body	06, 08, 13, 14, 15, 21, 23	7
Other	11, 29	2
<b>Total</b>		<b>31</b>



**Linguistic Breakdown:**

Language	Respondents	Total
English-Speaking	01, 02, 03, 05, 07, 10, 14, 15, 24, 26	10
Non-English Speaking	08, 16, 17, 21, 22, 29	6
Combination of English and Other	04, 06, 09, 11, 12, 13, 18, 19, 20, 23, 25, 27, 28, 30, 31	15
<b>Total</b>		<b>31</b>



## **STAFF SUMMARY OF RESPONSES TO EXPOSURE DRAFT 60 PUBLIC SECTOR COMBINATIONS**

**Note:** This paper includes extracts from each response received to ED 60, which have been grouped to identify respondents' views on ED 60 as well as the key issues identified by staff. In some cases, an extract may not do justice to the full response. This analysis should therefore be read in conjunction with the submissions themselves.

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## List of Respondents

Response #	Respondent Name	Country	Function
01	Office of the Controller and Auditor-General	New Zealand	Audit Office
02	Association of Accounting Technicians (AAT)	UK	Member or Regional Body
03	Association of National Accountants of Nigeria (ANAN)	Nigeria	Member or Regional Body
04	Federation of European Accountants (FEE)	International	Member or Regional Body
05	The Institute of Chartered Accountants in England and Wales (ICAEW)	UK	Member or Regional Body
06	Secretariat of the Accounting Standards Board (ASB)	South Africa	Standard Setter/Standards Advisory Body
07	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
08	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Switzerland	Standard Setter/Standards Advisory Body
09	Treasury Board of Canada	Canada	Preparer
10	The Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
11	International Consortium on Governmental Financial Management (ICGFM)	International	Other
12	Zambia Institute of Chartered Accountants (ZiCA)	Zambia	Member or Regional Body
13	Financial Reporting Council of Nigeria	Nigeria	Standard Setter/Standards Advisory Body
14	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
15	New Zealand Accounting Standards Board (NZASB)	New Zealand	Standard Setter/Standards Advisory Body
16	The Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
17	Institut der Wirtschaftsprüfer (IDW)	Germany	Member or Regional Body
18	The Institute of Certified Public Accountants of Kenya (ICPAK)	Kenya	Member or Regional Body
19	KPMG South Africa	South Africa	Accountancy Firm
20	Institute of Certified Public Accountants of Uganda	Uganda	Member or Regional Body
21	Conseil de Normalisation des Comptes Publics (CNoCP)	France	Standard Setter/Standards Advisory Body

Staff summary of responses to Exposure Draft 60, *Public Sector Combinations*  
IPSASB Meeting (September 2016)

Response #	Respondent Name	Country	Function
22	Direction Générale des Finances Publiques (DGFIP)	France	Preparer
23	Staff of the Public Sector Accounting Board	Canada	Standard Setter/Standards Advisory Body
24	New Zealand Treasury	New Zealand	Preparer
25	United Nations	International	Preparer
26	Association of Chartered Certified Accountants (ACCA)	UK	Member or Regional Body
27	Local Governments Audit, Kaduna State	Nigeria	Audit Office
28	Office of the Auditor General for Local Governments, Katsina State	Nigeria	Audit Office
29	Denise Silva Ferreira Juvenal	Brazil	Other
30	The Malaysian Institute of Accountants (MIA)	Malaysia	Member or Regional Body
31	The Malaysian Institute of Certified Public Accountants (MICPA)	Malaysia	Member or Regional Body



## General Comments on ED 60

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
01	<p>We have considered the contents of the exposure draft and we are broadly supportive of the accounting standard proposed by the IPSASB.</p> <p>One matter in the exposure draft that we found unusual was the rebuttable presumption in paragraph 8. It is unusual to have a rebuttable presumption that, in our experience, will be rebutted in most instances. Most combinations in [our jurisdiction's] public sector are rearrangements of public sector organisations that do not involve the transfer of consideration, and for which acquisition accounting would not reflect the substance of the transaction.</p> <p>In our view, therefore, the standard should be based on the rebuttable presumption that a public sector combination will be a rearrangement not involving the transfer of consideration.</p> <p>Although unusual, we are satisfied that paragraph 8 should result in the presumption being appropriately rebutted in the instances that we would expect, and result in the appropriate accounting treatment of public sector combinations.</p>	<p>Staff notes the comments regarding the rebuttable presumption. Staff considers that the primacy of the control factor makes any alternative drafting difficult.</p>
02	<p>[Respondent 02] believes this ED will add value for public sector financial reporting, in promoting consistency and comparability in reporting public sector combinations.</p> <p>[Respondent 02] does, however, have some concerns over the treatment of the revaluation reserves proposed (<a href="#">[response to SMC 4]</a>, below).</p> <p>Although [Respondent 02] agrees with most of the ED's proposals, it has some concerns regarding the treatment of the revaluation reserve that may work against providing transparency (<a href="#">[response to SMC 4]</a>, above) and a fair representation of financial reporting of new entities resulting from public sector combinations.</p>	<p>Staff notes these comments. The specific comments in respect of the revaluation reserves are addressed in the staff comments on the <a href="#">response to SMC 4</a>.</p>
03	<p><b>General Matters</b></p> <p>(a) Paragraph 9 line 5 should read "an" instead of "and"</p> <p>(b) It has already been established that amalgamation cannot give rise to control as in page 119 - BC 63, 65 and 66 need to be reconcile with BC 20.</p>	<p>The change to paragraph 9 is agreed.</p> <p>BC20 sets out the</p>

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	(c) The term "Controlling Entity" should be clearly defined as it is currently omitted from the definition section.	IPSASB's position as expressed in the CP. The IPSASB modified its position in developing ED 60, and paragraphs BC63, BC65 and BC66 reflect this modified position. "Controlling entity" is defined in IPSAS 35. Paragraph 5 of ED 60 notes that terms defined in other IPSASs are used with the same meaning as in those standards.
04	<p>[Respondent 04] supports the approach taken in this ED that aligns, as far as possible, Public Sector Combinations with International Financial Reporting Standard 3 (IFRS 3).</p> <p><b>Scope</b></p> <p>[Respondent 04] supports the scope of the ED.</p> <p><b>Approach to classifying public sector combinations</b></p> <p>[Respondent 04] also supports the approach to classifying public sector combinations.</p> <p>The comprehensive set of examples is useful in guiding the decision-making procedures. However, a potential issue has been identified in the wording of some examples – causing inconsistent application of the "imposition" indicator in determining whether a presumption of an acquisition should be rebutted. In order to avoid any misinterpretations, the Federation believes that the related examples should be reworded.</p>	Respondent 04 expands on these comments in the specific responses to the SMCs. Staff responses to these points are included under each SMC.

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p><b>Modified pooling of interests method of accounting when accounting for amalgamations</b></p> <p>[Respondent 04] agrees with the ED that the modified pooling of interests method of accounting should be used in accounting for amalgamations.</p> <p>However, we believe that the ED should include examples where the two parties involved in the amalgamation have the same accounting policies but have timing differences in respect to the revaluation of their assets as this can cause issues in practice.</p> <p><b>Residual amount recognition and adjustments</b></p> <p>[Respondent 04] agrees with the proposed treatment of the recognition of the residual amount arising from an amalgamation, since the residual amount should be recognised as an ownership contribution\distribution or in net assets\equity, depending on whether they are under common control or not.</p> <p>We also agree with the adjustments being made through the residual amount, rather than through other components of net assets/equity.</p> <p>However, we do not agree with requiring ‘adjustment’ or ‘derecognition’ of the existing revaluation reserves, as implied by paragraph 37 of the proposed IPSAS.</p> <p>We disagree with the suggestion of the IPSASB that the conceptual approach requires these balances to be disregarded.</p> <p><b>Acquisition method when accounting for acquisitions</b></p> <p>We agree that the acquisition method should be used in accounting for acquisitions, since the provisions of the ED are mostly in line with IFRS3 and the differences and exceptions generally are well-founded.</p>	
05	<p><b>Major Points</b></p> <p>In considering the proposals in ED 60 we have borne in mind the general principle that accounting standards should apply to the majority of circumstances and be kept as simple as possible.</p> <p>Considered in the light of this principle, we believe that the current proposals on accounting for public sector combinations are overly complicated. To simplify the approach, we propose to reverse the rebuttable presumption in ED 60 which states that acquisition accounting should be applied unless there are indicators that the combination is not an acquisition. Instead, the presumption should be that the amalgamation method will be applied unless relevant indicators suggest that this is not appropriate. Only if there are indications that the amalgamation method may not</p>	<p>Respondent 05 expands on these comments in the specific responses to the SMCs. Staff responses to these points are included under each SMC.</p>

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p>provide a true and fair outcome would the preparer be required to assess the substance of the combination.</p> <p>When considering the existence of goodwill, the ED currently differentiates between situations where there is consideration paid and those where there is no consideration paid. As explained below, we believe this distinction to be irrelevant, and open to abuse, such as arrangements being made for the payment of a nominal sum. We suggest that the draft standard is amended to remove the distinction, perhaps rendering paragraph 85 superfluous.</p>	
06	<p><b>Disclosure requirements</b></p> <p>The proposed Exposure Draft does not propose any disclosures in relation to entities' intention to undertake a public sector combination, prior to the combination taking place.</p> <p>We therefore propose that the Exposure Draft includes disclosures that inform the users of the financial statements of the intended public sector combination, prior to the combination being effected. These disclosure should provide a description of:</p> <ul style="list-style-type: none"> <li>(a) the reason for undertaking the intended public sector combination;</li> <li>(b) facts and circumstances that can influence the public sector combination, or leading to the expected combination; and</li> <li>(c) the expected manner and timing of the public sector combination.</li> </ul> <p>These disclosures should be provided by the entity that will be transferring the operation, as well as by the entity that will acquire the operations.</p> <p>In addition, we propose that disclosures should be provided once the combination is effected to allow the users of the financial statements to understand the financial effect and implications of the combination on the entity who has transferred the operations, as well as on the entity that has acquired the operations.</p> <p><b>Rebuttable presumption in relation to the consideration</b></p> <p>We question the indicator included in paragraph .12(c). In the public sector "government" in general will be entitled to the net assets of a transferred entity in the absence of any other specific entity. We therefore question the relevance of the indicator that indicates that the presumption will be rebutted when "no-one with an entitlement to the net assets of a transferred entity can be identified". When a combination involves public sector entities, we are of the view that there will always be a party that can be identified as the recipient of an entitlement to the net assets/equity of the transferred entity, even if this party is government in general.</p>	<p>Staff notes the proposed disclosure requirements, and the IPSASB's views are sought in Issues Paper <a href="#">9.2.6</a>.</p> <p>The comments regarding the rebuttable presumption are considered with the Respondent 06's <a href="#">comments to SMC 2</a>.</p> <p>Staff notes the comments regarding the measurement period, and the IPSASB's views are sought in Issues Paper <a href="#">9.2.5</a>.</p> <p>Staff considers that the current definition of the amalgamation date is appropriate.</p>

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p>We therefore propose that this indicator should be deleted as it is inappropriate.</p> <p><b>Measurement period</b></p> <p>We agree with the measurement period of one year where an entity is required to apply the modified pooling of interest method.</p> <p>Obtaining fair values for some public sector assets is more complex due to their nature (for example infrastructure assets. As a result, an entity may need more time to obtain appropriate fair values for these assets and/or liabilities.</p> <p>We therefore recommend that a two year measurement period should be considered when an entity is required to apply the acquisition method. A two year measurement period is more reasonable to allow the acquirer to identify and measure the identifiable assets acquired and liabilities assumed in a public sector combination.</p> <p><b>Definition of amalgamation date</b></p> <p>We recommend that the definition of an amalgamation date be amended as follow “is the date on which the resulting entity obtains control of the identifiable assets and liabilities from the resulting entity in an amalgamation”.</p> <p>As an amalgamation is a public sector combination in which no party gains control of one or more operations, we recommend that “control” in the definition of an amalgamation date, should be clarified.</p>	<p>Staff notes that this respondent is proposing a different classification, based solely on control. If the IPSASB considers the current definition could cause confusion, staff considers that the definition could be amended to “is the date on which the resulting entity gains control of the identifiable assets and liabilities of the combining operations.” The IPSASB’s views on this are sought in Issues Paper <a href="#">9.2.6</a>.</p>
07	<p>[Respondent 07] has responded to each of the five questions posed in the ED [...]. [Respondent 07] recommends:</p> <ul style="list-style-type: none"> <li>• simplification of the basis for distinguishing amalgamations from acquisitions (see response to question 2), and</li> <li>• refinements to the ‘modified pooling of interests’ method (see response to question 3 attached).</li> </ul>	<p>These recommendations are considered under the relevant SMC.</p>
08	<p>[Respondent 08] is of the opinion that a standard for amalgamations and acquisitions is filling a gap in the current</p>	<p>Noted.</p>

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p>IPSAS literature. Already in its response to the Consultation Paper in September 2012 [Respondent 08] pointed out that acquisitions, in contrast to amalgamations, in the public sector are of very minor importance. [Respondent 08] continues to hold the view. However, it agrees that acquisitions can be included in a standard with a wider scope, as ED 60 is proposing.</p> <p>[Respondent 08] has taken notice with satisfaction that the IPSASB has undertaken certain clarifications compared with the Consultation Paper. Some of these clarifications had been called for by [Respondent 08]. They are in particular the adoption of rules in connection with a popular referendum in the event of an amalgamation, for instance in the case of amalgamation of municipalities.</p> <p>As already noted when commenting on ED 59 <i>Employee Benefits</i> it is clear to [Respondent 08] that with the new standard the disclosure requirements will become much more demanding. If an entity wants to satisfy all the requirements, the Notes to the financial statements will be more extensive. This is not necessarily conducive to information. [Respondent 08] would therefore welcome it if the IPSASB could, following the materiality principle, declare only the most important disclosures to be necessary.</p>	<p>Materiality is dealt with in IPSAS 1, where paragraph 47 states that “Applying the concept of materiality means that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material.” Staff does not consider any further declaration is required. However, a note to the example disclosures could state that some of the example disclosures may not be material in all cases. The IPSASBs’ views are sought in Issues Paper <a href="#">9.2.6</a>.</p>
09	<i>No general comments identified.</i>	
10	<p>[Respondent 10] supports most of the main proposals in the Exposure Draft. Comments are provided in [below].</p> <p>We do however disagree with the proposals for the treatment of revaluation reserve. We consider that the proposed</p>	<p>These comments are addressed with the</p>

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	approach to revaluation surplus is likely to result in valuable information being discarded without clear justification, with possible adverse effects on faithful representation. The benefits of the proposed approach are not explained.	<a href="#">response to SMC 4.</a>
11	<p>It is our view that the issue of combinations requires further consideration taking account of the substance of combinations between government entities. We provide our specific responses to the issues raised below.</p> <p><b>Other issues - definitions</b></p> <p>It is our view that the distinctions between acquisitions and amalgamations as defined in paras 7 and 8 of ED60 lack clarity. The definitions will make it difficult in some circumstances to distinguish acquisitions from amalgamations of government entities. A clearer definition is required.</p> <p><b>Conclusions</b></p> <p>ED60 appears to have been drafted without adequate consideration of the substance of government entity combinations. In many cases such combinations could meet the definition in the ED of either an “amalgamation” or an “acquisition without consideration”. A different accounting treatment for these two situations is inappropriate. Different accounting treatments could unintentionally influence public policy considerations for which the accounting treatment should be irrelevant.</p>	Staff has provided comments to the <a href="#">response to SMC 2</a> that address the issues identified here.
12	We generally support the proposed improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about a public sector combination and its effects. However, we are of the view that the use of acquisition method of accounting (as set out in IFRS 3, <i>Business Combinations</i> ) for acquisitions in the public Sector may not be appropriate.	Noted. The comment regarding the acquisition method is addressed in staff’s comments to the <a href="#">response to SMC 5.</a>
13	<i>No general comments identified.</i>	
14	<p>[Respondent 14] supports the IPSASB’s efforts in addressing public sector combinations. However, [Respondent 14] has some concerns regarding the classification of some combinations as amalgamations. In particular, [Respondent 14] does not agree that public sector combinations with private sector entities should be classified as amalgamations. In [Respondent 14’s] view, such combinations should always be accounted for as acquisitions.</p> <p>[Respondent 14] also does not agree that the modified pooling of interests method for amalgamations achieves comparability between current period and prior period operating results. In [Respondent 14’s] view such</p>	Staff notes the comments regarding private sector entities, but considers that only combinations with

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	<p>comparability would be best achieved with an unmodified pooling of interests method. However, [Respondent 14] is aware that requiring entities to restate prior periods could be onerous without providing sufficient benefit to users. In that case, [Respondent 14] suggests the IPSASB revise the ED to not conclude that the modified pooling of interests method assists in comparability and instead conclude that the modified pooling of interests method was selected for cost / benefit reasons.</p>	<p>private sector not-for-profit organizations could be classified as amalgamations. This is considered further under the <a href="#">response to SMC 2</a>.</p> <p>The modified pooling of interests method is discussed further under the <a href="#">response to SMC 3</a>.</p>
15	<p>We are pleased the IPSASB has made progress on the public sector combinations project and has produced a comprehensive Exposure Draft.</p> <p>[Respondent 15] has considered the Exposure Draft. While we are supportive of some of the proposals in the Exposure Draft, our main concerns with the Exposure Draft are:</p> <ol style="list-style-type: none"> <li>1. the narrow definitions of equity interests and owners;</li> <li>2. that the classification of a public sector combination relies on whether an entity has gained control of an operation as a result of the combination. The assessment of control is based on the guidance from IPSAS 35 Consolidated Financial Statements. This concern is discussed further below; and</li> <li>3. the proposed accounting for the residual amount in an amalgamation.</li> </ol> <p>[Respondent 15] supports (a) the principle that the classification of a public sector combination is based on the economic substance of the combination, and (b) that the entity considers the classification that best meets the objectives of financial reporting and that satisfies the qualitative characteristics. However, [Respondent 15] does not support the approach to classifying public sector combinations adopted in this Exposure Draft.</p> <p>In the Exposure Draft, the classification of a public sector combination relies on whether an entity has gained control of an operation as a result of the combination. The assessment of control is based on the guidance in IPSAS 35,</p>	<p>Respondent 15 expands on these comments in the specific responses to the SMCs. Staff responses to these points are included under each SMC.</p> <p>Respondent 15 proposes additional guidance for applying the acquisition method where no consideration is transferred.</p>



R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p>which focuses on whether control exists, rather than whether an entity has gained control over another operation in a public sector combination. The Exposure Draft proposes using the guidance in IPSAS 35 for determining whether an entity controls another entity (with references to some terms being read in a particular way). For example, “an entity controls” is to be read as “an entity gains control” and “another entity” is to be read as “an operation”. However, merely changing the terms does not adequately explain how a concept designed for one purpose should be applied for a different purpose. The existence of a control relationship after the combination does not necessarily mean that one entity has gained control over another entity during the combination, nor does it necessarily mean that the entity that becomes the controlling entity after the combination is the acquirer in the entity combination, as the combination could be structured to achieve that outcome. This makes the approach in the Exposure Draft difficult to follow and could make it difficult to apply in practice.</p> <p>[Respondent 15] has proposed an alternative approach to determining whether the combination is an acquisition or an amalgamation. This alternative approach uses three indicators to determine the economic substance of the combination.</p> <p><b>Other Matters</b></p> <p><u><i>Additional guidance for applying the acquisition method where no consideration is transferred</i></u></p> <p>Paragraphs 100 and 101 of the Exposure Draft are based on IFRS 3 paragraphs 43 and 44 respectively, and deal with particular types of acquisitions achieved without a transfer of consideration. The types of transactions for which paragraphs 43 and 44 of IFRS 3 were designed (such as a stapling arrangement, as mentioned in paragraph 43(c) of IFRS 3), are very different types of transactions to those occurring in the public sector in which there is no consideration, such as those discussed in paragraph 92 of the Exposure Draft. Anyone unfamiliar with the history/origin of paragraphs 100 and 101 may find these paragraphs confusing and be unclear when those paragraphs apply. For example, the accounting treatment in paragraph 101 of the Exposure Draft is different to the accounting treatment in paragraph 93 of the Exposure Draft, yet both paragraphs are dealing with acquisitions in which there is no consideration. It's therefore important to be clear about the circumstances in which the requirements of paragraphs 100 and 101 apply, rather than other parts of the Exposure Draft.</p> <p><u><i>Disclosures</i></u></p> <p>The Exposure Draft has included guidance for non-exchange acquisition without the transfer of consideration. We suggest requiring disclosure of the loss on acquisition recognised in surplus or deficit in accordance with paragraph 85, similar to the disclosure requirements for a bargain purchase in paragraph 118(n) of the Exposure Draft.</p>	<p>Respondent 15 also proposes disclosure of the loss on acquisition recognized in surplus or deficit. These are discussed in Issues Paper <a href="#">9.2.5</a>.</p> <p>The consequential amendment identified by Respondent 15 is discussed in Issues Paper <a href="#">9.2.6</a>.</p>

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p><u>Consequential Amendments</u></p> <p>In the consequential amendments to IFRS 3 <i>Business Combinations</i> (2008), the amendments to IAS 16 <i>Property, Plant and Equipment</i>, paragraph 44 were:</p> <p>44 An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. <u>Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.</u></p> <p>It appears that this was missed as a consequential amendment to the equivalent paragraph in IPSAS 17 <i>Property, Plant and Equipment</i>. We are not aware of any public sector reason for omitting this amendment in the equivalent paragraph 60 of IPSAS 17. The proposed amendments are as follows:</p> <p><b>Depreciation</b></p> <p>...</p> <p>60. An entity allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges, and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. <u>Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.</u></p> <p>We recommend the IPSASB include this amendment in the final standard for Public Sector Combinations.</p>	
16	<p>1. Definition of terms (AG4)</p> <p>Paragraph AG4 provides definitions for “Input” and “Output” in explaining what constitutes an operation. These definitions are partly different from the corresponding definitions in current Recommended Practice Guideline (RPG) 3, Reporting Service Performance Information. As we think that these differences could affect performance reporting under RPG 3, we would like the Board to provide some explanation in the Basis for Conclusion, etc.</p>	<p>The comment regarding the definitions of inputs and outputs is discussed in Issues</p>

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	<p>2. Paragraph 30</p> <p>We propose that paragraph 30 be deleted. Paragraph 30 notes that there are limited exceptions to the measurement principle. But the description overlaps with the next paragraph 31.</p> <p>3. Paragraph 31</p> <p>Paragraphs 32 - 35 provide exceptions to the recognition and measurement principles in amalgamations. We believe that other estimated items may be affected, besides income taxes and the employee benefits described in those paragraphs. For example, the collectability of allowance for bad debt, or grouping in impairment accounting could be affected. We request the Board to further consider whether any other exceptions can be found.</p>	<p>Paper <a href="#">9.2.6</a>.</p> <p>The comments regarding paragraphs 30 and 31 are discussed in Issues Paper <a href="#">9.2.3</a>.</p>
17	<p>As [Respondent 17] previously commented in its response to the Consultation Paper: Public Sector Combinations issued in 2012, we support this initiative and believe that entity combinations constitute an important public-sector specific hitherto not specifically addressed in the Suite of IPSASs. We agree that the current reference to IFRS is not helpful.</p> <p>We agree with the Board that public sector combinations often differ from the profit-oriented mergers and acquisitions generally observed involving companies in the private sector, and thus support the IPSASB's efforts to develop this ED tailored to the public sector environment to deal with the differentiation between amalgamations and acquisitions.</p> <p>Although we generally agree with the proposals we have a few concerns as to terminology and the wording of certain definitions. In addition, for reasons of simplicity in application, and in order to limit subjectivity, we suggest the final Standard require depreciation of goodwill arising in the event of an acquisition.</p>	<p>Respondent 17 expands on these comments in the specific responses to the SMCs. Staff responses to these points are included under each SMC.</p>
18	<p>[Respondent 18] supports the Boards decision to issue a standard on public sector combinations therefore providing guidance in combinations in the public sector to ensure consistent application. However, we are not convinced that that public sector combinations with private sector entities should be classified as amalgamations. In our view, all combinations with private sector should be classified as acquisitions.</p>	<p>The comments regarding classification are considered under the <a href="#">response to SMC 2</a>.</p>
19	<p>Overall, we are supportive of the IPSASB's Exposure Draft 60: Public Sector Combinations. Our response to the specific matters for comment are listed below.</p>	<p>Noted.</p>
20	<p><i>No general comments identified</i></p>	

