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27 May 2016

Mr John Stanford
Technical Director
International Public Sector Accounting Standard Board
International Federation of Accountants
227 Wellington Street West
Toronto
Ontario MSV 3H2
CANADA

Dear John

EXPOSURE DRAFT – PUBLIC SECTOR COMBINATIONS

Thank you for the opportunity to provide comments on the International Public Sector Accounting Standards Board's (IPSASB's) Exposure Draft 60 – *Public Sector Combinations* (the exposure draft).

We have considered the contents of the exposure draft and we are broadly supportive of the accounting standard proposed by the IPSASB.

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 the New Zealand 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.

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.

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.

Appendix 1 to our submission responds to the questions in the Request for Comments dated January 2016.

If you have any questions about our submission, please contact me.

Yours sincerely

Todd Beardsworth
Assistant Auditor-General (Accounting and Auditing Policy)
Office of the Controller and Auditor-General of New Zealand

cc. New Zealand Accounting Standards Board

Appendix 1 - Our Responses to the IPSASB Questions in the Exposure Draft

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

   We consider the proposed scope of the exposure draft to be appropriate.

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?***

   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 the New Zealand 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.

   Although unusual, applying the rebuttable presumption in paragraph 8 should result in public sector combinations being appropriately classified.

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?***

   We support the modified pooling of interests method of accounting for amalgamations.

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 recognised?***

   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.

   Do you agree that the residual amount arising from an amalgamation should be recognised:
   (a) In the case of an amalgamation under common control, as an ownerships 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 recognised?

   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.

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?***

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 the New Zealand public sector are rearrangements for which acquisition accounting would not reflect the substance of the transaction.

6. ***General comments***

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.

Association of Accounting Technicians response to The International Public Sector Accounting Standards Board Exposure draft 60: Public sector combinations

AAT is a registered charity. No. 1050724

Association of Accounting Technicians response to The International Public Sector Accounting Standards Board Exposure draft 60: Public sector combinations

1. Introduction

1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the The International Public Sector Accounting Standards Board (IPSASB) "Exposure draft 60: Public sector combinations" (ED), released on 28 January 2016.

1.2. AAT is submitting this response on behalf of our membership and from a wider public benefit perspective.

1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.

1.4. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.

2. Executive summary

2.1. AAT welcomes the opportunity to comment on the ED, as it strongly supports development of high quality standards in both the public and private sector, where many of its members work.

2.2. AAT believes this ED will add value for public sector financial reporting, in promoting consistency and comparability in reporting public sector combinations.

2.3. AAT does, however, have some concerns over the treatment of the revaluation reserves proposed (3.6, below).

3. AAT response to Exposure draft 60: Public sector combinations

3.1. The following paragraphs outline AAT's response to the proposals outlined in the ED. AAT has only listed those questions where we have a comment to make.

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?

3.2. AAT agrees that the scope of the Exposure Draft, which covers all public sector combinations, is appropriate.

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?

3.3. AAT agrees with the ED's approach to classification.

3.4. AAT 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.

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?

3.5. AAT agrees that the modified pooling of interests method of accounting should be used in accounting for amalgamations.

Specific Matter for Comment 4 (first part of question):
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?

3.6. AAT 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.

3.7. AAT 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.

Specific Matter for Comment 4 (last part of question):
Do you agree that the residual amount arising from an amalgamation should be recognised:
(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?

3.8. AAT agrees with these proposals but has some concerns identified in 3.6 (above).

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?

3.9. AAT agrees that the acquisition method of accounting (as set out in IFRS 3, Business Combinations) should be used in accounting for acquisitions.

4. Conclusion

4.1. Although AAT 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 (3.6, above) and a fair representation of financial reporting of new entities resulting from public sector combinations.

5. About AAT

5.1. AAT is a professional accountancy body with over 49,800 full and fellow members[1] and 80,900 student and affiliate members worldwide. Of the full and fellow members, there are over 4,200 members in practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

email: consultation@aat.org.uk and aat@taxpolicy advice.co.uk

telephone: 020 7397 3088

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[1] Figures correct as at 31 March 2016

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Our Ref: **Your Ref:** **June 24, 2016**

Dear Sir,

Association of National Accountants of Nigeria is very pleased to comment on Exposure Draft 60 (Public Sector Combinations).

Association of National Accountants of Nigeria (ANAN) is a statutorily recognized professional accountancy body in Nigeria. The body is charged among others, with the duty of advancing the science of accountancy.