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
21	<p>One of the main objectives of the public sector in [our jurisdiction] is to enhance cost and public service efficiency. This is achieved through rationalization and restructuring, e.g. mainly mergers of equals. Those combinations are key to modernising the public sector. The recent restructuring in the split of our regions (decreasing from 22 regions to 13 regions) well illustrates that trend. Conversely, the purchase of privately owned entities occurs rather less frequently. This is because obtaining financial benefits such as returns on investments does not fit the primary purpose of the public sector in [our jurisdiction].</p> <p>In that sense, a major public sector difference with the private sector is the absence of quantifiable ownership interest in public sector entities.</p> <p>From our experience in our jurisdiction, based on the terms used in the ED, we believe that there are far fewer acquisitions in the public sector than there are amalgamations for which no specific accounting requirements currently exist. Therefore, we commend the IPSASB for addressing amalgamations and for taking into account the specificities of combinations in the public sector while remaining consistent with existing IPSASB literature on control. However, while we broadly agree on the proposal to use the carrying amounts to account for amalgamations, we would have addressed the whole issue starting from the perspective of the most frequent instances of public sector combinations that are amalgamations, rather than from an IFRS 3 perspective.</p> <p>In addition, we would have appreciated that the proposal go a step further and address those combinations that are absorptions of operations by the central government in its individual financial statements. We would therefore suggest that the IPSASB should include guidance on how to account for such combinations within the individual financial statements of the central government. In our jurisdiction, such combinations are amalgamations. The issue revolves around both the measurement of net assets absorbed and the presentation of comparative information in the central government's financial statements, as the central government existed prior to the combination.</p> <p>Finally, we would also suggest that the standard should address the accounting treatment in the accounts of the entity that disposed of the operation.</p>	<p>Respondent 21 considers that the major differences between the public sector and the private sector in relation to combinations relate to the absence of quantifiable ownership interests and the prevalence of amalgamations. Staff notes that these are the reasons put forward in paragraph BC39 for departing from IFRS 3. Staff considers that, although the ED takes control as its starting point, amalgamations are expected to be more common than acquisitions.</p> <p>Respondent 21 expands on the issues of absorption</p>

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		of operations and transferor accounting in its <a href="#">response to SMC 1</a> . Staff's response to these points is included there.
22	<p>This ED deals with combination in public sector.</p> <p>The [...] public sector [in our jurisdiction] is engaged in a rationalisation process trajectory focus on its organisation and its missions in order to provide the best public service to users at the lowest cost. Indeed, the combination of public entities is increasingly realising. These combinations between public entities are unaccompanied by remuneration unlike combinations in the private sector. Thus, cases of similar combinations in the private sector are very rare in public sector. Therefore, it is necessary to have accounting rules dedicated to these operations in order to reflect accurately the economic reality.</p> <p>The classification of combinations, split in amalgamations and acquisitions, seems relevant for us, even if acquisitions are rare in French public sector. Furthermore, recognise the adjustments of residual amounts resulted from amalgamation by the net assets/equity and the measurement of assets and liabilities transferred at net carrying amount are completely in line with public sector specificities.</p> <p>Nevertheless, we regret that the ED takes little account of all specific characteristics of public sector such as the control of an entity by another entity, which generally does not rely on the ownership links.</p> <p>For acquisitions, reflection about the relevance of the recognition in the balance sheet of goodwill and thus the valuation of assets and liabilities transferred at the fair value, should be treated in respect with its economic meaning. Indeed, a positive goodwill is the portion of remuneration paid in consideration of the benefits derived from taking control of the entity (elimination of a competitor, assurance of supply, etc...).</p> <p>Finally, in the public sector, cases of takeover of a private sector entity by a public entity are rare and do not intend to guarantee a return on investment.</p>	Respondent 22 expands on the control issue in its <a href="#">response to SMC 1</a> . Staff's response is included there.
23	<p><b>Scope</b></p> <p>We support addressing public sector combinations between entities under common control in this proposed IPSAS</p>	Respondent 23 expands on these

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p>because they are common transactions in the public sector. However, another common type of government restructuring that involves splitting an existing department/entity into two or more is outside the scope of the proposed IPSAS. We wonder if it was a conscious decision of IPSASB to exclude this type of common control transactions from the scope of the proposed IPSAS.</p> <p><b>IFRS convergence</b></p> <p>Though this is not an IFRS convergence project, we observe from the exposure draft (ED) that the proposed accounting for acquisitions and the consequential amendments in other IPSASs are similar to an IFRS convergence project. This illustrates that more IFRS convergence would be achieved when the proposals in this ED become part of the IPSASB Handbook.</p> <p><b>Accounting methods</b></p> <p>The modified pooling of interests and the acquisition methods proposed in the ED are based on well-established practice in accounting for entity combinations. For this reason, we do not have major concern with these proposed methods.</p> <p><b>Key issue</b></p> <p>The key to a public sector combination accounting standard is identifying which types of combination should be accounted for following the modified pooling of interests method and which should be accounted for using the acquisition method.</p> <p>These two methods would result in different accounting outcomes. It is therefore important that the standard or its basis for conclusions demonstrate why certain nature and characteristics of a public sector combination would be more faithfully represented if the assets acquired and liabilities assumed are measured initially at their fair values. This information seems lacking in the ED.</p> <p>We wonder if classifying or labelling public sector combinations into amalgamations and acquisitions are necessary. Ultimately, it is not the classification, but the accounting method used to account for a public sector combination, that can faithfully represent the economic substance of a combination.</p> <p>We are concerned that the proposed IPSAS has placed the emphasis on classification and labelling. We note that combinations that would be labelled as amalgamations based on guidance in the ED may not line up with common understanding of amalgamations. The description of amalgamations in many dictionaries is similar to the proposed definition of public sector combinations in the ED. The indicators proposed in the ED are not referred to in the</p>	<p>comments in the specific responses to the SMCs. Staff responses to these points are included under each SMC.</p>

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p>description of amalgamations in the dictionaries.</p> <p><b>Classification approach</b></p> <p>We have reservations with the classification approach and related guidance proposed in the ED. We question if it would result in:</p> <ul style="list-style-type: none"> <li>• consistent accounting treatment for similar combinations; and</li> <li>• accounting of public sector combinations reflecting their economic substance.</li> </ul> <p><i>Consistent accounting treatment</i></p> <p>As acknowledged in the ED, some indicators relating to consideration and the decision-making process are inconclusive in determining the classification of a combination. These may be signs that such indicators do not represent the economic substance of amalgamations. Leaving them in the guidance can be confusing and potentially result in arbitrary and inconsistent conclusions.</p> <p><i>Accounting reflecting economic substance</i></p> <p>We agree that change in control, presence of consideration and how consideration is determined can represent the economic substance of a combination. However, they need to be defined more precisely to:</p> <ul style="list-style-type: none"> <li>• become unambiguous criteria that reflect the economic substance of a combination; and</li> <li>• justify why the prescribed accounting method would better reflect the economic substance of combinations with these characteristics.</li> </ul> <p>We believe that assets and liabilities should generally be valued at their costs to the reporting entity. Acquisition accounting should be applied to account for combinations that are of a purchase nature. That is, the consideration provided (by the resulting entity or acquirer) is primarily based on the fair value of the assets acquired and liabilities assumed.</p> <p>We find applying the control criterion (whether one or none of the combining entity gains control of the combined entity) to combinations that involve combining entities of different sizes challenging. Determining whether a new entity is formed or one of the combining entities takes over the new entity if one of the combining entities is much bigger than the others may not be clear-cut. Different conclusions can be reached.</p> <p>We do not agree that who makes the decision about the terms and conditions of a combination is the economic substance of a combination. Rather, it is the terms and conditions resulting from the combination decision that</p>	

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p>represent the economic substance of a combination, regardless if they are imposed or negotiated.</p> <p><b>A simplified approach</b></p> <p>It appears that the design of the three-level classification assessment is to limit the types of combination that should follow acquisition accounting to a few specific ones. A more clear-cut approach that could achieve similar outcome would be to simply direct specific public sector combinations to follow acquisition accounting. The other combinations would apply the modified pooling of interests method.</p> <p>Based on the guidance and related illustrative examples in the ED, it seems that IPSASB intends to ensure that the following combinations are accounted for using acquisition accounting:</p> <ul style="list-style-type: none"> <li>• there is a controlling entity and a controlled entity relationship between parties in a combination (paragraph AG23);</li> <li>• a combination that has commercial substance (paragraph AG24);</li> <li>• there is a payment of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement (paragraph AG27);</li> <li>• a donation of the net assets of an operation (paragraph AG30);</li> <li>• an uncompensated seizure or nationalization (paragraph AG30); and</li> <li>• public sector combinations not under common control (paragraph AG37).</li> </ul> <p>We believe that this transaction-based approach would improve the understandability and applicability of the standard for more consistent accounting treatment.</p> <p>However, given our views on the key issue that should be addressed in the proposed IPSAS and what constitutes the economic substance public sector combinations (discussed above), we do not necessarily agree that accounting for the above listed transactions using the acquisition method would result in more faithful representation of those combinations.</p>	
24	<p>We are pleased that the IPSASB is addressing this issue and are supportive of an approach that differentiates between amalgamations and acquisitions. However, we do have some concerns with the modified pooling of interest method of accounting for amalgamations in relation to the:</p> <ul style="list-style-type: none"> <li>• proposed treatment of a single residual amount, and</li> <li>• lack of flexibility around prior-year comparatives.</li> </ul>	Respondent 24 expands on these comments in the specific responses to the SMCs. Staff



R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
		responses to these points are included under each SMC.
25	<i>No general comments identified</i>	
26	We agree with the proposed amendments set out in Exposure Draft 60 relating to public sector combinations.	Noted.
27	<i>No general comments identified</i>	
28	I admire yes	Noted.
29	<i>No general comments identified</i>	
30	<p><b>Additional Comment 1</b></p> <p>Paragraph AG17 states that <i>‘in a public sector combination in which a new entity is formed to effect the combination, that entity may gain control of operations only where the entity exists prior to the combination taking place. Where this new entity does not exist prior to the combination taking place, an entity considers whether one of the parties to the combination that existed prior to the combination taking place gains control of operations’.</i></p> <p>For better clarity, we propose paragraph AG17 to be amended as follows :</p> <p><i>‘In a public sector combination in which a new entity is formed to effect the combination, <del>that entity may gain control of operations only where the entity exists prior to the combination taking place. Where this new entity does not exist prior to the combination taking place,</del> an entity considers whether one of the parties to the combination that existed prior to the combination taking place gains control of operations’.</i></p> <p><b>Additional Comment 2</b></p> <p>Paragraph 11 states that <i>‘if, in exceptional circumstances, after applying the indicators in paragraphs 12–13, the results are inconclusive or do not provide sufficient evidence about the economic substance of the public sector combination to determine whether the presumption is rebutted, an entity also considers which classification would provide information that best meets the objectives of financial reporting and that best satisfies the qualitative characteristics. In such circumstances, an entity has regard to paragraph 14 in determining whether the presumption is rebutted. Paragraphs AG40–AG41 provide additional guidance’.</i></p> <p>Paragraph 14 states that <i>‘if the analysis of the indicators relating to consideration and the decision-making process</i></p>	<p>These drafting suggestions will be considered in finalizing a standard. Issues Paper <a href="#">9.2.6</a> notes that these comments have been received.</p>

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p><i>produces inconclusive results or does not provide sufficient evidence to determine whether the presumption should be rebutted, based on the economic substance of the public sector combination and the indicators in paragraphs 12–13, an entity considers which classification and resulting accounting treatment would provide information that best meets the objectives of financial reporting. Paragraphs AG42–AG46 provide additional guidance. An entity also considers which classification and resulting accounting treatment would provide information that best satisfies the qualitative characteristics of relevance, faithful representation, understandability, timeliness, comparability and verifiability. Paragraphs AG47–AG50 provide additional guidance’.</i></p> <p>We believe that paragraph 14 appears repetitive when taken together with paragraph 11. We propose paragraph 14 be deleted and paragraph 11 be amended as follows:</p> <p><i>‘If, in exceptional circumstances, after applying the indicators in paragraphs 12–13, the results are inconclusive or do not provide sufficient evidence about the economic substance of the public sector combination to determine whether the presumption is rebutted, an entity also considers which classification <u>and resulting accounting treatment</u> would provide information that best meets the objectives of financial reporting and that best satisfies the qualitative characteristics. <del>In such circumstances, an entity has regard to paragraph 14 in determining whether the presumption is rebutted.</del> Paragraphs AG40-AG44AG50 provide additional guidance’.</i></p> <p><b>Additional Comment 3</b></p> <p>Paragraph IE127 states that <i>‘in considering the indicators relating to consideration, the Ministry of Education notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the reason for this is that Not-for-Profit Organization R voluntarily surrendered those rights’.</i></p> <p>For better clarity, we propose the wordings in the last sentence of the paragraph to be amended as follows:</p> <p><i>‘...However, the reason for this is that Not-for-Profit Organization R voluntarily surrendered the rights <u>to receive payment of consideration</u>’.</i></p> <p><b>Additional Comment 4</b></p> <p>We noted that in some scenarios included in the ED, it is unclear why the classification has been determined as amalgamation or acquisition. These are as follows:</p> <p>a) Scenario 6:</p> <p>Paragraph IE71 states that <i>‘taking these factors together, the Department of Health considers that the</i></p>	

R#	RESPONDENT COMMENTS GENERAL COMMENTS	STAFF COMMENTS
	<p><i>presumption should be rebutted and the public sector combination should be classified as an amalgamation. In arriving at this decision, the Department of Health considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor. In this scenario, this view is reinforced by the fact that that Board of Trustees is voluntarily giving up control over the operations to improve the delivery of services to the public</i>. It is unclear why the Department of Health considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor and accordingly, considered that the presumption should be rebutted.</p> <p>b) Scenario 7:</p> <p>Based on paragraph IE79, in relation to consideration, there is no payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation which indicates that the presumption that the public sector combination is an acquisition can be rebutted. However, in paragraph IE80, in relation to decision-making, it is voluntary combination which indicates that the presumption cannot be rebutted. It is unclear how the Provincial Government considers these factors and arrives at the conclusion that the public sector combination is an acquisition. In addition, if the fact that there is no payment of consideration, but the cost of providing services is approximately equal to the value of net assets received, is considered to be the factor in determining whether the presumption should be rebutted, such factor should be included in the indicators relating to consideration.</p> <p><b>Additional Comment 5</b></p> <p>Paragraph 18 states that <i>'the resulting entity shall thereafter be identified as the entity that obtains control of the combining operations as a result of the amalgamation'</i>. Paragraph 5 states that 'An amalgamation gives rise to a resulting entity and is either:</p> <p>(a) A public sector combination in which no party to the combination gains control of one or more operations; or</p> <p>(b) A public sector combination in which one party to the combination gains control of one or more operations, and in which the presumption that such a combination is an acquisition is rebutted.</p> <p>However, the words 'obtains control' in paragraph 18 may give a notion that it is an acquisition. We also noted the words 'obtains control' are used throughout the ED on discussion on amalgamation.</p> <p><b>Additional Comment 6</b></p> <p>Paragraph AG39 states that <i>'in such circumstances, the entity considers all other factors in determining whether the</i></p>	

Staff summary of responses to Exposure Draft 60, *Public Sector Combinations*  
*IPSASB Meeting (September 2016)*

R#	<b>RESPONDENT COMMENTS</b> <b>GENERAL COMMENTS</b>	STAFF COMMENTS
	<i>presumption should be rebutted'. We would like to clarify what are some of these 'other factors'.</i>	
31	<i>No general comments identified</i>	

**Specific Matter for Comment 1**

Do you agree with the scope of the Exposure Draft? If not, what changes to the scope would you make?

***Summary of Responses to Specific Matter for Comment***

**STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members**

<b>CATEGORY (C #)</b>	<b>RESPONDENTS (R #)</b>	<b>TOTAL</b>
<b>A – AGREE</b>	01, 02, 03, 04, 05, 06, 07, 09, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 24, 26, 27, 28, 29, 30, 31	26
<b>B – PARTIALLY AGREE</b>		0
<b>C – DISAGREE</b>	08, 21, 22, 23	4
<b>SUB-TOTAL OF THOSE PROVIDING COMMENTS</b>		<b>30</b>
<b>D – DID NOT COMMENT</b>	25	1
<b>TOTAL RESPONDENTS</b>		<b>31</b>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 1	STAFF COMMENTS
01	A	We consider the proposed scope of the exposure draft to be appropriate.	Noted.
02	A	[Respondent 02] agrees that the scope of the Exposure Draft, which covers all public sector combinations, is appropriate.	Noted.
03	A	[Respondent 03] considers the scope of this Exposure Draft adequate because it covers a wider range of public sector combination issues incorporating both PSCs and GBEs. The exclusion principles adopted by IPSASB in relation to the scope are also considered appropriate since other IPSASs sufficiently cover those issues.  We are therefore not recommending any changes to the scope of this Exposure Draft.	Noted.
04	A	The Federation agrees with the scope contained in ED 60.	Noted.
05	A	Yes, we agree with the scope.	Noted.
06	A	Yes, we agree with the scope proposed in the Exposure Draft.	Noted.
07	A	[Respondent 07] agrees with the scope of this ED.  This ED applies to 'a transaction or other event that meets the definition of a public sector combination' (paragraph 3). The ED's scope exclusions in paragraphs 3 and 4 are in line with IFRS 3 Business Combinations. Accordingly, [Respondent 07] agrees with these exclusions.	Noted.
08	C	[Respondent 08] is somewhat surprised that in the ED, as previously in the Consultation Paper, Joint Ventures and Joint Operations are explicitly excluded. It has, however, noted that in the Appendix to the ED it is proposed that IPSAS 37 will be changed in such a way that the new version of the standard will be applied for Joint Ventures and Joint Operations. [Respondent 08] therefore proposes that in the new standard on amalgamations and acquisitions a clear reference should be made to IPSAS 36/37. It would, however, be even better also to include joint operations in the new standard.  In [our jurisdiction] the concordats (i.e. arrangement between jurisdictions) and above all the joint operations are of great significance. These latter are combinations of municipalities for the joint fulfilment of specific public services, which they are authorized or obliged to provide. In [our jurisdiction] joint operations are found above all in the area of schools, the supply of drinking water and the disposal of sewage and waste. Such an outsourcing of the tasks of municipalities to a joint operation could be understood as an "amalgamation" in order to provide	Staff notes that Respondent 08 would extend the scope of the ED to include joint ventures, and would permit joint ventures to be accounted for as amalgamations.

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		<p>the concerned public service. But according to the explanations of the IPSASB this would be a joint operation and therefore excluded from the standard. [Respondent 08] would be grateful to the IPSASB, if it could comment on this question and provide the necessary clarification.</p> <p>In practice, based on the proposed standard, it would prove difficult to decide whether one is in a process of an amalgamation, of an acquisition or of a joint operation/joint venture. For this reason, the standard must better explain the difference between the various forms of combination. If the IPSAS Board wants to have two different standards on this topic, it must point out the difference between the new standard and IPSAS 36/37.</p> <p>In the Amendments to other IPSAS - from page 97 (IPSAS 37.24A) – of ED 60 the treatment of the purchase of shares in a joint operation is laid down. Reference is made to the newly introduced AG33A-AG33D. According to this, purchases of shares in a joint operation are to be recognized at fair market value (therefore IFRS 3). However ED 60 itself explicitly excludes the treatment of Joint Arrangements (exclude from scope). Why then should the treatment of Joint Operations be included in the Amendments? In principle, nothing speaks against the extension of ED 60 principles to joint operations, if this is done transparently. I.e. it is irrelevant in which standard the process of an amalgamation is described, if it is made clear which standard needs to be applied in which circumstances.</p> <p>In this consultation, there is no specific matter for comment on the extension of IPSAS 37. As the proposed standard is worded at the moment, only acquisitions for joint operations are governed, but not amalgamations. Therefore it suggests that there are no amalgamations in the case of Joint Operations. However this is clearly not the view of [Respondent 08].</p>	
09	A	We agree.	Noted.
10	A	[Respondent 10] agrees with the scope of the Exposure Draft.	Noted.
11	A	We agree with the scope of the exposure draft.	Noted.
12	A	We agree with the scope of the exposure draft as laid out in paragraphs 2 up to 5. Further, paragraphs 3 and 4 allay any possible ambiguities that may arise by providing situations where the standard will not apply.	Noted.
13	A	[Respondent 13] agrees with the scope of ED 60 as it includes all transactions and other events that meet the definition of public sector combinations, especially as they relate to amalgamation and acquisition in the public sector.	Noted.

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14	A	[Respondent 14] agrees with the scope proposed in the ED.	Noted.
15	A	<p>[Respondent 15] generally supports the proposed scope of the Exposure Draft. However, the definitions of equity interests and owners are not broad enough. In the public sector and not-for-profit (NFP) sector, the concept of equity interests is not limited to equity participants holding an equity instrument and the use of the term owners is not limited to those with a quantifiable ownership interest. For example, in our jurisdiction, a local council's "owners" are its ratepayers and an NFP's "owners" are the residual beneficiaries.</p> <p>The proposed definitions of equity interests and owners have implications for paragraphs 12(c) and AG31 (and the various illustrative examples that rely on these definitions). For example, in the NFP sector, a charity might decide to wind up and transfer its net assets to another charity for no consideration. In economic terms, this is essentially the same as a person donating or bequeathing an operation to a charity. This is noted in paragraphs AG29 and AG30 where it allow for situations in which the former owner gives up its entitlement for no consideration, the presumption should not be rebutted and it's still an acquisition. However, the charity example described above might be treated as an amalgamation, according to paragraph AG31 of the Exposure Draft. We don't see any difference between an individual person donating an operation to a public sector entity and a charity donating its entire operations to a public sector entity. We disagree with the logic in paragraph AG31, which states that if an NFP organisation donates its operations, this is usually an amalgamation. This inconsistency is demonstrated in scenarios 6 and 11 in the illustrative examples – the conclusion in scenario 6 is that the combination is an amalgamation and the conclusion in scenario 11 is that the combination is an acquisition, but both are very similar in substance (i.e. they are both donated operations) and both should be viewed as acquisitions. The only major difference between the two scenarios is in scenario 11, NFP R is donating an operation and continues to operate, whereas in scenario 6, the whole NFP is donated. We consider this difference should have no effect on the classification and both scenarios should be classified as an acquisition.</p> <p>The definitions of equity interests and owners have implications for paragraphs 13(b) and AG36. The fact that citizens have to approve the combination does not necessarily mean that the combination is an amalgamation. For example, it is common in the private sector for acquisitions to require shareholder approval, which is equivalent to citizen approval.</p> <p>In summary, [Respondent 15] propose the definitions of equity interests and owners be broadened to fully reflect</p>	<p>Staff considers that Respondent 15 supports the scope of the ED. The issues raised relate to the definitions, and their impact on the classification approach rather than the scope of the project.</p> <p>In developing the ED, the IPSASB noted that "If there are no quantifiable ownership interests in an operation, no consideration can be transferred as there is no party with an entitlement to receive the consideration. This can distinguish the combination from an acquisition,</p>



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		<p>the public sector and NFP equivalents of ownership.</p>	<p>where there is always an owner to receive the consideration.” (BC 28). Extending the concept of owners to include local ratepayers, voters, etc. would remove this distinction, and may remove the justification for treating the combination of two municipalities as an amalgamation. This is considered further under the <a href="#">response to SMC 2</a>.</p>
16	A	<p>We agree with the scope of the Exposure Draft.</p>	<p>Noted.</p>
17	A	<p>We agree with the proposed scope of the ED, and the explicit exclusions listed in paragraph 3.</p> <p>In our opinion it is particularly important for the IPSASB to clarify, but also to explain in the BCs the reasons for the scope in this project. For example whilst it might be relatively clear that transactions such as the nationalization of a particular company or industry should fall within a standard on public sector combinations, we believe that clarification of the required accounting treatment may be particularly necessary when public sector entities are involved in what might be initially intended as relatively temporary measures e.g., the bailout of a strategically important private sector entity.</p>	<p>Staff notes these comment.</p> <p>The IPSASB may wish to consider expanding the Basis for Conclusions as suggested by</p>

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		We also agree with the recognition that not only entities may combine and thus support the introduction of the term “operation” to deal with this phenomenon, as this may occur relatively often in practice.	Respondent 17.
18	A	We agree with the scope as defined in this exposure draft.	Noted.
19	A	We support the proposed scope of the Exposure Draft.	Noted.
20	A	We, I agree with the wording and provisions in the draft.	Noted.
21	C	<p>In our jurisdiction, financial statements are published only on an individual basis: no consolidated financial statements are prepared for the central government. As such, we have a strong interest in the accounting proposals that are developed to reflect combinations within those individual financial statements. However, some of our constituents got confused because the reference to the control notion -key to the approach for classifying combinations- specifically relates to consolidation principles. Therefore, we would suggest that the proposals should clarify as soon as the objective section that the proposal does not reconsider consolidation principles that are already addressed in IPSAS 35 Consolidated Financial Statements.</p> <p>We are also concerned that the ED addresses only amalgamations that involve resulting entities that are in substance “new” entities. We believe that that would exclude combinations under common control where the resulting entity is the central government, e.g. the central government absorbs an operation and reflects the absorption in its individual financial statements. We would therefore suggest that the IPSASB should include guidance on how to account for such combinations within the individual financial statements of the central government. In our jurisdiction, such combinations are amalgamations. The issue revolves around both the measurement of net assets absorbed and the presentation of comparative information in the central government’s financial statements, as the central government existed prior to the combination.</p> <p>In addition, we observe that the proposals do not address the accounting treatment in the accounts of the entity that disposed of the operation. In our jurisdiction, we note differing views as to how to account for the consequences of the disposal: some are of the view that the effect should be recognised in equity while others believe that it should be booked to surplus or deficit. We would therefore suggest that the standard should address the accounting treatment in the accounts of the entity(ies) that disposed of the operation(s). Our view on a relevant accounting treatment would be that the effect of the combination should be booked to equity rather than surplus or deficit. We believe that this would be consistent with the accounting treatment retained in the</p>	<p>Staff notes the comments about individual financial statements, but also notes this is inconsistent with IPSAS. A reference could be added to the objective (paragraph 1) that the requirements apply to both individual and consolidated financial statements if the IPSASB thinks this would be helpful.</p> <p>Staff considers that absorptions are already addressed by the ED. If</p>

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		<p>resulting entity.</p> <p>In more details, we note that paragraph 1 addresses both the reporting entity and the resulting entity, the resulting entity being defined later in the “Definitions” section. In line with our above comment aiming to clarify that consolidation principles are not at stake here, we would suggest that the differences between the reporting entity and the resulting entity should be clearly stated at that point, else that the term “resulting” entity should be replaced with that of “reporting” entity in the subparagraphs. Indeed, if we understand correctly, the resulting entity is a reporting entity.</p>	<p>central government absorbs an operation, it gains control of that operation. The central government would then consider the indicators to determine whether the combination is an acquisition or an amalgamation. The IPSASB agreed not to include transferor accounting in the ED (other than the limited guidance in paragraph IE183). The IPSASB is asked if it wishes to clarify the differences between the reporting entity and the resulting entity.</p>
22	C	<p><u>It seems necessary to remove any ambiguity about the meaning of terms and thus to clarify some definitions: "control", "resulting entity" or "operation" should be clarified.</u></p>	<p>Respondent 22 considers control</p>

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		<ul style="list-style-type: none"> <li>The control criteria are decisive in the classification of the operation (amalgamation or acquisition) and thus their accounting treatment. However, ED explicitly refers to the principles which are used for consolidation. But in the public sector, control generally does not rely on the ownership links and therefore quantifiable property rights. Consequently, the control criteria should be completed.</li> <li>In public sector, the authority which determines a combination (activities and their related assets/liabilities) is not generally a part of it and thus does not correspond to the “reporting entity” or the “resulting entity”. Therefore, a distinction should be made between transferring entity(ies), which transfers its assets and liabilities related to an operation, and the final entity (receiving unit), in charge of this operation in the future. This final entity can be created from scratch or it can be a merger entity, ie one of the initial entity with an extended scope. Consequently, the accounting standard should propose accounting requirements for all concerned entities, ie initial entity(ies) and final entity, while ensuring the consistency of this global approach.</li> <li>In view of these elements, we consider that the effects of the combination, including the residual amount, should impact the net assets/equity and not the accounting result either in the accounts of the transferring entity or those of the resulting entity (mirror effect).</li> </ul>	<p>should be definitive, but considers control does not rely on ownership links. IPSAS 35 defines control as follows:</p> <p><i><u>Control</u>: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.</i></p> <p>This definition requires power over the entity, and variable benefits, but these are not dependent on ownership.</p>

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23	C	<p>We support addressing public sector combinations under common control in this proposed IPSAS because they are common transactions in the public sector.</p> <p>However, another common type of government restructuring that involves splitting an existing department/ministry/entity into two or more would be outside the scope of this proposed IPSAS. These transactions would not meet the proposed definition of public sector combinations. We wonder if it was a conscious decision of IPSASB to exclude this type of common control transactions from the scope of the proposed IPSAS.</p> <p>Though the proposed title of the new IPSAS is public sector combinations, it only addresses the accounting for the recipient, that is, the resulting entity and the acquirer. It does not address the accounting for the transferor, that is, the combining entity that transferred assets and/or liabilities to the resulting entity and the acquirer. Expanding the scope of the guidance to include transferors would promote consistent and transparent reporting of the effects of a public sector combination in the transferor's financial statements.</p>	<p>The splitting of departments etc. does not involve a combination, and raises different accounting issues. The IPSASB did not set out to cover all common control transactions in this project.</p> <p>The IPSASB agreed not to include transferor accounting in the ED (other than the limited guidance in paragraph IE183).</p>
24	A	We agree with the scope of the standard applying to transactions or other events that meet the definition of a public sector combination.	Noted.
25	D	<i>No comments identified.</i>	
26	A	We agree with the proposed amendments for the reasons given in the Basis for Conclusions.	Noted.
27	A	Yes	Noted.
28	A	[From General Comments: I admire yes]	Noted.
29	A	Yes, I agree with the scope of the Exposure Draft, so I suggest for IPSASB, if agrees, that observes for some aspects the government elaborated contracts for specific activities, I do not know if these contracts can have	Noted.

Staff summary of responses to Exposure Draft 60, *Public Sector Combinations*  
*IPSASB Meeting (September 2016)*

<b>R#</b>	<b>C #</b>	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 1</b>	<b>STAFF</b> <b>COMMENTS</b>
		impact in the identification of Public Sector Combinations, I have doubt in relation this point.	
30	A	We support the scope of the ED.	Noted.
31	A	[Respondent 31] agrees with the scope of the Exposure Draft.	Noted.

**Specific Matter for Comment 2**

Do you agree with the approach to classifying public sector combinations adopted in this Exposure Draft (see paragraphs 7–14 and AG10–AG50)? If not, how would you change the approach to classifying public sector combinations?

***Summary of Responses to Specific Matter for Comment***

**STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members**

<b>CATEGORY (C #)</b>	<b>RESPONDENTS (R #)</b>	<b>TOTAL</b>
<b>A – AGREE</b>	01, 02, 03, 04, 10, 13, 16, 17, 20, 21, 22, 24, 25, 26, 27, 28, 29, 30, 31	19
<b>B – PARTIALLY AGREE</b>	05, 07, 08, 09, 12	5
<b>C – DISAGREE</b>	06, 11, 14, 15, 18, 19, 23	7
<b>SUB-TOTAL OF THOSE PROVIDING COMMENTS</b>		<b>31</b>
<b>D – DID NOT COMMENT</b>		0
<b>TOTAL RESPONDENTS</b>		<b>31</b>

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 2</b>	<b>STAFF</b> <b>COMMENTS</b>
01	A	<p>We found it unusual that the exposure draft has a rebuttable presumption (in paragraph 8) that, in our experience, will be rebutted in most instances. Most combinations in [our jurisdiction's] public sector are rearrangements of public sector organisations that do not involve the transfer of consideration, and for which acquisition accounting would not reflect the substance of the transaction.</p> <p>Although unusual, applying the rebuttable presumption in paragraph 8 should result in public sector combinations being appropriately classified.</p> <p>The requirements listed in paragraph 52(g) relating to the disclosure of financial information of the combining operations prior to the amalgamation date are likely to exceed the legislative reporting requirements of the combined operation. Further, there may be practical issues for the new entity to obtain this information. However, we acknowledge that the disclosure of this information will retain the accountability of the combining operations up to the amalgamation date.</p>	<p>Staff accepts the comments regarding the rebuttable presumption, but considers that the primacy of the control factor makes any alternative drafting difficult.</p> <p>Staff also notes the comments regarding the disclosure requirements.</p>
02	A	<p>[Respondent 02] agrees with the ED's approach to classification.</p> <p>[Respondent 02] would welcome more detail in the explanation of "rebuttal" in order to allow better clarification of the impact on all potential combinations that may take place in combinations with one or more public sector entities.</p>	<p>Staff notes the request for further explanation of the "rebuttal", which will be considered in drafting an IPSAS.</p>
03	A	<p>[Respondent 03] absolutely agrees with the approach to classifying public sector combinations adopted in this Exposure Draft. This is because IPSASB substantially addressed the concerns raised by various respondents to the consultation papers issued in June, 2014. The classification not only dealt with the indicators of control as major determinant of PSCs but also considered other factors to supplement control. More importantly, the classification took into consideration the economic substance as well as the qualitative characteristics of financial reporting in GPFRs especially the qualitative characteristics of comparability relevance and faithful</p>	<p>Noted.</p>



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		representation of financial information.	
04	A	<p>[Respondent 04] agrees with the approach to classifying public sector combinations in ED 60.</p> <p>Close alignment with IFRS 3 is advantageous but this can still be achieved without starting from the point of view of a private sector standard and this approach may lead to more inconsistency in practice due to inconsistent application of the indicators used to determine whether the pooling of interests method should be used.</p> <p>In addition, in the comprehensive set of examples, which are useful in guiding the classification, we have identified a potential issue with the wording – which could result in an inconsistent application of the “imposition” indicator in determining whether a presumption of an acquisition should be rebutted.</p> <p>To our understanding, the imposition of a combination by a higher authority (i.e. national government) is one of the two main indicators that the presumption that an acquisition has taken place can be rebutted. Indeed, this is explicitly stated in many of the examples. However, in Scenario 9, IE105 (p137) it states “the fact that Central Government is able to impose the public sector combination on Company M provides evidence that the combination is an acquisition and the presumption should not be rebutted”. This approach is repeated in Scenario 10 IE 119, Scenario 12 IE 137 and Scenario 13 IE146.</p> <p>In order to avoid any misinterpretations, we believe that the examples mentioned above should be reworded or otherwise clarified.</p>	<p>Noted.</p> <p>Staff notes the concerns expressed regarding the use of the word “imposed” in the examples, and will review this once the IPSASB had finalized the approach to classification of public sector combinations.</p>
05	B	<p>The current ED overcomplicates the proposed financial reporting of public sector combinations by introducing a requirement for acquisition accounting to be applied when one public sector entity gains control of another, rebuttable in certain circumstances. It is rare for a combination in the public sector to have the economic substance of an acquisition, even where the form of the combination has the appearance of one public sector entity gaining control of another entity. Accounting standards should seek to address the vast majority of circumstances: applying the ‘80/20 rule’ would ensure that standards are generally fit for purpose whilst being as straightforward as possible.</p> <p>The acquisition method will rarely be applied in practice to account for combinations involving two public sector entities, particularly as the vast majority of combinations will be imposed by government in one way or another (paragraph 13a of ED 60). We recommend an alternative, simpler approach to classifying public sector combinations whereby the rebuttable presumption applies only when there are indicators that the economic substance of the combination is that of an acquisition. This reverses the initial presumption, so that</p>	<p>Staff considers that the amended approach proposed by Respondent 05 would result in the same classification outcomes as the approach proposed in the ED.</p> <p>Staff notes the</p>

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		<p>amalgamation accounting will apply unless the presumption is rebutted in favour of acquisition accounting, based on relevant indicators.</p> <p>The alternative approach described above simplifies the methodology for classifying public sector combinations by only requiring further assessment of the substance of the combination if there are indicators suggesting this is required. This is in effect a similar approach to that taken in IPSAS 21 and IPSAS 26 on impairments. The indicators of consideration and decision making process as described in paragraphs 12-13 of ED 60 are suitable for this purpose in our opinion, but would need to be inverted to fit with our proposal.</p>	<p>logic behind the proposal, but considers that the primacy of the control factor makes any alternative drafting difficult.</p>
06	C	<p>We agree with the approach to broadly classify public sector combinations into an acquisition or amalgamation based on whether a party to a public sector combination gains control of one or more operations. We also support the principle that requires a public sector combination to be classified as an amalgamation where no party gains control of one or more operations.</p> <p>While we support the principle that an acquisition has occurred if one party gains control over one or more operations, we are of the view that acquisitions should further be classified based on whether the acquisition has occurred between entities under common control or not under common control.</p> <p>We believe that all combinations under common control should be accounted for using similar accounting proposed for amalgamations.</p> <p>We believe that acquisitions not under common control should be accounted for by considering the economic substance of the combination.</p> <p><i>Public sector combinations under common control</i></p> <p>Public sector combinations undertaken between entities under common control are likely to be undertaken as a result of a decision imposed by a third party without any party to the combination being involved in the decision-making process. It is usually the ultimate controlling entity that decides which operations should be combined. As the ultimate controlling entity decides which operations should combine, this is an indication that there is no overall change in control of the operations, and ultimately, in the underlying assets and liabilities.</p> <p>In accounting for combinations undertaken between entities under common control, we propose that the modified pooling of interest method should be applied (as for amalgamations). We believe that this method should be used because requiring the identifiable assets and liabilities to be measured at their carrying amounts</p>	<p>Respondent 06 would distinguish an amalgamation from an acquisition based solely on whether one party to a public sector combination gains control of one or more operations. This reflects the approach proposed by the IPSASB in the CP; the IPSASB had moved away from this approach in developing the ED.</p> <p>Respondent 06 would also recognize three</p>

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		<p>is appropriate for the following reasons:</p> <ul style="list-style-type: none"> <li>(a) There is no overall change in control as the entity is merely transacting with itself.</li> <li>(b) As control already exists, no gain or loss should be recognised by either party to the public sector combination when identifiable assets and liabilities are measured.</li> <li>(c) It is inappropriate to incur costs to identify assets and liabilities and revalue them at fair value when there has been no change in control. Measuring the identifiable assets and liabilities at carrying values will also avoid inflating the statements of financial position and performance.</li> <li>(d) The objective of these combinations is most often aimed at improving service delivery. As such, acquisition accounting will not reflect the economic reality of these types of combinations.</li> </ul> <p>Although we support the use of the modified pooling of interests method for all combinations that occur under common control, we believe that comparative information should be presented as the operation existed prior to the combination taking place and the operation was controlled by the same party both before and after the transaction.</p> <p><i>Public sector combinations not under common control</i></p> <p>When a public sector combination is undertaken between entities not under common control, there are instances in the public sector when the transaction has commercial substance and is undertaken on commercial terms. In these instances, we support the proposal that the combination should be accounted for by applying the acquisition method, similar to that in the private sector. This method is appropriate as fair value accounting reflects the substance and economic reality of the combination undertaken between the parties.</p> <p>We do however believe that a large number of acquisitions occur in the public sector that do not have commercial substance. In these instances, it is important to consider the substance of the transaction as the proposed accounting for acquisitions, in particular the use of fair value, is inappropriate. We believe that applying the indicators in paragraphs .12(a) and (b), and .13(a) and (b), should be considered to assess the substance and economic reality of the transactions undertaken.</p> <p>At present, the criteria in paragraph .12 and .13 are merely rebuttable presumptions. We are of the view that an entity should be required to consider whether the criteria in paragraph .12 and .13 exist, and if yes, apply the same accounting treatment as amalgamations.</p> <p><i>[From General Comments:</i></p>	<p>sub-categories of acquisition – those under common control, those not under common control without commercial substance (both of which would be accounted for using the modified pooling of interests method) and those not under common control with commercial substance. Staff considers that only the latter category is a true acquisition.</p> <p>Staff notes that Respondent 06 would remove the rebuttable presumption and make the indicators criteria.</p> <p>Staff notes the comments</p>

R#	C #	<p style="text-align: center;"><b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 2</b></p>	<p style="text-align: center;"><b>STAFF COMMENTS</b></p>
		<p><b><i>Rebuttable presumption in relation to the consideration</i></b></p> <p><i>We question the indicator included in paragraph .12(c). In the public sector “government” in general will be entitled to the net assets of a transferred entity in the absence of any other specific entity. We therefore question the relevance of the indicator that indicates that the presumption will be rebutted when “no-one with an entitlement to the net assets of a transferred entity can be identified”. When a combination involves public sector entities, we are of the view that there will always be a party that can be identified as the recipient of an entitlement to the net assets/equity of the transferred entity, even if this party is government in general. We therefore propose that this indicator should be deleted as it is inappropriate.]</i></p> <p>In conclusion</p> <p>We therefore propose that public sector combinations should be classified between (a) an amalgamation, where no party to the public sector combination gains control of one or more operations, or (b) an acquisition where a party to the public sector combination gains control of one or more operations.</p> <p>Acquisitions should be distinguished between combinations undertaken between entities:</p> <ul style="list-style-type: none"> <li>• under common control; and</li> <li>• not under common control. If an entity demonstrates the criteria in paragraphs .12 and .13, the transaction should be accounted for in the same way as an amalgamation.</li> </ul> <p>We further propose that combinations undertaken between entities under common control should be accounted for by applying the modified pooling of interest method (ie the same as for amalgamations), with the exception that prior period information should be presented for all the entities that are party to the combination.</p> <p>Combinations undertaken between entities not under common control, except those that demonstrate the criteria in paragraphs .12 and .13, should be accounted for by applying the acquisition method as proposed in the Exposure Draft.</p>	<p>regarding the indicator in paragraph 12(c). Staff considers that this indicator is still required as it is the primary indicator that a combination of two municipalities where one gains control is an amalgamation, not an acquisition. Staff acknowledges the issue raised by Respondent 06, but considers that that this could be addressed by including guidance that the “entitlement to the net assets” does not include a government’s residual interest in assets that are otherwise</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 2	STAFF COMMENTS
			ownerless.
07	B	<p>[Respondent 07] agrees with classifying 'public sector combinations' as either 'acquisitions' or 'amalgamations'. However, [Respondent 07] recommends a simpler classification approach to the one proposed in paragraphs 7-14 that would produce the same reporting outcome in most cases (see below).</p> <p>In practice, the vast majority of [our jurisdiction's] Public Sector combinations occur within a single Government. These combinations meet the paragraph 5 definition of 'public sector combination under common control' (PSCC). For PSCCs, the ED's presumption that a combination is an acquisition is rebutted. Accordingly, the ED results in PSCCs being classified as 'amalgamations'.</p> <p>[Respondent 07] recommends replacing this approach with a simpler approach that will achieve the same outcome in most cases. Under this simpler approach:</p> <ul style="list-style-type: none"> <li>• all PSCC's would be classified as 'amalgamations', and</li> <li>• all other public sector combinations would be classified as 'acquisitions' except for circumstances in which; <ul style="list-style-type: none"> <li>○ no acquirer can be identified, or</li> <li>○ the combination is a genuine merger of equals.</li> </ul> </li> </ul> <p>Accordingly, in the vast majority of cases, there would be no need to consider:</p> <ul style="list-style-type: none"> <li>• whether an acquirer can be identified (paragraph 7),</li> <li>• whether one entity that existed prior to the combination gains control of another (paragraph 8 and AG10), or</li> <li>• the rebuttable presumption (paragraphs 9 to 14).</li> </ul>	Staff notes the proposed simplification of the classification approach. Staff accepts that this will produce the same results in most cases in this jurisdiction, but considers that this may not apply in all jurisdictions.
08	B	<p>[Respondent 08] agrees with the statement that 'control' is a key element in distinguishing between amalgamations and acquisitions. However, the proposed standard makes no difference between the notion of control as understood in the private sector and the notion of control as it should be understood in the context of public authorities (e.g. municipalities). In this latter case and in the view of [Respondent 08], the question is whether in an amalgamation of public authorities the citizen continues to have the suffrage and electoral rights in the newly created entity and therefore keeps on exercising a certain control. It is, however, obvious that a citizen living in a relatively small public authority must accept a relative loss of power in case this small public authority amalgamates with a larger one.</p>	Control is defined in IPSAS 35; the principles are the same as for the public sector. The question raised regarding citizens relates to whether

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		<p>The addition of a second criterion (rebuttable presumption) is rather theoretical but nevertheless has the consequence that many combinations can be considered as amalgamations.</p> <p>The decision tree (Figure 1 in the Exposure Draft Summary) is not very meaningful and concrete. Why not drawing up in the Appendix to the standard a more detailed decision tree with the categorisation criteria for amalgamation, acquisition, Joint Ventures and Joint Operations? Additionally, in this diagram a reference should be given in which standard the different “amalgamation forms” are considered. The illustration IG2 on page 122 of the ED can be used as a model.</p>	<p>citizens can be seen as controlling an entity, not whether that entity gains control of an operation.</p> <p>Staff notes that citizens’ rights are factors relating to the rebuttable presumption.</p> <p>Staff does not consider that the decision tree requires modification unless the IPSASB agrees to extend the scope of the ED or to modify the classification approach.</p>
09	B	<p>We partially agree with the approach to classifying public sector combinations in that various factors are considered in addition to control. However, we believe that the proposed rebuttable presumption approach may lead to the classification of some public sector combinations as acquisitions for which the acquisition method of accounting is not appropriate.</p> <p>The application guidance in paragraphs AG 43-45 links the concepts of control, consideration and decision-making to the most appropriate accounting method. With respect to the acquisition method, paragraph AG 44 states: “Such information assists users of the financial statements in assessing the initial investments made and</p>	<p>Staff notes that Respondent 09 is generally supportive of the approach to classification, but would attach less</p>

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		<p>the subsequent performance of those investments and comparing them with the performance of other entities based on the investment made by the acquirer. It also includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities." Consequently, it is the investment by the acquirer in the combination, and the presence of commercial substance, on which the relevance of the information to the users is based. In contrast, the rebuttable presumption approach places more emphasis on whether there is a controlling/controlled entity relationship for the classification.</p> <p>To illustrate our concerns with the rebuttable presumption approach, we refer to the Illustrative Examples (IE), Scenario 7. In this scenario, a central government transfers an operation to a provincial government with no consideration provided. The operation has net assets but the service entity transferred operates at a loss; the agreement requires that the provincial government continues to provide the services of the transferred operation for 10 years, thereby offsetting the net assets with the net losses in future years. The transferred operation will be a separate entity within the government reporting entity.</p> <p>In this situation, there is no investment by the acquiring entity. This entity is continuing the operations of the transferred entity, along with the assets and liabilities used to provide the services, such that there are no differences in the services provided immediately before and after the transfer. The conclusion in the IE is that the transfer is an acquisition based on the fact that the transferred operation subsequently continues to operate as a separate entity in a controlled/controlling entity relationship, whereas the lack of consideration is considered inconclusive. However, we can find no rationale for revaluing the assets and liabilities transferred, thereby changing the basis on which the cost of providing the services is determined, as there has been no investment by the acquirer. Consequently, we believe that the modified pooling-of-interests method would more appropriately reflect the substance of the transaction in this scenario. In the public sector, whether the transfer results in a controlling/controlled entity relationship, or the transferred operation becomes an integral part of the controlling entity after the transfer, is usually a decision of the controlling entity which does not change the substance of the transaction.</p> <p>Consequently, we prefer the individual weighting approach (as discussed in paragraph BC 33(b)) as this would result in more appropriate classifications of public sector combinations, i.e. where the control, consideration and decision-making factors are a matter for professional judgement based on the individual circumstances of the combination. It would also be helpful if these factors were better linked with the concepts discussed in paragraphs AG 43-45 about the accounting method.</p>	<p>weight to control than in the ED, and would therefore support the "individual weighting approach" which the IPSASB considered but did not include in the ED.</p>