The Association was formed on 1st January, 1979 and operate under the ANAN Act 76 of 1993(Cap A26 LFN 2004), working in the public interest. The Association regulates its practicing and non-practising members, and is overseen by the Financial Reporting Council of Nigeria.

ANAN members are more than 21,000, they are either FCNA OR CNA and are found in business, practice, academic and public sector in all the States of Nigeria and Overseas. The members provide professional services to various users of their services.

ANAN is a member of the International Federation of Accountants (IFAC), International Association for Accounting Education & Research (IAAER), The Pan African Federation of Accountants (PAFA), and Associate of Accountancy Bodies in West Africa (ABWA).

RESPONSE TO THE EXPOSURE DRAFT 60 ON PROPOSED PUBLIC SECTOR COMBINATIONS.

Our responses to specific matters for comments (1-4) are set out below:

Our Response:

1. The Association 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.

2. ANAN absolutely agrees with the approach to classifying public sector combinations adopted in this Exposure Draft. This is because IPSAB 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 representation of financial information.

3 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.

In addition, the Modified Pooling of Interest Method has several advantages, this includes:

i. It significantly improves the provision of information for decision making purposes and accountability in the use of resources.
ii. It also meets the qualitative characteristics of comparability, relevance, and faithful representation.
iii. It is cost effective which satisfies the GPFRs constraints of cost-benefits.

The above advantages will facilitate universal application of the proposed standard across jurisdictions.

4. Given the justification for the choice of the Modified Pooling of Interest Method, the Association 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 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.

ANAN 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.

Furthermore, ANAN believes that the treatment described above meets the qualitative characteristics of comparability, relevance and faithful representation.

4 (a) In the case of amalgamation under common control, the Association is of the opinion that the residual amount arising from amalgamation should be recognised as ownership contribution or ownership distribution. However, the Association 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.

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.

5. ANAN agree with the conclusion of the IPSASB that the acquisition method of accounting (as set out in IFRS 3, Business Combinations) 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.

General Matters

a. Paragraph 9 line 5 should read "an" instead of "and"

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.

c. The term "Controlling Entity" should be clearly defined as it is currently omitted from the definition section.

Yours faithfully,
ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA



DR. SUNDAY A. EKUNE, *FCNA*
Registrar/Chief Executive

Federation of European Accountants

Ian Carruthers
Chairman
IPSASB
IFAC
Submitted via website

Brussels, 24 June 2016

Subject: Exposure Draft 60 Public Sector Combinations

Dear Chairman,

The Federation of European Accountants (FEE) is pleased to provide you with its comments on Exposure Draft (ED) 60, *Public Sector Combinations*. A more in depth analysis of the issues discussed below, is provided in Annex 1.

The Federation supports the approach taken in this ED that aligns, as far as possible, Public Sector Combinations with International Financial Reporting Standard 3 (IFRS 3).

Scope

The Federation supports the scope of the ED.

Approach to classifying public sector combinations

The Federation also supports the approach to classifying public sector combinations.

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.

Modified pooling of interests method of accounting when accounting for amalgamations

The Federation agrees with the ED that the modified pooling of interests method of accounting should be used in accounting for amalgamations.

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.

Residual amount recognition and adjustments

The Federation 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.

We also agree with the adjustments being made through the residual amount, rather than through other components of net assets/equity.

However, we do not agree with requiring 'adjustment' or 'derecognition' of the existing revaluation reserves, as implied by paragraph 37 of the proposed IPSAS.

We disagree with the suggestion of the IPSASB that the conceptual approach requires these balances to be disregarded.

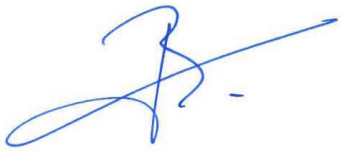
Acquisition method when accounting for acquisitions

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.

Kind regards,

On behalf of the Federation of European Accountants,





Petr Kriz
President

Olivier Boutellis-Taft
Chief Executive

About the Federation of European Accountants

The Federation of European Accountants represents 50 professional institutes of accountants and auditors from 37 European countries, with a combined membership of over 875,000 professional accountants working in different capacities. As the voice of the European profession, the Federation recognises the public interest.

The Federation is in the EU Transparency Register (No 4713568401-18).

Annex 1 - Detailed responses to Specific Matters for Comment

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?