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10	A	<p>[Respondent 10] agrees with the classification approach adopted in the ED.</p> <p>However, the explanation around 'rebuttal', both in the guidance and the illustrative examples could be made clearer.</p> <p>Specifically, more explanation is required to distinguish the following two cases:</p> <ol style="list-style-type: none"> <li>1) the fact that a combination of public sector entities is imposed by a higher authority such as national government is taken as an indicator that the presumption that an acquisition has taken place can be rebutted;</li> </ol> <p>whereas</p> <ol style="list-style-type: none"> <li>2) the imposition of public sector control over a private sector entity is taken to indicate that the presumption should not be rebutted.</li> </ol>	<p>Staff notes these comments. The wording of the ED will be reviewed once the IPSASB has finalized the approach to classification.</p>
11	C	<p>No - ED60 does not adequately recognise the nature and substance of government entity combinations. ED60 distinguishes amalgamations from acquisitions, but in fact there are three potential situations:</p> <p>Situation 1. An amalgamation of two government entities, for example two government agencies combining into one new agency</p> <p>Situation 2. A combination of two government entities that that meets the description of an acquisition, but where there is no consideration. An example would where the two agencies in situation 1 above are combined into one of the agencies.</p> <p>Situation 3. An acquisition by a government entity of another entity for a consideration. This latter situation would most probably arise when a government acquires a commercial entity, which latter then becomes a Commercial Public Sector Entity.</p> <p>For government entities the first two situations differ only in the form of the combination arrangements. Both involve a political decision to reorganise government operations and the substance of the combination remains the same. Therefore, there is no logical reason why the accounting treatment should differ as between Situations 1 and 2. On the other hand, situation 3 probably involves the acquisition of a commercial entity and hence the creation of a new, or expansion of an existing, Commercial Public Sector Entity.</p> <p>Situation in 3 has much in common with combinations of commercial entitles, and therefore it is appropriate that it is treated in a similar manner to IFRS 3. On the other hand, Situations 1 and 2 are simply government</p>	<p>Staff notes these comments. Staff considers that the three situations described are only a subset of the transactions that may occur, particularly when considering the interactions of different levels of government.</p> <p>Staff notes the proposed accounting treatments for the three situations</p>



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		<p>reorganisations and should both be accounted for in the same manner using the modified pool approach as described in the ED.</p> <p>Therefore, it is our view that these three situations should be clearly identified and defined, and that the accounting treatment for Situations 1 and 2, as defined above, should be identical applying the modified pool approach.</p>	<p>described. Staff considers that the agencies referred to in situations 1 and 2 would be under common control, which would normally trigger the rebuttable presumption, resulting in the combinations being classified as amalgamations. The combinations would be accounted for using the modified pooling of interests method, as recommended by Respondent 11.</p>
12	B	<p>We are agreeable to the two approaches given in classifying the public sector combinations under paragraphs 7 and 8 because of the focus on whether or not one party gains control of one or more operations as a result of the combination. This manner of classification will also assist in the choice of accounting treatment of the combination that can provide information that meets the objectives of financial reporting and that satisfies the qualitative characteristics.</p> <p>However, we think the option given to entities in paragraph 14 may lead to inconsistency in the classification and</p>	<p>Staff considers that Respondent 12 generally supports the proposed classification approach, but not</p>

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		<p>resulting accounting treatment of one operation or more operations by different entities.</p>	<p>the inclusion of paragraph 14, which enables an entity to consider additional factors in cases of uncertainty.</p>
13	A	<p>[Respondent 13] agrees with the approach to classification of Public Sector Combinations by ED 60 as either acquisition or amalgamation. However, [Respondent 13] suggests that IPSASB should amend the definition of Public Sector Combinations to clearly reflect situations in which control is obtained by one party to a public sector combinations i.e. where the presumption that such a combination is an acquisition is rebutted (an amalgamation); and where the presumption that such a combination is an acquisition is not rebutted (an acquisition). [Respondent 13] also suggests a clarity on “the bringing together” phrase in the definition of a public sector combinations as it focuses more on amalgamation than on acquisition. [Respondent 13] also suggests that the phrase, “resulting entity” should be redefined to accommodate situation when one of the entity gains control in a public sector combinations.</p>	<p>Staff notes the comments regarding the definitions, which will be reviewed once the IPSASB has finalized the classification approach.</p>
14	C	<p>[Respondent 14] disagrees with the proposed approach to classifying public sector combinations. [Respondent 14] favours an approach that is more strictly based on the concept of control with some modifications for circumstances unique to the public sector. In this context the AASB has developed a classification approach that could be adopted directly, or be used to develop alternative indicators to the ones proposed in paragraphs 12 and 13 of the ED.</p>	<p>Staff notes the alternative approach to classification proposed by Respondent 14. The IPSASB has previously considered the change of sector as a possible factor, but rejected it for the following</p>

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		<p><i>[Respondent 14] alternative classification approach</i></p> <pre> graph TD     Q1[1. Crossing public/private sector boundary?] -- Yes --&gt; A[Acquisition]     Q1 -- No --&gt; Q2[2. Under common control or forced transaction?]     Q2 -- Yes --&gt; B[Amalgamation]     Q2 -- No --&gt; A </pre> <p><i>Explanation of AASB classification approach</i></p> <p>The first step in the approach filters business combinations for those that combine public sector operations with private sector operations. [Respondent 14's] view is that such transactions would result in the public sector entity gaining control of the private sector entity's operations in the vast majority of cases. In a combination of operations involving a private sector entity, [Respondent 14] concurs with the IASB's rationale in IFRS 3 Business Combinations that most business combinations are acquisitions and 'true mergers' or 'mergers of equals' are so rare as to be virtually non-existent (IFRS 3.BC27 and BC35).</p> <p>The next step would be to consider the combination of operations only in the public sector and whether those combinations are under common control or are a 'forced' transaction within the public sector (for example a new</p>	<p>reasons (set out in the Basis for Conclusions in the ED):</p> <p>The IPSASB considered that this change of sector would be a consequence of a change in control rather than a separate factor to be considered. The IPSASB also noted that the classification of institutional units into sectors based on their economic nature of being government units was a feature of GFS that had no equivalent in the IPSASB's literature.</p> <p>The use of common control or forced transaction is similar to the</p>

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		<p>legislative requirement). In [Respondent 14's] view, transactions under common control should be accounted for as amalgamations. The conceptual basis for this treatment is that operations under common control are essentially extracts of a larger operation or entity. Therefore, acquisition accounting would be inappropriate for transactions where the combining operations are merely extracts of a continuing larger operation/entity. [Respondent 14] views forced transactions, such as when public sector operations are forced or directed to combine, as akin to a combination under common control. For example, where two local councils are required to combine by legislation passed by the state government even though the state government does not effectively control the councils. Accordingly, those transactions should be accounted for in the same way as combinations under common control i.e. as amalgamations.</p> <p>Constituent feedback indicated an appetite to insert a third step for combinations involving only public sector entities. This step would be to consider the 'substance of the transaction' for combinations not under common control (including 'forced transactions') similar to the IPSASB's rationale in paragraph AG22 of the ED. The aim would be to classify combinations not under common control as amalgamations if the substance of the transaction is that a new entity is formed to assume the operations of the combining entities. If the substance is that one of the parties to the combination continues to exist subsequent to the combination, then this would be treated as an acquisition. [Respondent 14] decided not to include this step in the proposed approach above in favour of a simpler classification approach based on common control or akin to common control. [Respondent 14] considers that if the proposed approach were to include an economic substance step for combinations not under common control, it could be argued that the accounting for amalgamations would also need to be modified depending on whether the amalgamation is between operations under common control (i.e. extract of continuing entity) or not (i.e formation of new entity). This would add unnecessary complexity to preparers with little added benefits to users of the financial information.</p> <p>In [Respondent 14's] view the alternative classification approach above would work conceptually and is sufficiently simple to apply in practice. However, if the IPSASB decides to continue with its proposed approach in the ED, [Respondent 14] suggests some modifications to the indicators in paragraphs 12 and 13 of the ED on when acquisition accounting may be rebutted, to achieve an outcome similar to the above classification approach. [Respondent 14] suggests the IPSASB:</p> <p>(a) remove the indicator in paragraph 12(c) of the ED. This indicator would permit combinations involving private sector NFP entities, like a charity organisation, to be classified as amalgamations. It is</p>	<p>approach proposed in the ED.</p> <p>Staff notes that Respondent 14 has not included a third step of considering the substance of the transaction. A consequence of this decision is that the proposed approach would classify any combination of municipalities that were not under common control and that was not a forced transaction as an acquisition. This outcome was rejected by many of the respondents to the CP, when a similar outcome was proposed.</p> <p>Staff notes the comments</p>

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		<p>[Respondent 14's] view that any combination involving a private sector entity should be accounted for as an acquisition.</p> <p>(b) remove the indicator in paragraph 13(b) of the ED. [Respondent 14] does not think that this is a relevant indicator as it is similar to shareholder approval in the private sector where only acquisition accounting is permitted. Higher-level approval should not be a factor in classification.</p>	<p>regarding the indicators. The indicator in 12(c) – no-one entitled to the net assets – is the key indicator of an amalgamation for two municipalities combining. Staff does not consider approval by citizens in referenda as similar to shareholder approval, as citizens have no quantifiable ownership interests.</p>
15	C	<p><u>General comments</u></p> <p>[Respondent 15] supports (a) the principle that the classification of a public sector combination is based on the economic substance of the combination, and (b) that the entity considers the classification that best meets the objectives of financial reporting and that satisfies the qualitative characteristics. However, [Respondent 15] does not support the approach to classifying public sector combinations adopted in this Exposure Draft. [Respondent 15] does not support the proposed classification of a public sector combination, which relies on whether an entity has gained control of an operation as a result of the combination and contains a rebuttable presumption that the combination shall be classified as an acquisition. [Respondent 15] has proposed an alternative approach to</p>	<p>Respondent 15 does not support control as the basis for classifying public sector combinations. The IPSASB has</p>

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		<p>determining whether the combination is an acquisition or an amalgamation. This alternative approach uses three indicators to determine the economic substance of the combination. Our rationale is explained further below.</p> <p><u>Classification based on gaining control</u></p> <p>In the Exposure Draft, the classification of a public sector combination relies on whether an entity has gained control of an operation as a result of the combination. The assessment of control is based on the guidance in IPSAS 35 Consolidated Financial Statements, which focuses on whether control exists, rather than on whether an entity has gained control over another operation in a public sector combination. The Exposure Draft proposes using the guidance in IPSAS 35 for determining whether an entity controls another entity with references to some terms being read particular way. For example, “an entity controls” is to be read as “an entity gains control” and “another entity” is to be read as “an operation”. However, merely changing the terms does not adequately explain how a concept designed for one purpose should be applied for a different purpose. The requirements in IPSAS 35 are designed to assess whether a control relationship exists at present, i.e. an assessment of the relationship between the entities at a point in time. In contrast, assessing whether one entity has gained control over another entity involves considering how the relationship between two entities has changed over time. The latter assessment involves considering the nature of their relationship both before and after the combination, and how that change in relationship came about. In particular, the existence of a control relationship after the combination does not necessarily mean that one entity has gained control over another entity during the combination, nor does it necessarily mean that the entity that becomes the controlling entity after the combination is the acquirer in the entity combination, as the combination could be structured to achieve that outcome. This makes the approach in the Exposure Draft difficult to follow and could make it difficult to apply in practice.</p> <p>The Application Guidance about assessment of control in paragraphs AG10-AG18 is insufficient and the logic is difficult to follow. For example, it is difficult to apply in situations involving reverse acquisitions and the formation of new entities, where identifying the acquirer can be difficult. For example:</p> <ul style="list-style-type: none"> <li>Paragraph AG15 acknowledges that a public sector combination involving an exchange of equity interests could be a reverse acquisition, but does not provide guidance on how to determine if that is the case, nor how the guidance in IPSAS 35 should be applied in making this determination. In a reverse acquisition, the legal controlling entity (i.e. legal parent) is likely to gain a majority of voting rights and power of</li> </ul>	<p>previously agreed that control (as defined in IPSAS 35) should form the basis of the classification approach (see BC17 - BC27).</p> <p>Respondent 15 proposes an alternative approach, based on three factors – consideration, decision-making and whether the combination occurs under common control. Staff notes that these factors are a subset of those used in the ED. Staff considers that this approach will not produce the classification outcomes that respondents to the CP and the ED</p>

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		<p>appointment over the governing body of the legal controlled entity (i.e. legal subsidiary). Considering the guidance in IPSAS 35 might lead one to conclude that the legal controlling entity has gained control of the legal controlled entity in the entity combination. However, if the previous owners of the controlled entity gain control of the controlling entity in the combination (by ending up with a controlling interest in the combined entity), this indicates that the legal controlled entity is the acquirer for accounting purposes.</p> <ul style="list-style-type: none"> <li>IFRS 3 prohibits the identification of a new entity as the acquirer in certain situations (for example, where the new entity was formed to effect the business combination by an issue of equity instruments), but paragraph AG17 of the Exposure Draft merely focuses on whether or not the new entity existed prior to the combination. This is problematic because (a) it does not explain how long the new entity needs to have existed and/or whether existence as a legal shell is sufficient for the entity to be identified as the acquirer, and (b) if the new entity is not the acquirer, how to determine whether or not one of the existing combining entities gains control over another entity. For example, if the combination has been structured so that it results in a new entity gaining all of the voting rights and power of appointment over the governing bodies of the combining entities, it is unclear how the guidance in IPSAS 35 should be applied to determine whether or not, in economic substance, the new entity has gained control of the combining entities.</li> </ul> <p><u>[Respondent 15's] proposed alternative approach</u></p> <p>Although we do not support the proposed approach in the Exposure Draft, we think that some of the indicators set out in paragraphs 12 and 13 are relevant to determining how combinations should be classified. We would propose some modifications, as explained below.</p> <p>We note the IPSASB's rationale for not starting with consideration of whether the combination is under common control or not under common control. However, we still support this factor as an indicator in the classification of the public sector combination. While there are likely to be instances in which it is not clear whether or not entities are under common control, there are likely to be many situations where it is clear that the combining entities are under common control, such as where the combining entities are being consolidated into the ultimate controlling entity's consolidated financial statements both before and after the combination.</p> <p>[Respondent 15's] proposed alternative approach to determining whether the combination is an acquisition or an amalgamation is to use the following three indicators to determine the economic substance of the combination. We have also provided our reason for the indicators selected and/or modifications to the indicators in the</p>	<p>have indicated are appropriate in the public sector, and which the IPSASB supported in developing the ED. Scenarios 1-3 in the Illustrative Examples to the ED relate to the combinations of municipalities (or parts thereof). In these examples, the combinations are directed by a higher level of government. However, if these combinations were achieved voluntarily, the proposed approach would classify them as acquisitions as:</p> <ul style="list-style-type: none"> <li>The lack of consideration is not</li> </ul>

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		<p>Exposure Draft.</p> <p>(a) Consideration – There should be a rebuttable presumption that the combination is an acquisition where consideration is paid to those with an entitlement to the net assets of the transferred operation for giving up that entitlement, and the consideration approximates the market value of the operation. However, the reverse is not necessarily true. The lack of adequate consideration does not necessarily mean that the combination is an amalgamation, particularly given that many transactions in the public sector are not at market value. Hence, if this indicator is not present (e.g. if no or nominal consideration is given), then other factors would be considered.</p> <p><i>[Respondent 15's] reason</i></p> <p>We do not consider the indicators in paragraphs 12(a) to 12(c), as currently framed, to be useful in determining whether a combination is an amalgamation rather than an acquisition. For example, a donated operation can be an acquisition. This point is acknowledged in paragraph AG29. That is, the absence of consideration does not in itself provide evidence of the economic substance of the public sector combination. We agree with that point and therefore consider that the way the indicators in paragraphs 12(a) to 12(c) are expressed is not helpful. However, the presence of adequate consideration is an indicator that the combination is an acquisition. Hence, we consider that the indicators in paragraphs 12(a) to 12(c) should be reframed as one indicator that focuses on the presence (rather than the absence) of adequate consideration. In addition, paragraphs 12(b) and 12(c) are based on the narrow view of equity interests and owners in the Exposure Draft. As explained in our response to Specific Matter for Comment 1, in the public sector and the NFP sector, equity interests is not limited to equity participants of an equity instrument and owners is not limited to a quantifiable ownership interest.</p> <p>(b) Decision making – There should be a rebuttable presumption that the combination is an amalgamation where a public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process regarding the combination. This may include a third party instigating the combination (rather than the combining entities) and the combination being subject to approval by the affected citizens.</p> <p><i>[Respondent 15's] reason</i></p> <p>We support using the distinction between a voluntary or involuntary combination as an indicator of the type of public sector combination. But we would combine the indicator in paragraph 13(b) with the indicator in</p>	<p>definitive;</p> <ul style="list-style-type: none"> <li>• As the combinations are not imposed, there is no evidence that the decision making factor supports the classification of the combination as an amalgamation; and</li> <li>• As the combinations are not under common control, there is no evidence that the common control factor supports the classification of the combination as an</li> </ul>



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		<p>paragraph 13(a) because paragraph 13(b) is not an indicator by itself. We do not support paragraph 13(b) as an indicator by itself because the fact that citizens have to approve the combination does not necessarily mean that the combination is an amalgamation. For example, it is common in the private sector for acquisitions to require shareholder approval, which is equivalent to citizen approval in the public sector. Therefore, under our proposed approach, the associated guidance in paragraph AG36 would need to be updated.</p> <p>(c) Entities under common control – There should be a rebuttable presumption that the combination is an amalgamation where the entities involved are under common control. However, the reverse is not necessarily true, so a combination involving entities not under common control is not necessarily an acquisition.</p> <p><i>[Respondent 15's] reason</i></p> <p>We support using the fact that a combination is under common control as an indicator of the type of public sector combination (paragraph 13(c)). 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 economic entity and thus an amalgamation. A public sector combination under common control would rarely, if ever, be an acquisition. However, the reverse does not apply. That is, a combination of entities that are not under common control is not necessarily an acquisition. This is because most combinations in the public sector are amalgamations, including those not under common control, such as when two or more local governments (previously autonomous) are amalgamated under the direction of the central government.</p> <p>If the analysis of the above indicators is inconclusive, then consideration of which classification and resulting accounting treatment best meets the objectives of financial reporting and satisfies the qualitative characteristics (similar to paragraph 14 in the Exposure Draft) is needed.</p> <p><u><i>Application of [Respondent 15]'s proposed alternative approach to illustrative examples</i></u></p> <p>We have applied our proposed alternative approach to the following illustrative examples in the Exposure Draft to demonstrate the application of our approach. It should be noted that the comments below merely summarise the application of our approach – if adopted, we envisage that a more fulsome discussion would be provided, in a similar manner as shown in the illustrative examples in the Exposure Draft.</p>	<p>amalgamation.</p> <p>Staff considers that Respondent 15's concerns about the proposed classification approach relate mainly to not-for-profit organizations, and that, if the IPSASB shares these concerns, they could be addressed by modifying the proposed treatment rather than replacing it. This might relate to the definition of an owner (discussed in the <a href="#">response to SMC 1</a>), and whether there is a difference in the ownership interests between public sector entities and not-</p>

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 2</b>	<b>STAFF COMMENTS</b>
		<ul style="list-style-type: none"> <li>• Scenario 4 variation: Restructuring of Central Government ministries               <ul style="list-style-type: none"> <li>(a) Consideration – There is no consideration paid/received. This is not determinative in itself.</li> <li>(b) Decision making – The combination is imposed by a third party, Central Government. This suggests it is an amalgamation.</li> <li>(c) Entities under common control – The entities are under common control. This suggests it is an amalgamation.</li> </ul> <p>There are two indicators that it is an amalgamation and no indicators that it is an acquisition. On balance, these indicators suggest the combination is an amalgamation.</p> </li> <li>• Scenario 6: Combination with a not-for-profit organisation               <ul style="list-style-type: none"> <li>(a) Consideration – There is no consideration paid/received. This is not determinative in itself. However, the nil consideration for the net assets of NFP I and the voluntarily transfer suggest this is a donation, which supports the combination being a bargain purchase. This suggests it is an acquisition.</li> <li>(b) Decision making – The combination was not imposed by a third party. This was a voluntary transfer by NFP I. This suggests it is an acquisition.</li> <li>(c) Entities under common control – There is nothing to suggest the entities are under common control. This is not determinative in itself.</li> </ul> <p>There are two indicators that it is an acquisition and no indicators that it is an amalgamation. On balance, these indicators suggest that the combination is an acquisition. (This conclusion is different from the Exposure Draft, which suggests that the combination is an amalgamation.)</p> </li> <li>• Scenario 7: Transfer of an operation between levels of government               <ul style="list-style-type: none"> <li>(a) Consideration – The nil consideration reflects the fair value of Operation J. This suggests it is an acquisition.</li> <li>(b) Decision making – The combination was not imposed by a third party. The Provincial Government accepts the Central Government's policy of devolving responsibility for some social services. This suggests it is an acquisition.</li> <li>(c) Entities under common control – There is nothing to suggest the entities are under common control.</li> </ul> </li> </ul>	<p>for-profit organizations.</p> <p>Staff notes the other concerns raised by Respondent 15. These will be considered once the IPSASB had finalized its approach to classification.</p>

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		<p>This is not determinative in itself.</p> <p>There are two indicators that it is an acquisition and no indicators that it is an amalgamation. On balance, these indicators suggest the combination is an acquisition.</p> <ul style="list-style-type: none"> <li>• Scenario 11: Donated operations <ul style="list-style-type: none"> <li>(a) Consideration – There is no consideration paid/received. This is not determinative in itself. NFP R had donated Operation S, which supports the combination being a bargain purchase. This suggests it is an acquisition.</li> <li>(b) Decision making – The combination was not imposed by a third party. NFP R voluntarily surrendered the rights to Operation S. This suggests it is an acquisition.</li> <li>(c) Entities under common control – There is nothing to suggest the entities are under common control. This is not determinative in itself.</li> </ul> </li> </ul> <p>There are two indicators that it is an acquisition and no indicators that it is an amalgamation. On balance, these indicators suggest that the combination is an acquisition.</p> <p><u>Other concerns</u></p> <p>In addition to the above points, we have the following concerns with the Exposure Draft:</p> <ul style="list-style-type: none"> <li>• Paragraphs AG17 and AG22 are inconsistent/confusing – paragraph AG17 uses the term “new entity” to refer to a new legal entity but paragraph AG22 uses the term “new entity” to refer to a new economic entity.</li> <li>• The last sentence of paragraph AG22 states that the presumption that the combination is an acquisition is not rebutted if one of the parties to the combination continues to exist – but the combination is not usually an acquisition when one government department is ‘amalgamated’ into another government department. For operational or legal reasons, it might be easier for one of the combining entities to continue to exist, with the other entity combined into the continuing entity, but that does not necessarily mean that the combination should be viewed as an acquisition by the continuing entity.</li> <li>• Paragraph AG23 seems to focus on the legal form of the combined entity. The paragraph states that the presumption is not rebutted if there is a controlling entity/controlled entity relationship after the combination. However, there could be various reasons why an amalgamation is effected in this way. For example, there could be legal, tax or administrative reasons for leaving the existing operations of the</li> </ul>	

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		<p>combining entities within their respective existing legal entity structure, either for a period of time or indefinitely, which could entail establishing a controlled entity/controlling entity structure as part of the combination, but that outcome does not necessarily mean that the economic substance of the combination is an acquisition.</p> <ul style="list-style-type: none"> <li>• Apart from the more straight-forward examples, the logic applied in the illustrative examples is hard to follow. In some cases, this is because reliance is being placed on the indicator in paragraph 12(c), that is, consideration in situations involving councils and charities (which we disagree with, as noted in our response to Specific Matter for Comment 1 and above). For example, we consider that scenario 6 is economically similar to scenario 11, and consider that both should be treated as acquisitions. Hence we disagree with the conclusion in scenario 6. In other cases, there are situations involving the appointment of a new governing body, which seems to be a determining factor in establishing whether one entity gains control over another entity. For example, the scenario 3 variation seems to suggest if there is a new governing body appointed, the entity (Municipality G) is a new entity after the combination. That is, the appointment of a new governing body somehow changes the entity itself. We note that the appointment of a new governing body as a factor to consider in determining the classification of the combination is not discussed in the main body of the Exposure Draft or the integral application guidance in Appendix A. It is therefore unclear how this factor is based on the requirements of the Exposure Draft. Also, in other situations where a new governing body is changed (e.g., a school's board of trustees is replaced by a government-appointed administrator) [Respondent 15] would not conclude that the entity itself is a new entity.</li> </ul> <p><u>Summary</u></p> <p>[Respondent 15] does not support an approach to the classification of a public sector combination that relies on whether an entity has gained control of an operation as a result of the combination (and which then has a rebuttable presumption that the combination shall be classified as an acquisition). [Respondent 15] has proposed an alternative approach to determining whether the combination is an acquisition or an amalgamation. This alternative approach uses three indicators to determine the economic substance of the combination.</p>	
16	A	<p>We generally agree with the approach in the Exposure Draft.</p> <p>We are concerned that there may be a leap of logic in the application guidance on economic substance (paragraphs AG20 - AG25), especially in the description in paragraph AG22. With regard to the “resulting entity”</p>	<p>Noted.</p> <p>Staff will consider the drafting issues</p>

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		<p>in amalgamation, there may be other entities besides the entities newly formed (a “new entity”). Specifically, there may be situations when one of the parties to the combination continues to exist nominally without obtaining control. Since the judgment of economic substance significantly affects the accounting treatment of combinations lying on the dividing line of the classifications, we ask the Board to clarify the approach.</p>	<p>identified once the IPSASB has finalized its approach to classification.</p>
17	A	<p>Yes. However, we have the following comments:</p> <p><u>Amalgamations</u></p> <p>On reading the ED there appears to be an implicit presumption that a combination of operations which are subject to common control will always constitute an amalgamation. We suggest this be reflected in the definition (see below under the subheading “Definitions”).</p> <p><u>Acquisitions</u></p> <p>We agree that a gain of control is an indicative factor in the determination of whether a combination should be classified as an acquisition, and that a gain of control alone may not necessarily equate, in substance, with an acquisition.</p> <p>In addition, we support the concept of a rebuttable presumption supported by consideration of specific further factors as preferable to the so-called individual weighting approach, since the latter introduces a higher degree of subjectivity.</p> <p>In our opinion, the factors listed to be taken into account in deciding whether the economic substance of the transaction is such that it would be classified as an amalgamation, notwithstanding the fact that one party gains control over another or over an operation, need to reflect the economic substance of the “end product” (for example whether control has been gained in substance or only in form – i.e., how is the control gained actually exercised in practice) and not just factors such as consideration and decision making, which are both formal procedural factors.</p> <p><u>Definitions</u></p> <p>We have commented on the definition of amalgamations above. We also find the proposed inclusion of the rebuttable presumption placed within definitions of amalgamation and acquisition makes for circular definitions, which are awkward. We suggest the two definitions be revised along the lines of:</p>	<p>The IPSASB has previously considered whether an acquisition could arise under common control, without reaching a conclusion. Including this within the rebuttable presumption allowed for rare cases when an acquisition might arise.</p> <p>Staff considers that the factors do reflect substance over form, for example the consideration factor is assessed</p>

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		<p>“An amalgamation is .....</p> <p>(a) ...</p> <p>(b) All parties to the combination are under common control of another party, or</p> <p>(c) A public sector combination in which</p> <p style="padding-left: 20px;">a. one party to the combination gains control of one or more operations; and</p> <p style="padding-left: 20px;">b. no further factors exist that are persuasive that the economic substance of the transaction is that of an acquisition.”</p> <p>“An acquisition is a public sector combination in which</p> <p>(a) one party to the combination gains control of one or more operations; and</p> <p>(b) one or more further factors exist that are persuasive that the economic substance of the transaction is that of an acquisition.”</p>	<p>by reference to the reasons for paying / not paying consideration, not just whether consideration is paid.</p>
18	C	<p>Due to the interaction with IFRS 3, most preparers of financial statements in our jurisdiction have preference for acquisition accounting where the combination involves a private sector entity and opine that amalgamation accounting is more appropriate for combinations under common control and combinations where the economic substance transpires into a new entity. We are of the view that combinations that are not under common control but are “forced transactions” would be analogous to common control transactions and amalgamation accounting would be appropriate thus no need for economic substance test proposed in paragraph AD22 of the ED. Alternatively, if the combination is not a common control transaction or forced transaction, it is most likely that one party to the combination obtains control of the combined operations. Accordingly, we are of the view that IFRS 3 acquisition accounting would be appropriate in this instance and an “economic substance” test is not required.</p> <p>We disagree with the proposed approach to classifying public sector combinations. We have preference for an approach that is more strictly based on the concept of control with some modifications for circumstances unique to the public sector.</p>	<p>Staff notes that Respondent 18 would classify “forced transactions” and combinations under common control should be classified as amalgamations, with all other combinations being classified as acquisitions.</p>
19	C	<p>We agree with the approach to classify public sector combinations as either an amalgamation or an acquisition, based on whether a party to the combination gains control of one or more operations as a result of the</p>	<p>Staff considers that Respondent 19</p>

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		<p>combination, as well as the indicators listed in paragraphs 12 and 13.</p> <p>We are of the opinion that the indicators in paragraphs 12 and 13 should be regarded as criteria, to ensure that they are not perceived to be optional, but that one of the criteria is required to be met, for a public sector combination where one party gains control of one or more operations as a result of the combination, to be classified as an amalgamation. This will result in consistent application of the Standard.</p> <p>Paragraphs 11 and 14 relate to instances where the indicators provide insufficient evidence to determine whether the presumption is rebutted, and judgement has to be used to determine the economic substance of the public sector combination. We are of the view that allowing such instances will result in different classifications of similar public sector combinations, due to different interpretations of the Standard and the amount of judgement involved in determining those classifications. It would be advisable to extend the list of criteria required to be met for the public sector combination to be classified as an amalgamation, rather than to allow for instances where the criteria is not decisive.</p>	<p>would not adopt the rebuttable presumption approach, but would use the factors discussed as criteria. Staff notes that in developing the ED, the IPSASB adopted the rebuttable presumption approach as it considered that this approach best balanced the qualitative characteristics of comparability and faithful representation.</p>
20	A	<p>We, I agree with the wording and provisions in the draft.</p> <p>However, you may consider the following paragraph 13 (b) as</p> <p>A public sector combination is subject to approval by each party's citizens through referenda (paragraph AG36 provides additional guidance) [Insert "or an enabling law"];</p>	<p>Staff notes the suggested addition. Staff considers that this may already be covered by paragraph 13 (a),</p>

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			which addresses the involvement of third parties (including governments or parliaments).
21	A	<p>We believe that the introduction of the supplementary indicators, in addition to the notion of control as set out in IPSAS 35, well reflects the public sector specificities on the very specific issue of combinations. Therefore, based on our experience of the recent combinations of regions in [our jurisdiction], the proposed approach seems to us appropriate for the classification and the ensuing accounting treatment.</p> <p>We welcome the decision tree and the related requirements as proposed in that they leave room eventually (i.e. after applying the various steps for the approach) to the use of sound judgement to decide on the classification of the combination in those exceptional instances where the result of the analysis is inconclusive.</p> <p>We are of the opinion, that applying paragraphs 7 to 14 allows for the coverage of such situations as, for instance, a voluntary transfer of operations from the central government to a local authority, with no consideration. In that case, we believe that the use of fair value for the initial measurement of identifiable assets and liabilities would not be relevant to the information of public sector users, mainly because of the absence of quantifiable ownership interests in the net assets of the operations transferred. More generally, we believe that the absence of quantifiable ownership interest is a key factor in the analysis of combinations in the public sector that could be usefully mentioned as a factor of its own. We believe that it is more than just a reason why no consideration is transferred (as explained in BC28(c)) as it is the essence of most public sector entities as opposed to private sector entities.</p> <p>In addition, we would suggest that the indicators in paragraphs 12 and 13 should be reordered so that the most frequent situation would appear first (i.e. so as to show (c), (a), (b) in both paragraphs).</p> <p>Going into further detail, we note that, in the illustrative examples provided in scenario 9 and scenario 13, where the indicators relating to the decision-making process are considered, it would be useful to clarify that the party that imposes the combination is a party to the combination. As it currently stands, we believe that the proposal reads that because the combination is not voluntary, it should be classified as an acquisition which sounds contrary to the indicator set out in paragraph 13(a). Conversely, our understanding is that it is actually because</p>	<p>Noted.</p> <p>Staff notes the proposed drafting amendments.</p> <p>These will be considered once the IPSASB has finalized the approach to classification.</p>



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		there is no third party that imposes the combination that the presumption should not be rebutted (e.g., in IE105, the central government imposes the combination, but is a party to the combination).	
22	A	<p>The classification proposed for public sector combinations seems to us relevant.</p> <p>At the same time, we would draw your attention that in [our jurisdiction] acquisitions are uncommon. Our administrative and legal framework should conduct to define public combination as amalgamation in most of cases.</p> <p>However, we are aware of the existence of different frameworks in other jurisdictions which can lead to define combination as acquisition, and so that there is a need to provide requirements for these cases.</p>	<p>Noted.</p> <p>Staff notes the ED expects amalgamations to be the most common form of combination.</p>
23	C	<p>We have reservations with the classification approach and related guidance proposed in the ED. We question if it would result in:</p> <ul style="list-style-type: none"> <li>• consistent accounting treatment for similar combinations; and</li> <li>• accounting of public sector combinations reflecting their economic substance.</li> </ul> <p><b>Consistent accounting treatment</b></p> <p>As acknowledged in the ED, some indicators relating to consideration and the decision-making process are inconclusive in determining the classification of a combination. These may be signs that such indicators do not represent the economic substance of amalgamations. Leaving them in the guidance can be confusing and potentially result in arbitrary and inconsistent conclusions.</p> <p><b>Accounting reflecting economic substance</b></p> <p>We agree that change in control, presence of consideration and how consideration is determined can represent the economic substance of a combination. However, they need to be defined more precisely to:</p> <ul style="list-style-type: none"> <li>• become unambiguous criteria that reflect the economic substance of a combination; and</li> <li>• justify why the prescribed accounting method would better reflect the economic substance of combinations with these characteristics.</li> </ul> <p>We believe that assets and liabilities should generally be valued at their costs to the reporting entity. Acquisition accounting should be applied to account for combinations that are of a purchase nature. That is, the consideration provided (by the resulting entity or acquirer) is primarily based on the fair value of the assets</p>	<p>Respondent 23 finds applying the control criterion challenging, and would adopt an approach that places less emphasis on control.</p> <p>Staff notes the concerns over consistent accounting treatment. Staff considers that there is a trade-off between comparability and faithful representation, as</p>

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		<p>acquired and liabilities assumed.</p> <p>We find applying the control criterion (whether one or none of the combining entity gains control of the combined entity) to combinations that involve combining entities of different sizes challenging. Determining whether a new entity is formed or one of the combining entities takes over the new entity if one of the combining entities is much bigger than the others may not be clear-cut. Different conclusions can be reached.</p> <p>For example, Municipality A of 80,000 populations is combining with Municipality B of 20,000 populations. The new governing board of Municipality AB has two members representing Municipality B and the eight members of the governing board of Municipality A. It can be considered that the governing board of Municipality A has the power to govern Municipality AB.</p> <p>We do not agree that who makes the decision about the terms and conditions of a combination is the economic substance of a combination. Rather, it is the terms and conditions resulted from the combination decision that represent the economic substance of a combination, regardless if they are imposed or negotiated.</p> <p><b>A simplified approach</b></p> <p>It appears that the design of the three-level classification assessment is to limit the types of combination that should follow acquisition accounting to a few specific ones. A more clear-cut approach that could achieve similar outcome would be to simply direct specific public sector combinations to follow acquisition accounting. The other combinations would apply the modified pooling of interests method.</p> <p>Based on the guidance and related illustrative examples in the ED, it seems that IPSASB intends to ensure that the following combinations are accounted for using acquisition accounting:</p> <ul style="list-style-type: none"> <li>• there is a controlling entity and a controlled entity relationship between parties in a combination (paragraph AG23);</li> <li>• a combination that has commercial substance (paragraph AG24);</li> <li>• there is a payment of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement (paragraph AG27);</li> <li>• a donation of the net assets of an operation (paragraph AG30);</li> <li>• an uncompensated seizure or nationalization (paragraph AG30); and</li> <li>• public sector combinations not under common control (paragraph AG37).</li> </ul>	<p>explained in paragraph BC36</p> <p>Staff notes the proposed simplified approach, but has concerns that, in practice, this could become rules-based rather than principles-based, and may therefore be difficult to implement in all jurisdictions.</p> <p>Staff notes the specific concerns identified. These will be considered once the IPSASB has finalized the classification approach.</p>

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		<p>We believe that this transaction-based approach would improve the understandability and applicability of the standard for more consistent accounting treatment.</p> <p><b>Specific concerns with the proposed guidance in the ED</b></p> <p><i>Economic substance</i></p> <p>Not all the descriptions under the economic substance section in paragraphs AG20-AG25 are unique to acquisitions. In some cases, they may represent the circumstances under which acquisitions may generally occur in the public sector.</p> <p>For example, we do not agree that “one of the parties to the combination continues to exist provides evidence that its economic substance is an acquisition” (the last sentence of paragraph AG 22). A combining entity can transfer an operation to a resulting entity and continue to exist without the transferred operation. This situation does not provide evidence about the nature of a public sector combination.</p> <p>Also, combinations entered through mutual agreement can be amalgamations or acquisitions (paragraph AG24).</p> <p>The second sentence of paragraph AG24 states that where an “entity gaining access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement, it is probably that the economic substance of the public sector combination is that of an acquisition.” We do not understand why gaining access to economic benefits or service potential needs to be obtained through a voluntary transaction, and why this is an indicator of an acquisition. We also find the example in this paragraph not helpful.</p> <p><i>Indicators relating to consideration</i></p> <p>There is insufficient guidance in the ED to help determine whether consideration is paid to compensate the former owners for giving up the net assets of an operation or for reason other than to compensate (paragraph 12(a)). It is unclear how the intent of providing consideration can be objectively assessed. Without further guidance, it can be subject to different interpretations for a desired accounting outcome.</p> <p><i>Indicators relating to the decision-making process</i></p> <p>Whether a public sector combination is subject to approval by each party’s citizens through referenda can equally support both classifications (based on guidance in paragraph AG36). It may be a sign that it should not be included as an indicator.</p> <p>It is almost certain that all public sector combinations between parties under common control would require the approval of the controlling entity (paragraphs AG37-AG39). That means, the acquisition presumption would</p>	

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		<p>always be rebutted in public sector combinations between parties that are under common control. The first sentence of paragraph AG 37 (which states that a public sector combination between parties that are under common control may provide evidence that the presumption could be rebutted) should be revised to reflect this certainty.</p> <p><i>Guidance for paragraph 14</i></p> <p>The guidance for paragraph 14 in paragraphs AG40-AG50 was not helpful. It focuses on the information provided under each method and the principal users of that information. Rather, it should focus on when measuring the assets acquired and liabilities assumed in a combination at fair value would better meet the objectives of financial reporting and satisfy the qualitative characteristics, and when it would not.</p> <p>The questions listed under paragraph AG49 are, in certain cases, not answerable. It is not the “classification”, but the accounting method used to account for a public sector combination, that can faithfully represent the economic substance of a combination. In fact, this proposed IPSAS should provide answers to these questions rather than asking them.</p>	
24	A	<p>We agree that the classification of a public sector combination should reflect the economic substance of the combination and that it is appropriate to consider them as either amalgamations or acquisitions.</p> <p>However the approach to determining the classification seems overly complicated to us and we are not convinced that the question about gaining control “did one party to the combination gain control of one or more of the operations?” needs to be included as the first step in the decision process. We are particularly uneasy that ED 60 requires an assessment of control being gained in a combination based on IPSAS 35 Consolidated Financial Statements, which focuses on whether control exists at a point. We note that in order to use the guidance in IPSAS 35, ED 60 requires that the words in IPSAS 35 “the entity controls” should be read as the “entity gains control” and “another entity” is to be read as “an operation”. We think that this may lead to interpretation difficulties in practice.</p> <p>Although there may be interpretation difficulties, we think that combination transactions in the public sector, particularly under common control, will be appropriately classified as amalgamations. In our experience one entity often gains control of another in a restructure of entities under common control, but the presumption that it is an acquisition is expected to be re-butted by working through the indicators relating to decision-making and consideration. For this reason we are cautiously supportive of the classification approach in ED 60.</p>	<p>Staff notes that Respondent 24 anticipates there will be interpretation difficulties, particularly relating to the control criteria. Staff notes that, despite these reservations, Respondent 24 supports the approach and considers that it will produce</p>

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		<p>We also support the ISASB's "belt and braces" approach by including paragraph 11 which states that if after applying the indicators related to consideration and decision making, the results are inconclusive as to whether it's an acquisition or amalgamation, an entity also considers which classification would provide information that best meets the objectives of financial reporting and that best satisfies the qualitative characteristics. Having this guidance at a standards level for borderline combinations in terms of classification is a welcome addition.</p> <p>We suggest the IPSASB consider a post implementation review of this standard when it has been effective for an appropriate period of time. With the possibility of interpretation difficulties, varied feedback from constituents through the due process up to the development of ED 60 and the changing debate during development of the classification approach (as described in the Basis of Conclusion, paragraph BC 15 to 39) applying the approach developed in ED 60 may not be as straight forward as the IPSASB intends.</p>	<p>appropriate classifications.</p> <p>Staff notes the suggestion that the IPSASB carry out a post implementation review of the standard.</p>
25	A	<p>In general, we agree with the adopted approach to classifying the PSC but it is our view that further detailed guidance is still required, especially when the classification determination and effective date become issues due to the element of time as described in the <a href="#">Annex to this memorandum</a>. The Annex describes an actual scenario of progressive combination of entities.</p> <p>Following the guidelines set out in the ED, the resulting combination described in the Annex has features of both acquisition and amalgamation but does not fully meet the criteria to be classified strictly as either. The main reason is because the combination process occurs over multiple financial reporting periods post the establishment of the resulting entity, which also makes it difficult to clearly determine the combination date.</p> <p>Given this example of [Respondent 25's] scenario which is a multiyear combination process, further guidance may be necessary as such further guidance was not available in the ED. We feel that such guidance would assist [Respondent 25] and other preparers of IPSAS-compliant financial statements to report on PSC with similar issues.</p> <p>[From the Annex to this memorandum:</p> <p>However, when the combination is done in a progressive or staggered way, such that it covers several financial reporting periods, the following issues arise:-</p> <p>(a) When the entire combination process is completed, what date should be considered as the combination date?</p> <p>(b) How should such a scenario be accounted for? What additional factors should be considered in classifying</p>	<p>Staff notes the request for additional guidance on combinations that occur over multiple financial reporting periods. Staff will consider additional guidance once the IPSASB has finalized the approach to classification.</p> <p>Staff notes that, in the example provided, the fact that the entities involved are under</p>

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		the combination as an acquisition or an amalgamation?]	common control is a factor that should be taken into account, but is not discussed in the example.
26	A	We agree with the proposed amendments for the reasons given in the Basis for Conclusions	Noted.
27	A	Yes	Noted.
28	A	[From General Comments: I admire yes]	Noted.
29	A	Yes, I agree with the approach to classifying public sector combinations adopted in this Exposure Draft.	Noted.
30	A	<p>We generally agree with the approach to classify public sector combinations as proposed in the ED. Our additional comments relating to the approach to classify public sector combinations are as follows:</p> <p>1. Economic substance</p> <p>We noted that paragraph 9 states that <i>‘in assessing whether the presumption is rebutted, an entity considers the economic substance of the public sector combination’</i>. Paragraph 9 further states that <i>‘to assess the economic substance of the combination, and entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13.’</i> However, paragraph AG19 of the ED states that <i>‘in assessing whether the presumption is rebutted, an entity considers the economic substance of the public sector combination and the indicators in paragraphs 12–14’</i>.</p> <p>As such, it appears that there is an inconsistency between the requirements in paragraphs 9 and AG19. Paragraph 9 requires an entity to consider indicators relating to consideration and decision-making to assess the economic substance of the public sector combination. However, paragraph AG19 seems to require an entity to also consider the economic substance, in addition to indicators relating to consideration and decision-making.</p> <p>Further, for better clarity, we propose paragraph AG19 to be amended as follows:</p>	<p>Noted.</p> <p>Staff notes the proposed drafting amendments. These will be considered once the IPSASB has finalized the approach to classification.</p>

R#	C #	<p align="center"><b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 2</b></p>	<p align="center"><b>STAFF COMMENTS</b></p>
		<p><i>'In assessing whether the presumption is rebutted, an entity considers the economic substance of the public sector combination <u>by taking into accounts</u> <del>and</del> the indicators in paragraphs 12–13 and if relevant, the <u>additional matters to be considered in paragraph 14</u>.</i></p> <p>2. Assessment of indicators</p> <p>Paragraph 9 also states that <i>'to assess the economic substance of the combination, and entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13. These indicators, individually or in combination, will usually provide evidence as to whether the economic substance of the combination is that of an amalgamation and that the presumption is rebutted.'</i></p> <p>The word 'individually' may lead preparers to 'pick and choose' the indicator that will result in their intended outcome (i.e. amalgamation or acquisition). We believe that those indicators should be considered in totality and hence, we propose the word 'individually' to be deleted.</p> <p>3. Implementation Examples</p> <p>We noted that Implementation Example ("IE") 19, IE29, IE45, IE59, IE68, IE78, IE90, IE99, IE112, IE125, IE135, IE144 and IE153 discuss three matters, which are economic substance, consideration and decision making in order to illustrate how various public sector combinations should be classified. Based on paragraph 9, in assessing the economic substance, an entity should consider the indicators relating to consideration and decision making.</p> <p>As such, we propose the discussion on economic substance in the respective IEs to be used as the overall conclusion of the assessment of indicators relating to consideration and decision making, rather than as an indicator on its own.</p> <p>4. Editorial error</p> <p>We believe the word 'and' in paragraph 9 which states that <i>'to assess the economic substance of the combination, and entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13'</i> should be replaced with the word 'an'.</p>	
31	A	[Respondent 31] agrees with the approach to classifying public sector combinations adopted in the Exposure Draft.	Noted.

## **Annex to the response provided by Respondent 25**

From time to time the United Nations carries out restructuring and/or re-organization of its operations, some of which result in creation of separate financial reporting entities. The United Nations has recently reorganized/restructured two of its operations, the International Criminal Tribunal for Former Yugoslavia (ICTY) and International Criminal Tribunal for Rwanda (ICTR) into the International Residual Mechanism for Criminal Tribunals (MICT).

In the Resolution, RES/1966, acting under Chapter VII of the Charter of the United Nations, the Security Council approved the establishing of the Residual Mechanism in 2012. The entity has two branches that commenced functioning as of 1 July 2012 for the ICTR branch and 1 July 2013 for the ICTY branch. ICTR ended its mandate on 31 December 2015 and during 2015 transferred some of its assets to the MICT; ICTR is currently in liquidation and all operations are expected to be fully transferred to MICT by 31 July 2016. ICTY is scheduled to end its operations by 31 December 2016 and to finalize its winding down process in 2017. MICT has been gradually assuming their (ICTR & ICTY) functions and assets as both entities wind down their activities, and will continue to administer contractual arrangements previously undertaken by both entities.

The three entities have co-existed since the inception of MICT. They each have separate budgets and have been producing separate IPSAS-compliant financial statements. Since the inception of MICT, both ICTR and ICTY have been progressively transferring their functions and assets to MICT following the transitional arrangements set out in the Resolution (RES/1966). The functions of the three entities are essentially the same and the locations will remain the same. The ICTR branch of MICT will continue to be based in Arusha, Tanzania with the ICTY branch continuing to be based in The Hague.

The substance of the establishment of MICT was solely as a resulting entity from the combination of ICTR and ICTY operations as they were completing their mandates. Despite the transfer of assets to the MICT, in substance, the MICT will not gain control over ICTR nor ICTY, which follows the definitive criterion for an amalgamation. In addition, the presumption that the combination is an acquisition is being rebutted by the fact that the PSC was imposed by one level of government (in this case, the Security Council of the UN) and no consideration being paid because the entities do not have any party with direct entitlement to their net assets, thus further indicates that the PSC may be an amalgamation.

On the other hand, MICT can be considered as another party to the combination that has gained control over both operations since the combination of ICTR and ICTY operations are not done simultaneously. It can be argued that the combination has fallen into the category of an acquisition (without consideration). Furthermore, as the transfer of the functions and assets are done gradually over a period of time (of more than one year) since the inception of MICT, the determination of the actual date of the combination becomes unclear.

Following the proposed approach in the ED to classifying this public sector combination resulting in the MICT, appears to have features of both categories but does not fully meet criteria of either of the two. The main reasons are the transitional arrangement that occurs over a period of time and the fact that the combination of the two entities does not occur simultaneously. This in fact has caused difficulties in determining the actual combination date which is essential to applying the accounting method.

This MICT example reveals the challenges of classifying a progressive PSC which occurs over an extended time period in excess of a year. The UN IPSAS Team recommends to the IPSASB to consider this limitation and broaden or clarify the approach to classify and account for such scenarios as the ED progresses to the final IPSAS.

### **Additional Comments**

The issue of classification is clear as it is based on the premise of control which determines whether a combination is an amalgamation or an acquisition.



However, when the combination is done in a progressive or staggered way, such that it covers several financial reporting periods, the following issues arise:-

- (a) When the entire combination process is completed, what date should be considered as the combination date?
- (b) How should such a scenario be accounted for? What additional factors should be considered in classifying the combination as an acquisition or an amalgamation?

**Specific Matter for Comment 3**

Do you agree that the modified pooling of interests method of accounting should be used in accounting for amalgamations? If not, what method of accounting should be used?

***Summary of Responses to Specific Matter for Comment***

**STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members**

<b>CATEGORY (C #)</b>	<b>RESPONDENTS (R #)</b>	<b>TOTAL</b>
<b>A – AGREE</b>	01, 02, 03, 05, 08, 09, 10, 11, 12, 13, 15, 16, 17, 18, 19, 20, 26, 27, 28, 29, 30, 31	22
<b>B – PARTIALLY AGREE</b>	04, 06, 07, 21, 22, 23, 24	7
<b>C – DISAGREE</b>	14	1
<b>SUB-TOTAL OF THOSE PROVIDING COMMENTS</b>		<b>30</b>
<b>D – DID NOT COMMENT</b>	25	1
<b>TOTAL RESPONDENTS</b>		<b>31</b>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
01	A	We support the modified pooling of interests method of accounting for amalgamations.	Noted.
02	A	[Respondent 02] agrees that the modified pooling of interests method of accounting should be used in accounting for amalgamations.	Noted.
03	A	<p>Given the framework for identifying and classifying PSCs in the ED, we support the IPSASB position that the Modified Pooling of Interest Method provides the best accounting treatment of operations that satisfy the definition of amalgamation. The Pooling of Interest Method tends to strike a balance between the Conventional (Unmodified) Pooling of Interest Method and the Fresh Start Method by using the date of amalgamation as the appropriate reporting date in the statement of financial position (as in Fresh Start Method) and carrying amount in valuing assets and liabilities as in the Conventional or Unmodified Pooling of Interest Method.</p> <p>In addition, the Modified Pooling of Interest Method has several advantages, this includes:</p> <ul style="list-style-type: none"> <li>i. It significantly improves the provision of information for decision making purposes and accountability in the use of resources.</li> <li>ii. It also meets the qualitative characteristics of comparability, relevance, and faithful representation.</li> <li>iii. It is cost effective which satisfies the GPFRs constraints of cost-benefits.</li> </ul> <p>The above advantages will facilitate universal application of the proposed standard across jurisdictions.</p>	Staff notes the support for the use of the modified pooling of interest approach, and the rationale provided.
04	B	<p>We agree that the modified pooling of interests method should result in carrying values in the new entity that provide a good base for the provision of relevant and reliable financial information on an ongoing basis - provided that the amalgamating entities have a well-defined process of impairment review and have good systems for ensuring that assets and liabilities are fully and accurately recorded.</p> <p>Nonetheless, the ED could provide more guidance on the practical issues arising on combination of two entities. For instance, we would welcome an example for the case where two organisations with the same accounting policies before amalgamation have timing differences in respect to the revaluation of their assets, i.e. where only one of the two entities has recently revalued its assets.</p> <p>Finally, whilst we appreciate some of the arguments for changing the measurement basis for taxation and employee benefits, we can also imagine circumstances where other assets or liabilities would see a significant change in value after amalgamation, yet there is no exception for these. Consequently, we do not agree that taxation and employee benefits should be measured differently from other assets or liabilities.</p>	Staff notes that Respondent 04 supports the use of the modified pooling of interests method, but has concerns regarding the exemptions for taxation and employee benefits. These are discussed in

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
			<p>Issues Paper <a href="#">9.2.3</a>.</p> <p>Staff notes the request for guidance regarding entities revaluing assets on different cycles. Staff considers the guidance in, for example, IPSAS 17 is sufficient to address this issue, but the IPSASB's views are sought.</p>
05	A	<p>We agree that the modified pooling of interest method of accounting should be used for amalgamations. We believe that this methodology is faithfully representative (the loss of fair value information is not a problem in this situation) and would thus allow users of the accounts to evaluate the entity post amalgamation appropriately.</p> <p>Although we would always advocate reliable and relevant financial reporting above any cost considerations, in this case, not having to fair value assets and liabilities seems a sensible outcome in terms of cost: benefit considerations.</p>	Noted.
06	B	<p>We agree with the application of the modified pooling of interest method in accounting for amalgamations.</p> <p>Following our comment to <a href="#">Specific Matter for Comment 2</a>, we propose that combinations undertaken between entities under common control, and combinations undertaken between entities not under common control, where the entity has demonstrated the criteria in paragraphs .12 and .13, should both be accounted for by applying the modified pooling of interest method (i.e. the same as an amalgamation).</p> <p>Paragraphs .49 and .50 of the Exposure Draft require that in applying the modified pooling of interest method, the resulting entity shall not present financial statements for periods prior to the amalgamation date as a new</p>	<p>Staff notes that Respondent 06 supports the use of the modified pooling of interests method for amalgamations, but would define</p>

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 3</b>	<b>STAFF COMMENTS</b>
		<p>entity is formed following the amalgamation. If the modified pooling of interest method is applied to combinations that were undertaken between entities under common control, or combinations that were undertaken between entities not under common control where the entity demonstrates the criteria in paragraphs .12 and .13, we believe that comparative information should be presented as these operations existed prior to the combination.</p> <p>Combinations undertaken between entities not under common control where the criteria in paragraphs .12 and .13 could not be demonstrated, should account for the combination by applying the acquisition method as proposed in the Exposure Draft.</p>	<p>amalgamations differently to the ED.</p> <p>Respondent 06 would require the presentation of comparative information - i.e., the (unmodified) pooling of interests method - for some combinations that the ED classified as amalgamations.</p>
07	B	<p>[Respondent 07] agrees with the 'modified pooling of interests' method in cases where a completely new entity is formed at the amalgamation date and one or more operations are transferred into that new entity (see (a) below). However, [Respondent 07] recommends refinements to the 'modified pooling of interests' method to address accounting by entities that existed prior to a combination (see (b) below).</p> <p><u>(a) New entity formed at the amalgamation date and operations transferred to that entity</u></p> <p>[Respondent 07] agrees with this approach for completely new entities formed at the amalgamation date because it reflects the substance of the amalgamation from the date that it occurred.</p> <p><u>(b) Where a party to an amalgamation existed prior to the amalgamation</u></p> <p>In many cases, public sector combinations under common control result in one or more operations being transferred to an entity that existed prior to the transfer. For example, a Government may decide to transfer the operations of a small department (e.g. a department that administers a single health program) into a larger department (e.g. the Department of Health). In such cases the transferee department remains largely unchanged by the combination and has gained control of the other department's operations. In substance, the combination does not make the transferee department a new entity for reporting purposes. [Respondent 07]</p>	<p>Respondent 07 would support the modified pooling of interests method for some amalgamations, where a new entity is formed.</p> <p>Respondent 07 considers that for some amalgamations, such as those under common control, there will</p>

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 3</b>	<b>STAFF COMMENTS</b>
		<p>does not consider that the 'modified pooling of interests' method, in its current form, should be used in such cases because that method does not reflect the substance of the results for a continuing entity.</p> <p>Instead, [Respondent 07] considers that a refinement is needed to the 'modified pooling of interests' method to reflect the pre-combination existence of a continuing entity. In practice, this refinement to this would result in a transferee entity that existed prior to a combination recognising the following in its financial statements:</p> <ul style="list-style-type: none"> <li>• Statement of financial position: <ul style="list-style-type: none"> <li>○ Current year <ul style="list-style-type: none"> <li>▪ all assets and liabilities at balance date, and</li> <li>▪ net assets of relevant transferors as owners' equity.</li> </ul> </li> <li>○ Prior year comparatives - all assets and liabilities as reported in its prior year financial statements with any adjustments required by Standards.</li> </ul> </li> <li>• Statement of financial performance: <ul style="list-style-type: none"> <li>○ Current year – the pre-combination results for the period from the start of the year to the date of combination and post-combination results from the date of the combination to the end of the year.</li> <li>○ Prior year comparatives – results as reported in its prior year financial statements with any adjustments to those results required by Standards</li> </ul> </li> <li>• Statement of cash flows: <ul style="list-style-type: none"> <li>○ Current year – the pre-combination results for the period from the start of the year to the date of combination and post-combination results from the date of the combination to the end of the year.</li> <li>○ Prior year comparatives – results as reported in its prior year financial statements with any adjustments to those results required by Standards</li> </ul> </li> </ul> <p>The notes to the financial statements would include:</p> <ul style="list-style-type: none"> <li>○ a dissection of pre and post combination financial performance, and</li> <li>○ a summarised balance sheet at combination date.</li> </ul> <p>In [Respondent 07's] view this would satisfy the requirement for users to have access to historical information identified in BC58.</p>	<p>be a continuing entity. In these cases, Respondent 07 would require comparative information to be included – essentially requiring the use of the (unmodified) pooling of interests method.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
08	A	<p>[Respondent 08] agrees that in amalgamation of public authorities the <b>Modified</b> Pooling of Interest method is applied. It would, however, be desirable that in the new standard an explanation is immediately given how the <b>Modified</b> Pooling of Interest method differs from the Pooling of Interest method. At present this difference can only be found in the Appendix (Basis of Conclusion 43 – 44).</p> <p>It is often the case that amalgamated public authorities do not apply the same accounting principles in certain areas (e.g. pension fund commitments, useful working lives of assets, interest rates). Therefore, adjustments have to be made. These adjustments should be recognized in equity.</p> <p>However, in the present ED it remains vague how exactly, for example, adjustments have to be made when amalgamating entities had previously considered different useful lives for the same kind of infrastructure assets or, more generally, had previously chosen a different accounting option. For example, does the adjustment of the useful lives mean that all assets must be recalculated back to the date of acquisition in order to obtain the correct carrying amount in the opening balance sheet? If so, it is obviously no longer possible to claim that the <b>Modified</b> Pooling of Interest method is “seen as generally the least costly to apply”. The IPSASB should add a corresponding clarification to ED 60.27 on how exactly amounts are to be derived.</p>	<p>Staff considers that Respondent 08 supports the modified pooling of interest approach, but requests additional guidance.</p> <p>With regards to asset lives, different lives may be appropriate, as the combining entities may have adopted different strategies (for example, low maintenance costs but shorter lives versus higher maintenance costs versus longer lives).</p>
09	A	We agree.	Noted.
10	A	[Respondent 10] agrees that the modified pooling of interests method should be used to account for amalgamations.	Noted.
11	A	Yes - and also for situation 2 above, acquisitions without consideration (see <a href="#">[response to SMC 2]</a> above).	Noted.

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 3</b>	<b>STAFF COMMENTS</b>
12	A	<p>We generally agree with the modified pooling of interests method of accounting. As indicated in paragraph AG43, the method views the combination from the perspective of each of the combining entities and their owners or constituents who are uniting their interests in the resulting entity. The method also enables users to assess the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods.</p> <p>BC51 also justifies that it is one of the methods that are seen as generally the least costly to apply, because:</p> <ul style="list-style-type: none"> <li>a) It uses the existing carrying amounts of the assets, liabilities, and net assets/equity of the combining operations; and</li> <li>b) it does not require identifying, measuring, and recognizing assets or liabilities not previously recognized before the amalgamation.</li> </ul> <p>Further, paragraph BC52 contends that the method portrays a faithful representation of the amalgamation because it recognizes the assets and liabilities of the combining operations at the date of the amalgamation.</p>	Noted.
13	A	<p>[Respondent 13] agrees with the modified pooling of interest method of accounting for amalgamations, however, the definition of the “amalgamation date” should be amended to clearly incorporate amalgamation in which no party gain control of one or more operations in the combinations. The guidance on exceptions to the recognition or measurement principles should be more principle base.</p> <p>There is a need to include specific guidance in the ED 60 on how the comparative information for the “resulting entity” should be derived in its first financial statements, since it is a new entity.</p> <p>[Respondent 13] agrees that ED 60 should clearly indicate whether the first financial statements of the resulting entity in the case of the amalgamation should have comparative information or not.</p>	<p>Staff notes the comments regarding the amalgamation date and exceptions, and will review these in finalizing an IPSAS.</p> <p>Staff notes the request for guidance on deriving comparative information for the resulting entity. The IPSASB's</p>



R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
			views are sought in Issues Paper <a href="#">9.2.3</a> .
14	C	<p>[Respondent 14] disagrees that the modified pooling of interests method of accounting should be used in accounting for amalgamations.</p> <p>[Respondent 14] considers that the pooling of interests method specified in IAS 22 <i>Business Combinations</i> and paragraph BC43 of the ED (which requires restated comparatives), which accounts for the combining operations as though they were continuing as before, although now jointly owned and managed is most appropriate for amalgamations, especially given the ED's aim to achieve comparability between current period and prior period operating results.</p> <p>However, [Respondent 14] acknowledges that the benefits derived from applying the IAS 22 pooling of interests method might not outweigh the costs. Accordingly, [Respondent 14] could accept the modified pooling of interests method on a cost / benefit rationale. If the IPSASB decides to require the modified pooling of interest method for amalgamations in its final standard, [Respondent 14] suggests the IPSASB include a cost / benefit rationale for the decision in its basis for conclusions.</p> <p>If the IPSASB proceeds with the modified pooling of interests method [Respondent 14] suggests that, where appropriate, reserves be carried forward in the amalgamated entity, as this is consistent with the rationale that amalgamations are continuations of existing entities that are extracts of a larger entity. This would be particularly useful in cases such as the cash flow hedge reserve and asset revaluation reserve. This is particularly important because of the requirement in paragraph 25 of the ED to adopt the classifications and designations applied by the combining operations. Considering this requirement, the combined entity's financial statements would not faithfully represent those previous classifications and designations if the reserves have been eliminated.</p> <p>In addition, [Respondent 14] suggests that the final Standard should not conclude that the modified pooling of interests method assists comparability of current period with prior period results.</p>	<p>Staff notes that Respondent 14 prefers the use of the unmodified pooling of interests method.</p> <p>Staff notes the comments regarding a cost / benefit rationale for the modified pooling of interests method, and the IPSASB is asked to consider whether to include this in the Basis for Conclusions if it retains this method.</p> <p>Comments regarding reserves are considered with the <a href="#">response to SMC 4</a>.</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
15	A	[Respondent 15] agrees with the modified pooling of interests method of accounting for amalgamations with the exception of the accounting for the residual amount, as noted in our <a href="#">response to Specific Matter for Comment 4</a> .	Noted.
16	A	We agree that the modified pooling of interests method of accounting should be used in accounting for amalgamations.	Noted.
17	A	<p>Subject to our comments concerning terminology, we agree that the modified pooling of interests method of accounting is likely to be a more appropriate method than the fresh-start approach.</p> <p>We also agree that the modification to the pooling of interests method (i.e., from the date of amalgamation going forward) better reflects the substance of the amalgamation, provided information users need about the history is disclosed.</p> <p>We still hold our previously expressed view that the term “modified pooling of interests method” could be misunderstood, particularly by those familiar with the pooling of interests method. In responding to the CP we had proposed a different term be introduced, but note that this issue was not taken up by the IPSASB and is not discussed in the draft BC.</p>	Respondent 17 had previously suggested the use of the term “predecessor accounting”. Staff notes that this term is currently in use, and that there are different forms of predecessor accounting.
18	A	We are of the view that the modified pooling of interest method of accounting does not take into consideration prior period restatement and this may impair comparability. We consider that the pooling of interests method specified in IAS 22 <i>Business Combinations</i> and paragraph BC43 of the ED (which requires restated comparatives), which accounts for the combining operations as though they were continuing as before, although now jointly owned and managed is most appropriate for amalgamations, especially given the ED’s aim to achieve comparability between current period and prior period operating results. We however acknowledge that the benefits derived from applying the IAS 22 pooling of interests method might not outweigh the costs and hence agree with this approach on that basis. We suggest that the IPSASB should not conclude that the modified pooling of interests method assists comparability of current period with prior period results, but rather pose the rationale on a cost/benefit front in the final standard.	Staff notes the comments regarding a cost / benefit rationale for the modified pooling of interests method, and the IPSASB is asked to consider whether to include this in the Basis for Conclusions if it

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
			retains this method.
19	A	<p>We agree that the modified pooling of interests method of accounting should be used to account for amalgamations.</p> <p>In [our jurisdiction], the [standard setter] is the national public entity charged with developing and maintaining financial reporting standards that lead to proficient performance in the public sector [...]. [The standard:] Mergers was issued in November 2010 and takes a similar approach to the modified pooling of interest method.</p> <p>[The standard:] Mergers requires the combined entity to recognise all the assets acquired and liabilities assumed at their carrying amounts, similar to ED 60. [The standard:] Mergers, however requires the difference between the carrying amounts of assets and liabilities (net assets/equity) to be recognised in Accumulated surplus/deficit, compared to the residual amount being recognised outside of Accumulated surplus/deficit per ED 60.</p> <p>We agree that the residual amount should be recognised directly in net assets/equity, and the Accumulated surplus/deficit and Revaluation surplus opening balances should be zero, as the new entity would not have generated such surpluses.</p> <p>We are of the opinion that the Residual amount should be a distributable reserve. The new entity will need to be able to distribute from the Residual amount if there are future revaluation decreases, limited to the sum of the original Revaluation surpluses in the combining entities' records. To add on, if the funds previously held by the combining entities become repayable to Treasury, the new entity should also be able to make a distribution from the Residual amount, limited to the sum of the Accumulated surpluses/deficits in the combining entities' records.</p>	<p>Noted.</p> <p>The comments regarding reserves are considered under the <a href="#">response to SMC 4</a>.</p>
20	A	We, I agree with the wording and provisions in the draft.	Noted.
21	B	<p>We broadly agree on the accounting treatment for amalgamations where they involve a resulting entity that is in substance a new entity. In our opinion, the use of carrying amounts of assets and liabilities for the initial recognition and measurement in the resulting entity's set of accounts is the approach that best reflects the economic substance of an amalgamation.</p> <p>However, with respect to our earlier comment regarding amalgamations that are absorptions of operations by the central government, we are more specifically concerned about the application of paragraph 49 on the presentation of comparative information. We understand that in this instance, though the central government</p>	Respondent 21 considers that many amalgamations will involve continuing entities, and that in these circumstances,

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
		<p>existed before the combination, the resulting entity would not produce primary financial statements for the period prior to the combination, other than information in the notes to the financial statements of the resulting entity. We would strongly disagree with such guidance; we would rather suggest that, in such instances, primary financial statements for the period prior to the combination should be published, non-restated. In addition, for the sake of simplification in those specific situations, we believe that the amalgamation date should be the start of the accounting period rather than the date on which the amalgamation takes place.</p> <p>Additionally, with respect to the exceptions to both the recognition and measurement principles, we would suggest that the provision that allows not recognising taxation items that are forgiven as a result of the amalgamation should be clarified to permit the exception only where forgiveness is explicitly/officially granted by the tax authority and well documented.</p>	<p>prior period information should be provided but not restated.</p> <p>Staff notes the concerns regarding the proposals for tax forgiveness.</p>
22	B	<p>In our view, using modified pooling of interests method accounting is suitable for amalgamations. Indeed this method, based on net carrying value of assets and liabilities, seems relevant.</p> <p>Nonetheless, about the § 33 and 34 of the ED, we would like to highlight on one hand, the legal principle of continuity of receivables and debts after an operation of combination, and, on the other hand, the compliance with accounting principles of no-offsetting or no-compensation, which can't lead to cancellation of assets and liabilities existing before the combination. All the assets and all the liabilities existing before the combination must be transferred to the resulting entity. Indeed, the disposal of potential gap (as for fiscal debts resulting from different taxation schemes) requires a legal decision after the combination. For example, if the resulting entity isn't liable for tax which should have been paid by the initial entity, then an administrative decision will be needed in order to invalidate this amount in the financial statements of resulting entity.</p>	<p>Staff notes the comments that tax forgiveness should be addressed in subsequent measurement rather than as part of the combination.</p>
23	B	<p>[From General Comments: <b>Accounting methods</b> <i>The modified pooling of interests and the acquisition methods proposed in the ED are based on well-established practice in accounting for entity combinations. For this reason, we do not have major concern with these proposed methods.</i></p> <p>As indicated in our <a href="#">answer to Specific Matter for Comment 2</a>, we have reservations with the classification approach proposed in the ED. We therefore do not agree that all the combinations that will be labelled as amalgamations based on the proposed guidance should be accounted for using the modified pooling of interests</p>	<p>Staff considers that Respondent 23's concerns relate more to the combinations that would apply the modified pooling of interests method</p>

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 3</b>	<b>STAFF COMMENTS</b>
		<p>method.</p> <p>The new IPSAS should identify the nature and characteristics of public sector combinations that would not be faithfully represented if the assets acquired and liabilities assumed are measured initially at their fair values. We believe that combinations that are of a non-purchase nature would fit into this category.</p> <p>We find the following guidance regarding the modified pooling of interests method confusing:</p> <ul style="list-style-type: none"> <li>• Guidance on income taxes in paragraph 33 does not seem to reflect the guidance in paragraphs AG57-58.</li> <li>• It is unclear what the second half of paragraph 20 intends to clarify about the amalgamation date.</li> </ul>	<p>than the method itself.</p> <p>Staff will consider the comments on specific guidance in finalizing an IPSAS.</p>
24	B	<p>We support the modified pooling of interest method of accounting, but with two further proposed modifications:</p> <ul style="list-style-type: none"> <li>• A different approach to accounting for the residual amount as noted in our <a href="#">response to Specific Matter for Comment 4</a> below, and</li> <li>• An option to include prior comparatives, particularly for combinations under common control.</li> </ul> <p>We support the IPSASB's view that the requirement to restate the prior year comparative information might be onerous and unnecessary. However, we believe that the option to include comparatives of one of the combining entities, or restate comparatives of the newly combined entities should be included in the standard, particularly for entities under common control.</p> <p>In our jurisdiction there are regular restructures of entities within the [...] Government and these can range from very small restructures (where a small operation is subsumed into a large department) to complex mergers of several large entities into one new department.</p> <p>In a situation where a small operation is subsumed into a large department, the resulting department often has the economic substance of a continuing business rather than the economic substance of a new organisation as at the combination date. In certain cases user needs may be better served by showing the incoming operation as a "movement" in the existing departments financial statements, and including the prior year comparatives of the original department with an explanatory footnote or note that the comparatives do not include the new operations transactions and balances. This would be particularly useful where the small operation is subsumed part way through a financial year and the resulting department carries on largely unchanged.</p> <p>If the small operation is subsumed from the beginning of the department's financial year, the resulting department could take one step further and restate the prior year comparatives to include the new operation.</p>	<p>Respondent 24 would permit entities to prepare their financial statements as a continuing entity in some circumstances, particularly where the combination is under common control.</p> <p>In some cases, this would include the restatement of comparative information, which effectively involves the use of the (unmodified) pooling of interests</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 3	STAFF COMMENTS
		Such a step may better meet user needs. Providing options in accounting standards is sometimes considered suboptimal because it leads to less comparable information, between years and/or between different reporting entities. We think that providing options in this instance would improve comparable information, at least year on year, rather than obstruct it. We therefore propose flexibility around presenting prior year comparatives should be provided under the modified pooling of interest method.	method.
25	D	<i>No comments identified.</i>	
26	A	We agree with the proposed amendments for the reasons given in the Basis for Conclusions	Noted.
27	A	Yes	Noted.
28	A	[From General Comments: I admire yes]	Noted.
29	A	Yes, I agree that the modified pooling of interests method of accounting should be used in accounting for amalgamations, so, I suggest for the Board's, if agrees consults National Regulators, because I do not know if internal laws have some impact in relation in accounting for amalgamations, principally federal laws	Staff notes the comments that in some jurisdictions, regulators may determine the accounting. Staff considers that in such cases, entities would not be applying IPSAS.
30	A	We agree that the modified pooling of interests method of accounting should be used in accounting for amalgamations on the same basis as included in BC40 to BC58 of the ED.	Noted.
31	A	[Respondent 31] agrees that the modified pooling of interest method of accounting should be used in the accounting for amalgamations.	Noted.

**Specific Matter for Comment 4**

Do you agree to adjustments being made to the residual amount rather than other components of net assets/equity, for example the revaluation surplus? If not, where should adjustments be recognized?

...

***Summary of Responses to Specific Matter for Comment***

**STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB Members**

<b>CATEGORY (C #)</b>	<b>RESPONDENTS (R #)</b>	<b>TOTAL</b>
<b>A – AGREE</b>	03, 06, 07, 08, 09, 11, 16, 17, 19, 20, 21, 23, 26, 27, 28, 29, 31	17
<b>B – PARTIALLY AGREE</b>		0
<b>C – DISAGREE</b>	01, 02, 04, 05, 10, 13, 14, 15, 18, 24, 30	11
<b>SUB-TOTAL OF THOSE PROVIDING COMMENTS</b>		<b>28</b>
<b>D – DID NOT COMMENT</b>	12, 22, 25	3
<b>TOTAL RESPONDENTS</b>		<b>31</b>

#### Specific Matter for Comment 4

...

Do you agree that the residual amount arising from an amalgamation should be recognized:

- (a) In the case of an amalgamation under common control, as an ownership contribution or ownership distribution; and
- (b) In the case of an amalgamation not under common control, directly in net assets/equity?

If not, where should the residual amount be recognized?

#### **Summary of Responses to Specific Matter for Comment**

**STAFF ASSESSMENT OF RESPONSES RECEIVED:** These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	01, 02, 03, 04, 05, 09, 10, 11, 15, 16, 17, 20, 24, 26, 27, 28, 29, 31	18
B – PARTIALLY AGREE	23	1
C – DISAGREE	06, 07, 08, 13, 14, 18, 19, 21	8
SUB-TOTAL OF THOSE PROVIDING COMMENTS		27
D – DID NOT COMMENT	12, 22, 25, 30	4
TOTAL RESPONDENTS		31



R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 4	STAFF COMMENTS
01	C A	<p><b>(a) Residual amount rather than other components</b></p> <p>We do not agree with the approach presented in the exposure draft. In our view, amalgamation accounting, for both common control and not under common control amalgamations, should permit adjustments to be made to other components of net assets/equity rather than the entire adjustment being made to the residual amount. There is information value to users to show the amalgamated components of equity, appropriately adjusted for the accounting policies of the amalgamated entity. Further, in our view, this better represents the effect of an amalgamation on the net assets/equity.</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>Following our comment above, we see the residual amount as the amount after accounting for other components of net assets/equity. In all amalgamations, the residual amount will be accounted for in net assets/equity. However, we agree that the residual amount should be labelled “ownership contribution” or “ownership distribution” in the case of an amalgamation under common control, as that label best describes the underlying nature of the amalgamation.</p>	Staff notes that Respondent 01 supports allowing adjustments to other elements of net assets/equity.
02	C A	<p><b>(a) Residual amount rather than other components</b></p> <p>[Respondent 02] has some concerns in respect of these specific points. The revaluation reserve is a key element of equity that affords a degree of transparency to stakeholders. As a consequence its elimination is not considered to be appropriate.</p> <p>[Respondent 02] urges a reconsideration of the proposals. In particular, the example set out on page 147 (ED) appears to “adjust” out rather than recognise the existence of a surplus that could have a bearing on the assets valuation position of the new entity.</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>[Respondent 02] agrees with these proposals but has some concerns identified [...] above.</p>	Staff notes that Respondent 02 supports allowing opening revaluation surpluses to be established.
03	A A	<p><b>(a) Residual amount rather than other components</b></p> <p>Given the justification for the choice of the Modified Pooling of Interest Method, [Respondent 03] believes that it will be appropriate to make adjustment to residual amount rather than other components of net assets/equity. This is because the Modified Pooling of Interest Method in most instances eliminates automatically the effect of</p>	Noted.

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF COMMENTS</b>
		<p>transaction between combining operations in their accumulated surplus/deficit after the amalgamation date. In addition, where assets and liabilities are involved, the effects may not be automatically eliminated. However, both the assets and liabilities are eliminated by a resulting entity after due recognition of the difference between them.</p> <p>[Respondent 03] is also of the opinion that this adjustment do not fit into the category of other components of net assets/equity and therefore the adjustments can only be made to residual amount.</p> <p>Furthermore, [Respondent 03] believes that the treatment described above meets the qualitative characteristics of comparability, relevance and faithful representation.</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>4 (a) In the case of amalgamation under common control, [Respondent 03] is of the opinion that the residual amount arising from amalgamation should be recognised as ownership contribution or ownership distribution. However, [Respondent 03] believes that these items can conveniently be recognised and appropriate adjustment made under share capital reserve in the GPFR of the resulting entity at the amalgamation date.</p> <p>4 (b) In line with our opinion on 4(a) above, the resultant residual amount arising from amalgamation not other common control should be recognised in net assets/equity. This treatment is in tandem with the Modified Pooling of Interest Method.</p>	
04	C A	<p>[Respondent 04] agrees with the treatment as proposed in the ED since the residual amount should be recognised as an ownership contribution\distribution or in net assets\equity, depending on whether they are under common control or not.</p> <p>For a “pure” pooling of assets approach we can recognise the rationale in making adjustments for the equalisation of accounting policies through the residual amount.</p> <p>We also agree with the accounting policy of the adjustments being made through the residual amount, rather than through other components of net assets/equity.</p> <p>However, the ED is not very clear about adjustments to reserves. In paragraph 37 the ED requires that the residual amount is calculated as a balancing item based on the balances of assets and liabilities, implicitly requiring adjustment or derecognition of all existing components of net assets/equity before adding back the residual amount. These adjustments or derecognitions are not mentioned elsewhere in the standard – the effect of them is only made clear in the Illustrative examples, and discussed in BC62 to BC66. We do not agree with</p>	<p>Staff notes that Respondent 04 supports allowing opening revaluation surpluses to be established, because the normal operations of the entities will generally continue with minimal</p>

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF</b> <b>COMMENTS</b>
		<p>requiring 'adjustment' or 'derecognition' of the existing revaluation reserves.</p> <p>Furthermore, we disagree with the suggestion of the IPSASB in BC62 to BC66 that the conceptual approach requires these balances to be disregarded, because the resulting entity is a new entity.</p> <p>The use of the modified pooling approach allows the resulting entity to take forward balances from the combining entities with minimal adjustment or other explanations because although a new entity is being created, the normal business of the combining entities is to a very great extent carrying on as usual. Against this background, it seems wrong to discard reliable information on revaluation reserves. This seems particularly evident for those combinations where there are no changes of accounting policy and no new revaluations.</p>	changes.
05	C A	<p><b>(a) Residual amount rather than other components</b></p> <p>We agree that adjustments as listed in paragraph 38 of ED 60 should be recognised as part of a residual amount, subject to the point made below.</p> <p>Although the ED is not very clear when discussing adjustments in reserves, BC64 states that as the amalgamation gives rise to a new entity, all items in net assets/equity would be included as part of the residual amount. We disagree with the requirement to derecognise the revaluation surplus. Although we appreciate the argument made in BC64, the result would be a continuation of financial statement line items in the top half of the statement of financial position and a discontinuation in the bottom half (reserves). Whilst the combined entity could be regarded as a new entity, the amalgamation approach is partly justified because the entity carries on as before, and therefore maintaining the revaluation reserve is logical. Not maintaining the revaluation reserve would mean an increased likelihood of future revaluation losses needing to be recognised in surplus/deficit as opposed to reserves.</p> <p>Although this point is recognised in BC65, we believe that the potential impact may be substantial and should be given greater significance in determining the make-up of the residual amount.</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>The question above is in relation to individual accounts of combining entities, something which could be clearer. On that basis, we agree that the residual amount for amalgamations under common control should be shown as an ownership contribution or distributions and otherwise directly in net assets/equity.</p>	Staff notes that this respondent supports allowing opening revaluation surpluses to be established, because the normal operations of the entities will generally continue with minimal changes.
06	A	<p><b>(a) Residual amount rather than other components</b></p>	Staff notes that these comment are

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 4	STAFF COMMENTS
	C	<p>Yes, we agree that adjustments should be made to the residual amount rather than to other components of net assets/equity.</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>Based on our comment to <a href="#">Specific Matter for Comment 2</a> above, we are of the view that an amalgamation should not be separated between an amalgamation undertaken between entities under common control, and entities not under common control. We are of the view that this distinction should only be made for acquisitions.</p> <p>In accounting for the residual amount arising from an amalgamation, we are of the view that the difference should be recognised directly in net assets/equity. As there is no party gaining control in an amalgamation, the residual cannot result from an ownership contribution or ownership distribution, as no owner is identified in an amalgamation. We therefore support option (b) in accounting for the residual amount in all amalgamations, irrespective of whether the amalgamation was under common control, or not under common control.</p>	dependent on the approach to classification proposed by Respondent 06 and do not apply to the classification approach included in the ED.
07	A C	<p>[Respondent 07] agrees with IPSASB's proposal to recognise amalgamation adjustments in 'residual amount' rather than other components of assets/equity, such as the revaluation surplus (see ED paragraph 39).</p> <p>[Respondent 07] considers that revaluation surpluses are entity specific. Accordingly, the transferee entity should recognise any revaluation surplus for transferred assets previously recognised by the transferor as a residual amount adjustment.</p> <p>As noted in <a href="#">response to Specific Matter for Comment 3</a> above, [Respondent 07] considers that a refinement is needed to the 'modified pooling of interests' method.</p>	<p>Staff notes the support for the residual amount.</p> <p>Respondent 07 would apply the unmodified pooling of interest approach for combinations under common control, and therefore ownership contributions or distributions would not arise.</p>
08	A	[Respondent 08] wonders why <i>ownership contribution</i> and <i>ownership distribution</i> are mentioned. In connection	Staff considers that

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 4	STAFF COMMENTS
	C	with amalgamation of public authorities this is not relevant. The question also arises why <i>amalgamation under common control</i> and <i>amalgamation not under common control</i> should be treated differently. In both case the residual value should be recognized in equity.	Respondent 08 would recognize all adjustments in the residual amount, with no separate treatment for combinations under common control.
09	A A	We agree with these statements.	Noted.
10	C A	<p><b>(a) Residual amount rather than other components</b></p> <p>[Respondent 10] agrees with most of the proposals in this ED, but on the specifics of this question, we disagree significantly on several counts.</p> <p>[Respondent 10] disagrees with the framing of this question. Partly because it is not consistent with the framing of the body of the draft IPSAS at paragraph 37, which discusses the recognition of the residual amount, not adjustment.</p> <p>In our view, recognition is paramount and needs to be addressed first. The recognition of the residual amount is implicit in the recognition of the assets and liabilities of the resulting entity. It is not an adjustment.</p> <p>Having said this, we do agree that measurement adjustments may be required to reflect re-measurement due to changes in accounting policy. We can see that there might be concerns over the accuracy and objectivity of valuation adjustments when one of the combining entities moves from the historical cost approach to the revaluation approach, as these do not arise as part of past asset management process. Against this background, [Respondent 10] is content that adjustments which arise from the adoption of common accounting policies for the resulting entity should be taken to the residual amount.</p> <p>Unlike previous drafts of the ED presented at IPSASB meetings including the December 2015 meeting, and unlike the IASB standard IAS 22 Mergers and Acquisitions, the text of ED 60 as issued takes a very different approach to the existing components of net assets/equity in the combining entities.</p>	Staff notes that Respondent 10 considers that there is a degree of continuity after an amalgamation that justifies maintaining the existing balances of components of net assets/equity.

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF</b> <b>COMMENTS</b>
		<p>In the previous draft EDs and in IAS 22, the approach taken reflected the view that, although the resulting entity is a new entity, there is a degree of historical continuity. (This is not the terminology used by the Board, but we would argue that it is a significant aspect of the conceptual justification, inasmuch as the modified pooling approach is justified conceptually.) It is therefore possible to take asset, liability and ownership interest balances forward into the resulting entity with relatively little adjustment: the only adjustments required are those needed to bring the financial statements onto a consistent set of accounting policies. The IPSASB drafts differ from IAS 22 in not requiring the preparation of comparative information; in this sense they draw a different balance between the creation of a new entity and the historical continuity which is the primary basis for the modified pooling approach. This contrasts very strongly with the basis of the ‘fresh start’ approach, even though some aspects of the reporting are similar.</p> <p>ED 60 takes a different approach, although it is not particularly clearly explained. Paragraph 37 provides a calculation of the residual amount as a balancing item, without mentioning that this is implicitly de-recognising or adjusting to zero all of the pre-existing components of net assets/equity. It is therefore introducing a new class of ‘adjustments’ which do not arise from changes to accounting policies.</p> <p>The effect of the revised approach is more apparent in the worked example on page 147, where revaluation reserve is adjusted to zero in the Resulting Entity. We disagree with this treatment.</p> <p>The revised approach is also referred to in the Basis for Conclusions at BC62 to 66, which explain that the Board has taken the approach of disregarding the historical information on net assets/equity because the resulting entity is a new entity, and therefore could not have generated a surplus or other component of net assets/equity. In our view, any revaluation surplus that exists at the date of the amalgamation is intrinsically linked to the value of the assets that are now reflected in the Statement of Financial Position of the new entity. We disagree with the arguments put forward in BC62 to BC66 for eliminating any existing revaluation reserve as part of the amalgamation adjustments and urge the IPSASB to reconsider the proposed accounting treatment.</p> <p>In clear contrast to its discussion of why the Board adopted the modified pooling approach to assets and liabilities, the Basis for Conclusions does not provide any clear explanation as to why adopting the ‘no historical balances of net assets/equity’ is beneficial.</p> <p>Furthermore, by removing the revaluation surplus it implies any subsequent fall in valuation is an impairment expense rather than taken within the statement of financial position. This risks misrepresenting reported performance in future years. BC65 notes that ‘In coming to this decision, the IPSASB accepted that this</p>	

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF COMMENTS</b>
		<p>approach may have consequences for some entities...' We are not convinced that these adverse consequences are balanced by any benefits.</p> <p>BC66 provides further comment as follows:</p> <p>Another consequence relates to amalgamations that take place under common control. The resulting entity will recognize a residual amount but the controlling entity will continue to recognize the previous components of net assets/equity in its consolidated financial statements, giving rise to ongoing consolidation adjustments. The IPSASB did not consider that these consequences outweighed the benefits of adopting the conceptual approach.</p> <p>[Respondent 10's] view on this is that</p> <ul style="list-style-type: none"> <li>• The need for adjustments arises because the consolidated statements reflect the historical continuity and better capture the economic substance.</li> <li>• We are not convinced that the IPSASB has in fact adopted 'the conceptual approach'. At best, it is one conceptual approach among several.</li> <li>• The 'benefits' of this reserve accounting approach are unclear</li> </ul> <p>As our final comment, we would note that the main example in the ED reflects the circumstances where two entities combine, with one making adjustments because of moving from the historical cost approach to the revaluation approach.</p> <p>While we do, as explained, disagree with the example, we would be even more concerned about the implications where two very similar entities combined, each of which already used the revaluation approach, and each of which already used identical accounting policies, so that no adjustments were required. In cases such as this, to require that the balances of revaluation surplus should de-recognised and reframed as part of an undifferentiated residual amount is illogical and reduces transparency to stakeholders.</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>[Respondent 10] agrees with these proposals on how the residual amount should be recognized, but in the light of our earlier comments, we have significant concerns over the application of the proposed ED to combining entities which are using the revaluation approach.</p>	
11	A	We agree with the above treatment but consider it should also be applied to acquisitions without consideration	

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 4	STAFF COMMENTS
	A	(see [ <a href="#">response to SMC 2</a> ] above).	
12	D D	<p><b>(a) Residual amount rather than other components</b></p> <p>No comment.</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>No comment.</p>	
13	C C	<p>[Respondent 13] agrees that the resulting entity should recognize the corresponding adjustments on the bases of the nature of the events or transactions that gave rise to those adjustments; for example if an adjustment relates to an item of Property, Plant and Equipment (PPE) carried under the revaluation policy, the corresponding adjustment should be made to a revaluation reserve.</p> <p>Furthermore [Respondent 13] suggests that the resulting entity should include a reconciliation note in the financial statements explaining all the amalgamation date adjustments made to both the equity and other components of net assets/equity.</p> <p>In both cases of amalgamation under common control and amalgamation not under common control [Respondent 13] agrees that residual amount arising from amalgamation should be recognized directly in nets assets/equity.</p>	<p>Staff notes that Respondent 13 supports the use of components of net assets/equity rather than requiring all adjustments to be made to the residual amount.</p> <p>Staff notes the comment regarding a reconciliation note. Staff considers this is addressed by paragraph 52 of the ED (which will need amending if adjustments are made to all components of net assets/equity).</p>



R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF COMMENTS</b>
14	C C	<p>[Respondent 14] suggests that the IPSASB not prescribe where in equity the residual amount is recognised. Instead, this should be left to entities to determine the most appropriate treatment. This view is also consistent with the IASB's tentative views in the Business Combinations under Common Control project.</p> <p>[From response to SMC 3:</p> <p>If the IPSASB proceeds with the modified pooling of interests method [Respondent 14] suggests that, where appropriate, reserves be carried forward in the amalgamated entity, as this is consistent with the rationale that amalgamations are continuations of existing entities that are extracts of a larger entity. This would be particularly useful in cases such as the cash flow hedge reserve and asset revaluation reserve. This is particularly important because of the requirement in paragraph 25 of the ED to adopt the classifications and designations applied by the combining operations. Considering this requirement, the combined entity's financial statements would not faithfully represent those previous classifications and designations if the reserves have been eliminated.]</p>	<p>Staff notes that Respondent 14 would not prescribe where in net assets/equity to recognize the residual amount, and notes the rationale provided.</p>
15	C A	<p>Conceptually [Respondent 15] agrees with the pooling of interests method for all amalgamations because an amalgamation is a continuation of two or more existing entities now operating as one entity. However, for cost-benefit reasons, [Respondent 15] accepts that comparative information is not restated. Restatement of comparative information is costly and may not be particularly useful to users.</p> <p>The modified pooling of interests method combines the identifiable assets, identifiable liabilities and any non-controlling interests of the combining entities. In general, the resulting entity will continue to follow the accounting policies of the combined entities. This is consistent with paragraph 24 of the Exposure Draft, which requires the resulting entity to continue with the classification or designation previously applied by the combining entities. However, the Exposure Draft proposes that adjustments are made to the residual amount rather than combining the components of net assets/equity of the existing entities (paragraphs 36–39 in the Exposure Draft). Some of those existing components of net assets/equity were created by application of the combining entities' accounting policies, designations or classifications (such as revaluation reserves and the cash flow hedging reserve). By eliminating these components of net assets/equity when the entities combine, but also requiring the resulting entity to continue with the combining entities' existing classifications, designations and other accounting policies (other than changes required to align accounting policies), the requirements of the Exposure Draft are internally inconsistent and would create unnecessary problems in practice.</p>	<p>Staff notes that Respondent 15 considers amalgamations are a continuation of two or more existing entities now operating as one entity, and for that reason, existing reserves should be carried forward as separate components of net assets/equity.</p>

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 4</b>	<b>STAFF COMMENTS</b>
		<p>[Respondent 15] therefore disagrees with the proposal to make adjustments to the residual amount and not to carry forward the reserves from the combining entities. This is because the combining entities are effectively continuing as one entity rather than as two or more separate entities, so any reserves existing at the date of the combination should be carried forward in the combined entity. If the combined entities are using the revaluation model for subsequent measurement of property, plant and equipment or investments, and the reserves are not carried forward, the financial statements may not fairly present the financial performance of the entity when future transactions for which those reserves were established take place. For example, if one of the combining entities revalues its property, plant and equipment and the revaluation reserve is not carried forward, any write-down of a previously revalued asset is recognised in surplus or deficit rather than reducing the revaluation reserve. The resulting entity will carry the unnecessary burden of having to explain to the community why a loss on revaluation needs to be reflected in the statement of financial performance just because two or more entities have amalgamated.</p> <p>The need to carry forward the reserves is also highlighted in the following situations:</p> <ul style="list-style-type: none"> <li>• One of the combining entities continues with cash flow hedge accounting, as is required by paragraph 24 of the Exposure Draft. This requirement would be difficult to apply to previously designated cash flow hedge accounting relationships if the cash flow hedge accounting reserve is eliminated. For example, IPSAS 29 Financial Instruments: Recognition and Measurement paragraph 111 requires that, when the hedged forecast cash flows affect surplus or deficit, the amounts that had been recognised in the cash flow hedging reserve must be reclassified to surplus or deficit. Under the proposal in the Exposure Draft, the cash flow hedging reserve is eliminated. But without this reserve, we are unclear how the reclassification of amounts previously recognised in the cash flow hedging reserve can comply with the requirements of IPSAS 29.</li> <li>• Reserves that have been set up for restricted purposes, such as bequests. Some of the bequests could be governed by legislation which requires that they are carried forward and kept separate from the other reserves. In such cases, it is not appropriate to group these bequests with accumulated surplus and deficit.</li> </ul> <p>In summary, [Respondent 15] supports the modified pooling of interests method for amalgamations with all reserves being carried over to the combined entity.</p> <p>Subject to our proposed accounting for reserves in equity, we agree with the proposal in the Exposure Draft for</p>	

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 4	STAFF COMMENTS
		the accounting of the net residual amount in cases of amalgamations of entities under common control and entities not under common control.	
16	A A	We agree with the proposals in the Exposure Draft.	Noted.
17	A A	<p><b>(a) Residual amount rather than other components</b></p> <p>In our view, the ED proposals represent the most appropriate treatment for any adjustments arising on amalgamation.</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>We agree with the proposed treatment outlined above.</p>	Noted.
18	C C	[Respondent 18] proposes that the IPSASB should not prescribe where in equity the residual amount is recognised, but instead leave this to entities to determine the most appropriate treatment. This view is also consistent with the IASB's tentative views in the Business Combinations under Common Control project.	Staff notes that Respondent 18 would not prescribe where in net assets/equity to recognize the residual amount.
19	A C	<p><b>(a) Residual amount rather than other components</b></p> <p>We agree that adjustments made during the amalgamation process, such as intercompany eliminations and accounting policy adjustments, should be made to the Residual amount rather than other components of net assets/equity.</p> <p>[From response to SMC 3:</p> <p>We agree that the residual amount should be recognised directly in net assets/equity, and the Accumulated surplus/deficit and Revaluation surplus opening balances should be zero, as the new entity would not have generated such surpluses.</p> <p>We are of the opinion that the Residual amount should be a distributable reserve. The new entity will need to be able to distribute from the Residual amount if there are future revaluation decreases, limited to the sum of the</p>	<p>Noted.</p> <p>Staff notes that Respondent 19 would treat the Residual Amount as a distributable reserve. Staff notes that if this approach were to be adopted, additional</p>

R#	C #	RESPONDENT COMMENTS Specific Matter for Comment 4	STAFF COMMENTS
		<p>original Revaluation surpluses in the combining entities' records. To add on, if the funds previously held by the combining entities become repayable to Treasury, the new entity should also be able to make a distribution from the Residual amount, limited to the sum of the Accumulated surpluses/deficits in the combining entities' records.]</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>We are of the opinion that the Residual amount arising from an amalgamation should be recognised directly in net assets/equity, regardless of whether it is an amalgamation under common control or not. None of the combining entities gain control of one or more operations as a result of the amalgamation, therefore, neither entity becomes the owner of the other and the Residual amount cannot result from an ownership contribution or ownership distribution.</p>	<p>amendments to other IPSASs may be required, for example modifying IPSAS 17 to allow revaluation decreases to be charged against the Residual Amount.</p>
20	A A	We, I agree with the wording and provisions in the draft.	Noted.
21	A C	<p>We broadly agree that the adjustments resulting from an amalgamation should be made to the residual amount as it simplifies the accounting. With respect to the proposed accounting treatment for the residual amount, we would rather retain recognition directly in net assets/equity only. This is because we find it difficult in practice to distinguish between combinations under common control and those that are not.</p> <p>We also observe that the computation for the residual amount is not fully consistent with the fact that indicators in paragraph 12 refer to the possible existence of consideration in an amalgamation. We would therefore suggest that the articulation between the computation for the residual amount and the consideration paid, if any, should be clarified in paragraph 37. To enhance consistency, we would for instance add that in an amalgamation there would usually be no consideration intended to compensate the party entitled to the net assets transferred.</p>	<p>The difficulty in distinguishing between combinations that are under common control and those that are not is noted (and may be related to the lack of consolidated financial statements (see <a href="#">response to SMC 1</a>)).</p>
22	D D	Yes. Potential residual amount resulting from amalgamations between public entities should be recognised in net assets/equity of the resulting entity because as shown in § 36 of the ED, these operations do not generate a	Noted.

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		<p>goodwill regarding the definition of goodwill stated in IFRS 3 and the economic meaning of the goodwill.</p> <p><i>No comment regarding the components of net assets/equity in which the residual amount should be recognized identified.</i></p>	
23	A B	<p>We agree that the adjustments to conform to the accounting policies of the resulting entity should be made to the residual amount.</p> <p>We agree that the residual amount related to combinations between entities under common control should be recognized as ownership contribution or distribution.</p> <p>For other amalgamations, one can probably argue that the residual amount should be recognized in net assets if the resulting entity is a new entity without history prior to the date of combination. However, there is also conceptual reason to support recognizing the residual amount as in-year gains or losses.</p>	<p>Staff notes the comment that the residual amount could be recognized as in-year gains or losses. Staff does not think this is appropriate if the resulting entity is a new entity.</p>
24	C A	<p>In BC 57 the IPSASB noted that the modified pooling of interest method of accounting recognises an amalgamation as giving rise to, in substance, a new entity on the date the amalgamation takes place. As the new entity would not have generated other components of net assets/equity such as accumulated surplus or deficit, or revaluation surplus, all items with net assets/equity would be included as part of the residual amount.</p> <p>We noted that in coming to this view, the IPSASB accepted this approach may have consequences for some entities where future revaluation decreases are more likely to be recognised in surplus or deficit.</p> <p>We disagree with this proposal and believe users' needs are better served when individual reserves at amalgamation date are carried forward into the net assets/equity of the resulting entity.</p> <p>While the IPSASB has highlighted the impact on property, plant and equipment revaluation reserve, we note this would also impact cash flow hedging reserves and reserves arising from the re-measurement of defined benefit schemes (when the proposals in ED 59 <i>Employee Benefits</i> becomes effective). There may also be reserves held by an entity prior to the amalgamation that are restricted by legislation or contract where it would be important to carry over to the resulting entity in an amalgamation.</p> <p>These separate reserves are typically re-measurements of specific assets and liabilities inherited at</p>	<p>Staff notes that Respondent 24 supports allowing adjustments to other elements of net assets/equity.</p> <p>Staff notes the comments regarding cash flow hedges, defined benefit schemes, and reserves restricted by legislation or</p>

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		<p>amalgamation date. Where the resulting entity intends to, or is required to, continue re-measuring relevant assets (and liabilities) under its accounting policies, in our view, the reserves should be carried forward separately and utilised where appropriate. In particular, the resulting entity should be able to utilise the revaluation reserve in the event of a subsequent devaluation within a class of asset, which would otherwise be a loss in the statement of financial performance if the revaluation reserve had been eradicated at amalgamation date. Such reserves differ from accumulated surplus and deficits generated through the entity's operation. The resulting entity, in inheriting the carrying value of a revalued asset, also inherited the underlying price and other valuation changes captured in the revaluation reserve. We think visibility of those accumulated valuation changes from inception of the asset (or liability), rather than just from amalgamation date, are important for users in holding the resulting entity to account.</p> <p>We also note that the IPSASB consider the visibility of separate reserves inherited in the amalgamation is important for users. ED 60 requires analysis of the residual amount, including significant adjustments such as revaluation surplus or deficits to be disclosed in the notes of the resulting entity's accounts [paragraph 52(f)]. In our view it would be more helpful to users to have inherited reserves separately shown within net assets/equity of the resulting entity rather than looking for that information in an additional note disclosure.</p> <p>The IPSASB also noted the other consequence of a single residual amount relates to amalgamations that take place under common control. The resulting entity will recognise a residual amount but the controlling entity will continue to recognise the previous components of net assets/equity in its consolidated financial statements, giving rise to ongoing consolidation adjustments. The IPSASB noted they did not consider that these consequences outweighed the benefits of adopting the conceptual approach [BC 66]</p> <p>We disagree with the IPSASB's conclusion in BC 66 on the benefits and costs in relation to the consequence of ongoing consolidation adjustments.</p> <p>As noted above we think the eradication of separate reserves in the resulting entity is not a benefit to users. We also believe that it can be confusing for users where a resulting entity under common control has a different treatment for reserves than the controlling entity. In our jurisdiction users such as parliament select committees and government ministers (who are responsible for both the resulting entity and the controlling entity) may be puzzled by this situation and raise questions about which one is showing the "right answer".</p> <p>This is particularly relevant where any write-down of a previously revalued asset is recognised in surplus or deficit in the resulting entity, but leads to a reduction in the revaluation reserve in the controlling entity. The</p>	<p>contract.</p>

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		<p>resulting entity will have the need to explain why a loss on revaluation needs to be reflected in their statement of financial performance, but this is not a factor in the financial performance for the controlling entity.</p> <p>[Respondent 24] notes that the IASB considered a similar issue in determining if goodwill and fair value impairments in different currencies should be translated at the closing rate or the historical transaction rate (IAS 21 BC 26 – 40 refers). The IASB Board agreed that conceptually the correct treatment depends on whether the goodwill and fair value adjustments are part of the assets and liabilities of the acquired entity or the assets and liabilities of the parent. It determined that the goodwill and fair value adjustments should be treated no differently from other assets of the acquired entity and therefore agreed that goodwill should be ‘pushed down’ to the level of each functional currency.</p> <p>Similarly [Respondent 24] would argue that the revaluation reserves relate to the assets of the amalgamated entity rather than those of the parent entity and that ‘push down’ accounting should therefore apply, consistent with this precedent.</p> <p>Controlling entities in the public sector (such as a state or whole of government), typically include numerous subsidiaries of variable sizes. In our jurisdiction the government regularly reviews the way it is organised and as a result, entities under common control are regularly restructured. As noted above these can range from very small restructures (where a small operation is subsumed into a large department) to complex mergers of several large entities into one department. The IPSASB’s proposals for a single residual amount on amalgamation may lead to the controlling entity maintaining a reasonably large number of ongoing consolidation adjustments to separate these.</p> <p>In our view, consolidations are most efficient and cost effective where the subsidiary’s results are rolled up, unadjusted, with consolidation adjustments focused on eliminating inter-entity transactions and balances at each reporting date. Permanent ongoing consolidation adjustments which are required to change a view of a transaction or balance at the controlling entity from the view at the subsidiary at each reporting date are more onerous to manage over time.</p> <p>We urge the IPSASB to reconsider their conclusion in BC 66 on the benefits and costs for amalgamations under common control. We think there is limited benefit to users in presenting a single residual amount in the resulting entity under common control and believe ongoing consolidation adjustments for reversing the single residual reserve on consolidation, both at interim and annual reporting dates, are costly.</p> <p>In the case of an amalgamation under common control, we agree that accumulated surplus and deficits should</p>	

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		be treated as an ownership contribution or ownership distribution.	
25	D D	<i>No comments identified.</i>	
26	A A	We agree with the proposed amendments for the reasons given in the Basis for Conclusions	Noted.
27	A A	Yes	Noted.
28	A A	[From General Comments: I admire yes]	Noted.
29	A A	<p><b>(a) Residual amount rather than other components</b></p> <p>Yes, I agree with adjustments being made to the residual amount rather than other components of net assets/equity, so, I suggest for the Board's if agrees consults National Regulators, because I do not know if internal laws have some impact in relation in revaluation surplus, principally federal laws.</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>Yes, I agree with the residual amount arising from an amalgamation should be recognized: in the case of an amalgamation under common control, as an ownership contribution or ownership distribution; and In the case of an amalgamation not under common control, directly in net assets/equity, so, I suggest for the Board's if agrees consults National Regulators because I do not know if internal laws have some impact in relation in residual amount be recognized, principally federal laws.</p>	Staff notes the comments that in some jurisdictions, regulators may determine the accounting. Staff considers that in such cases, entities would not be applying IPSAS.
30	C D	<p><b>(a) Residual amount rather than other components</b></p> <p>We noted that paragraph 37 requires the resulting entity to recognise as a residual amount all items within net assets/equity of the combining operations at the amalgamation date. The Board further acknowledged the consequences of adopting this conceptual basis of an amalgamation as stated in BC64 to BC66.</p> <p>Paragraph 65 of IAS 22 (revised 1993) <i>Business Combinations</i> states that '<i>since a uniting of interests results in a single combined entity, a single uniform set of accounting policies is adopted by that entity. Therefore, the</i></p>	Staff notes the comments that, under IAS 22, items of equity would have been carried forward at



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		<p><i>combined entity recognises the assets, liabilities and equity of the combining enterprises at their existing carrying amounts adjusted only as a result of conforming the combining enterprises' accounting policies and applying those policies to all periods presented</i>. In other words, those items under equity such as a revaluation reserve, will be carried at their existing carrying amount separately and is not being aggregated with other items under equity.</p> <p>As modified pooling of interests method is based on pooling of interests method, it would be beneficial to understand whether the previously recognised revaluation surplus under pooling of interests method (under IAS 22) can still be utilised to absorb future revaluation decreases. We believe that the approach taken in IAS 22 should be consistent with modified pooling of interest method in the ED.</p> <p><b>(b) Recognized as ownership contribution/distribution (common control) or directly in net assets/equity</b></p> <p>In relation to where the residual amount should be recognised, for better clarity, we propose examples for both amalgamations under common control and not under common control are included, together with how residual amount for amalgamations under common control and not under common control are presented in the financial statements.</p>	<p>their carrying amount. Staff notes that the different treatment arises because IAS 22 considers the entity to be continuing entities, whereas the ED considers them to be new entities.</p> <p>Staff notes the request for guidance on the presentation of net assets/equity, but has not identified a response to part (b) of the SMC.</p>
31	A A	Yes, [Respondent 31] agrees.	Noted.

### Specific Matter for Comment 5

Do you agree that the acquisition method of accounting (as set out in IFRS 3, *Business Combinations*) should be used in accounting for acquisitions? If not, what method of accounting should be used?

### *Summary of Responses to Specific Matter for Comment*

**STAFF ASSESSMENT OF RESPONSES RECEIVED:** These are staff views and do not necessarily reflect the views of IPSASB Members

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
<b>A – AGREE</b>	01, 02, 03, 04, 07, 08, 09, 10, 13, 14, 15, 16, 18, 20, 21, 24, 26, 27, 28, 29, 30, 31	22
<b>B – PARTIALLY AGREE</b>	05, 06, 17, 19, 22, 23	6
<b>C – DISAGREE</b>	11, 12	2
<b>SUB-TOTAL OF THOSE PROVIDING COMMENTS</b>		<b>30</b>
<b>D – DID NOT COMMENT</b>	25	1
<b>TOTAL RESPONDENTS</b>		<b>31</b>

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01	A	We support the acquisition method of accounting for the types of public sector combinations where such accounting reflects the substance of the combination. However, we reiterate that, in our experience, most combinations in [our jurisdiction's] public sector are rearrangements for which acquisition accounting would not reflect the substance of the transaction.	Noted.
02	A	[Respondent 02] agrees that the acquisition method of accounting (as set out in IFRS 3, Business Combinations) should be used in accounting for acquisitions.	Noted.
03	A	[Respondent 03] agrees with the conclusion of the IPSASB that the acquisition method of accounting (as set out in IFRS 3, <i>Business Combinations</i> ) should be used in accounting for PSCs that satisfy the definition of acquisition subject to some amendments that include additional guidance on transaction of non-exchange nature (not specifically addressed in IFRS 3) and detailed requirements in relation to accounting treatment of for example income taxes and share based payments which have no IPSAS equivalent. This will no doubt enhance the qualitative characteristics of information contained in GPFR and strengthened transparency and accountability of public sector finances.	Noted.
04	A	<p>We agree that the acquisition method should be used in accounting for acquisitions. It is appropriate for situations where a public sector entity takes control of another entity under the circumstances described in the ED.</p> <p>It is especially relevant for such situations as bail-outs, where there is a real prospect that control will be temporary and the entity in question may be privatised in the future. The provisions are mostly in line with IFRS 3.</p> <p>Furthermore, the exceptions to the general recognition and measurement principles in the areas of:</p> <ul style="list-style-type: none"> <li>• Contingent liabilities,</li> <li>• Income taxes,</li> <li>• Employee benefits,</li> <li>• Indemnifications of assets,</li> <li>• Reacquired rights, and</li> <li>• Share-based payment transactions</li> </ul>	Noted.

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		are generally well-founded and are justified by the differences between the private and public sector.	
05	B	<p>We agree that the acquisition method is appropriate for public sector combinations where there are indicators that the economic substance of the combination is that of an acquisition.</p> <p>However, we do not agree with the statement in paragraph 85 that no goodwill shall be recognised if no consideration is paid and it is difficult to ascertain what principles the paragraph is trying to establish. In our opinion, this paragraph needs substantial modification, or is perhaps not required at all, since consideration paid or not paid is not an issue. If no consideration is paid, the current ED seems to assume that there is no value in the acquired entity, something which should not be the case when acquisition accounting is used.</p> <p>Moreover, the payment or non-payment of consideration is open to abuse (such as paying a notional CU1), and does not influence the creation of goodwill in our opinion. For example, the acquisition of net liabilities without any consideration could still include intangible assets such as customer lists, patents etc. However, currently this scenario would result in a loss recorded in surplus or deficit. However, the payment of just a notional amount would lead to the recognition of goodwill. As long as acquisition accounting is used only in the right circumstances, the recognition of purchased goodwill is appropriate.</p>	<p>Staff considers that Respondent 05 supports the use of the acquisition method, with the exception of paragraph 85, relating to goodwill. This paragraph was intended to address scenarios where goodwill either does not arise (non-exchange transactions) or is limited (for example, where the difference does not relate to future cash flows). The IPSASB's views on how to proceed are sought.</p>
06	B	<p>As noted in our response to <a href="#">Specific Matter for Comment 2</a>, we are of the view that a distinction should be made between acquisitions undertaken between entities under common control, and entities not under common control.</p> <p>We agree that the acquisition method of accounting (as set out in IFRS 3 Business Combinations) should be</p>	<p>Respondent 06 would support the use of the acquisition method</p>

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		<p>used in accounting for acquisitions undertaken between entities not under common control where the entity does not meet the criteria in paragraphs .12 and .13, as the application of the acquisition method reflects the commercial substance of the combination undertaken between the parties. Those acquisitions that are undertaken between entities under common control, or when the combination is undertaken between entities not under common control, but where the entity demonstrates the criteria in paragraphs .12 and .13, should be accounted for using the modified pooling of interests method.</p> <p><i>Treatment of residual amount</i></p> <p>Paragraph .84 requires that goodwill should be recognised to the extent that the acquisition will result in (a) the generation of cash inflows and/or (b) a reduction in the net cash outflows of the acquirer.</p> <p>We are of the view that applying this principle practically in the public sector will pose challenges, as determining what portion of the acquisition will result in an increase in cash inflows, or a reduction in cash outflows, may not be that straight forward. In addition, any goodwill recognised will need to be tested for impairment, which is complex and often subjective.</p> <p>As a result, we propose that the residual amount in public sector combinations that are classified as acquisitions that are undertaken between entities not under common control where the entity does not demonstrate the criteria in paragraphs .12 and .13, should be recognised in net assets/equity. As public sector entities' primary focus is not to generate a commercial return, we are of the view that it is more appropriate to recognise the residual amount in net assets/equity.</p> <p>If the IPSASB retains the requirement to recognise goodwill, it should only be recognised by an acquirer if it is able to demonstrate that the projected future cash inflows of the operations of the acquired entity would be sufficient to recover the purchase premium. The acquiree should be able to provide supportive evidence on projected future cash inflows through, for example, a realistic and specific business plan.</p>	<p>for those combinations classified as acquisitions in the ED, but not for all combinations the respondent would classify as acquisitions.</p> <p>Staff notes the comments regarding goodwill. Staff considers that it is appropriate to recognize goodwill under the acquisition method. In many cases, goodwill will be recognized in the consolidated financial statements of a public sector entity where a controlled public sector commercial entity acquires another commercial entity (whether from the</p>

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			public or private sector).
07	A	[Respondent 07] agrees that the acquisition method of accounting (as set out in IFRS 3 <i>Business Combinations</i> ) should be used in accounting for acquisitions. This will result in accounting for public sector combinations pursuant to this ED being consistent with accounting for business combinations under IFRS 3.	Noted.
08	A	[Respondent 08] agrees that the <i>acquisition method of accounting</i> under IFRS 3 should be applied in the event of acquisitions.	Noted.
09	A	We agree.	Noted.
10	A	[Respondent 10] agrees that the acquisition method, as so described, should be used in accounting for acquisitions.	Noted.
11	C	No - as indicated [in our <a href="#">response to SMC 2</a> ] above it is our view that this should only be applied to acquisitions for a consideration.	Noted. Staff considers that most combinations that Respondent 11 refers to as “acquisitions without consideration” would be classified as amalgamations under the proposals in the ED.
12	C	We do not support the use of acquisition method of accounting (as set out in IFRS 3, <i>Business Combinations</i> ) for acquisitions in the public Sector. Firstly, as established in BC 39, the assumption in IFRS 3 is that it is always possible to identify the acquirer because entities subject to the scope of IFRS 3 will always have owners. In the public sector, there may be no quantifiable ownership interests in a public sector entity, which can make it	Staff notes these comments. Staff considers that the changes to the

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		<p>impossible to identify an acquirer.</p> <p>Secondly BC72 lays strong case against the use of acquisition method for acquisitions in the public sector. We agree that the most prevalent types of acquisition occur where operations are acquired for the achievement of objectives relating to the delivery of goods and/or services, instead of generating economic benefits to return to equity holders. It is also right to state that many acquisitions do not include the transfer of consideration and as such these types of acquisitions may be different in nature from business combinations as identified in IFRS 3. As paragraph BC72 indicates, this is because the concept of acquiring an operation directly in exchange for the transfer of consideration is missing.</p> <p>We recommend the fresh start method because the resulting entity is held accountable for the current value of the resources of the combining operations and also takes care of the use of fair value in the acquisition method of accounting.</p>	<p>classification approach made since the CP was published will result in fewer combinations being classified as acquisitions (as explained in ED paragraphs BC73 and BC74). Where there are no quantifiable ownership interests in an entity, the combination is likely to be classified as an amalgamation.</p>
13	A	<p>[Respondent 13] agrees but suggests that the ED 60 should be amended to reflect the peculiarities of public sector entities, such that its (Public Sector Combinations) costs will not outweigh its benefits.</p>	<p>Staff considers that cost - benefit issues are addressed in the classification approach.</p>
14	A	<p>[Respondent 14] agrees that the acquisition method in IFRS 3 should be used in accounting for acquisitions.</p>	<p>Noted.</p>
15	A	<p>[Respondent 15] agrees with the acquisition method of accounting for combinations that are acquisitions. There</p>	<p>Noted.</p>

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		is no public sector specific reason for a different accounting method from the for-profit sector.	
16	A	We agree that the acquisition method of accounting should be used in accounting for acquisitions.	Noted.
17	B	<p>We agree that an acquisition method of accounting analogue to IFRS 3 will generally be appropriate for acquisitions within the public sector.</p> <p>We also refer to our response to the consultation in which we suggested the Board consider prescribing the amortization of goodwill resulting from an acquisition in the public sector over time, and disallow the impairment-only approach. The cost model is likely to be less costly to apply and involves far less subjectivity than the revaluation model, under which impairment testing (IPSAS 26) would apply.</p> <p>We appreciate that ED 60 governs the subsequent treatment of only a few selected items, referring to existing IPSASs in regard to other assets. Were the IPSASB to decide to follow our suggestion, we suggest the Board consider whether this aspect could also be addressed in the section headed “subsequent measurement and accounting” immediately preceding paragraph 46 of ED 60, or, alternatively, be dealt with by limiting the choice of methods currently permitted in paragraph 71 of IPSAS 31 specifically for goodwill arising from acquisitions.</p>	Staff notes that in developing the ED, the IPSASB agreed to maintain consistency with IFRS for the treatment of goodwill. Staff also notes that the IASB has a research project on goodwill and impairment.
18	A	As noted in our <a href="#">comments to question [2]</a> above, [Respondent 18] agrees that the acquisition method in IFRS 3 should be used in accounting for acquisitions.	Noted.
19	B	<p>We agree that the acquisition method of accounting as per IFRS 3 should be used in accounting for acquisitions. However, we are concerned that determining the fair value of all identified assets and liabilities in a public sector combination might not be practical in certain cases. We acknowledge the exceptions to the recognition and measurement principles listed in par. 73 – 82 of ED60, but feel that those exceptions are not all-inclusive. We suggest that additional guidance on the measurement requirements be provided for exceptions not specifically listed (such as heritage assets/specialised intangible assets, etc.). A possible approach could be to measure all assets, for which the fair value can be reliably measured, at fair value and all other assets at carrying value/deemed cost as per IPSAS 33: First Time Adoption of IPSAS.</p> <p>Per paragraph 84 of ED60, the acquirer shall recognise goodwill only to the extent that the acquisition will result in the generation of cash inflows and/or a reduction in the net cash outflows of the acquirer. In our opinion, goodwill should not be recognised for acquisitions in the public sector. Public sector entities will experience</p>	<p>Staff notes the proposals for measurement of items where fair value cannot be reliably measured, and for the treatment of goodwill.</p> <p>The IPSASB's views are sought in</p>



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		significant challenges in determining the increase in cash inflows or decrease in net cash outflows directly attributable to the acquisition. The entities might also have to incur significant costs to determine these cash flows. In addition, the subsequent testing of impairment of the goodwill will be complex and challenging for public sector entities. We recommend that the difference between the consideration transferred including non-controlling interest, less the identifiable assets and liabilities, be recognised as part of the residual amount in net assets/equity.	Issues Paper <a href="#">9.2.5</a>
20	A	We, I agree with the wording and provisions in the draft.	Noted.
21	A	We broadly agree with the requirements to account for acquisitions, as we do not see any reasons to depart from IFRS 3 in those instances where public sector combinations are similar to business combinations. At present in the public sector in our jurisdiction, combinations that should be classified as acquisitions are unlikely. However, we would express the same concern as above with respect to the exception to the recognition of income tax forgiven as a result of an acquisition for the same reason as those set out for amalgamations.	Staff notes the reservations regarding the requirements for tax forgiveness.
22	B	For acquisitions cases which are the same in the public sector than in the private sector, we do not see any reasons to depart from IFRS 3. But, as explained previously, <u>we haven't identified such a case in [our jurisdiction]</u> .  However, as mentioned in the introduction, an in-depth reflection is needed about the relevance of the goodwill balance sheet recognition. Indeed, cases of takeover of a private sector entity by a public entity are rare and does not intend to guarantee a return on investment.	The comments regarding goodwill are noted. Staff considers that these concerns are addressed by paragraph 84 of the ED.
23	B	As indicated in our <a href="#">answer to Specific Matter for Comment 2</a> , we have reservations with the classification approach proposed in the ED. We therefore do not agree that only combinations that will be labelled as acquisitions based on the proposed guidance should be accounted for using the acquisition method.  The new IPSAS should identify the nature and characteristics of public sector combinations that would be more faithfully represented if the assets acquired and liabilities assumed are measured initially at their fair values. We believe that combinations that are of a purchase nature would fit into this category.  Since this is not an IFRS convergence project, we believe that the new IPSAS can be simplified if material that is	Staff considers that Respondent 23's concerns relate more to the combinations that would apply the acquisition method than the method

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		not relevant to public sector is removed.	itself. Staff notes that the IPSASB agreed to include all the IFRS guidance as this may be relevant where consolidated financial statements include public sector commercial entities that may undertake commercial acquisitions.
24	A	We agree with the acquisition method of accounting as set out in IFRS 3, <i>Business Combinations</i> .	Noted.
25	D	<i>No comments identified.</i>	
26	A	We agree with the proposed amendments for the reasons given in the Basis for Conclusions	Noted.
27	A	Yes	Noted.
28	A	[From General Comments: I admire yes]	Noted.
29	A	Yes, I agree with the acquisition method of accounting (as set out in IFRS 3, <i>Business Combinations</i> ) should be used in accounting for acquisitions, so, I suggest for the Board's if agrees consults National Regulators, because I do not know if internal laws have some impact in relation what method of accounting should be used, principally federal laws.	Staff notes the comments that in some jurisdictions, regulators may determine the accounting. Staff

R#	C #	<b>RESPONDENT COMMENTS</b> <b>Specific Matter for Comment 5</b>	<b>STAFF</b> <b>COMMENTS</b>
			considers that in such cases, entities would not be applying IPSAS.
30	A	We agree that the acquisition method of accounting (as set out in IFRS 3 <i>Business Combinations</i> ) should be used in accounting for acquisitions. We believe that there is no specific public sector reason that requires a method of accounting other than the acquisition method.	Noted.
31	A	[Respondent 31] agrees that the acquisition method of accounting should be used in accounting for acquisitions.	Noted.