(1) The Federation agrees with the scope contained 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?

(2) The Federation agrees with the approach to classifying public sector combinations in ED 60.

(3) 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.

(4) 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.

(5) 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.

(6) In order to avoid any misinterpretations, we believe that the examples mentioned above should be reworded or otherwise clarified.

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?"

(7) 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.

(8) 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.

(9) 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.

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?

(10) The Federation 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.

(11) 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.

(12) 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.

(13) 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 requiring 'adjustment' or 'derecognition' of the existing revaluation reserves.

(14) 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.

(15) 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.

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?

(16) 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.

(17) 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.

(18) Furthermore, the exceptions to the general recognition and measurement principles in the areas of:

- Contingent liabilities,
- Income taxes,
- Employee benefits,
- Indemnifications of assets,
- Reacquired rights, and
- Share-based payment transactions

are generally well-founded and are justified by the differences between the private and public sector.

ICAEW REPRESENTATION 92/16

Exposure Draft 60 – Public Sector Combinations

ICAEW welcomes the opportunity to comment on the *Public Sector Combinations* exposure draft published by the International Public Sector Accounting Standards Board (IPSASB) in January 2016, a copy of which is available from this link.

This response of 24 June 2016 has been prepared on behalf of ICAEW by its Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. Comments on public sector financial reporting are prepared with the assistance of the Faculty's Public Sector Development Committee .The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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MAJOR POINTS

1. 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.

2. 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 provide a true and fair outcome would the preparer be required to assess the substance of the combination.

3. 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.

RESPONSES TO IPSASB QUESTIONS

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?

4. Yes, we agree with the scope.

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?

5. 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.

6. 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 amalgamation accounting will apply unless the presumption is rebutted in favour of acquisition accounting, based on relevant indicators.

7. 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.

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?

8. 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.

9. 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.

Specific Matter for Comment 4:

Part 1: 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?

10. 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.

11. 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.

12. 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.

Part 2: 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?

13. 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.

Specific Matter for Comment 5:

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

14. 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.

15. 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.

16. 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.



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The Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

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Per e-mail

27 June 2016

Dear John,

COMMENT ON EXPOSURE DRAFT 60 PROPOSED IPSAS ON *PUBLIC SECTOR COMBINATIONS*

We welcome the opportunity to comment on Exposure Draft 60 (ED 60) on the Proposed IPSAS on *Public Sector Combinations*. We support the development of guidance on accounting for combinations as this will ensure that entities consistently account for acquisitions and amalgamations undertaken in the public sector.

Our responses to the specific matters for comment are included as Annexure A, while other comments are included as Annexure B to this letter.

The views expressed in this letter are those of the Secretariat and not the Accounting Standards Board (Board). In formulating our comments, the Secretariat consulted with a range of stakeholders including auditors, preparers, consultants, professional bodies and other interested parties.

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

Yours sincerely

Jeanine Poggiolini, Technical Director

Board Members: Ms T Coetzer, Mr B Colyvas, Ms I Lubbe, Mr M Kunene, Mr K Makwetu,
Mr V Ndzimande, Ms N Ranchod, Ms R Rasikhinya, Ms C Wurayayi
Alternates: Mr S Badat, Ms L Bodewig
Chief Executive Officer: Ms E Swart Technical Director: Ms J Poggiolini

ANNEXURE A – SPECIFIC MATTERS FOR COMMENT

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?

Yes, we agree with the scope proposed in the Exposure Draft.

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?

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.

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.

We believe that all combinations under common control should be accounted for using similar accounting proposed for amalgamations.

We believe that acquisitions not under common control should be accounted for by considering the economic substance of the combination.

Public sector combinations under common control

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.

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 is appropriate for the following reasons:

(a) There is no overall change in control as the entity is merely transacting with itself.

(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.

(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.

(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.

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.

Public sector combinations not under common control

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.

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.

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.

In conclusion

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.

Acquisitions should be distinguished between combinations undertaken between entities:

- under common control; and
- 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.

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.

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.

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?

We agree with the application of the modified pooling of interest method in accounting for amalgamations.

Following our comment to Specific Matter for Comment 2, 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).

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 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.

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.

Specific Matter for Comment 4(a)

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 recognised?

Yes, we agree that adjustments should be made to the residual amount rather than to other components of net assets/equity.

Specific Matter for Comment 4(b)

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

(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 recognised?

Based on our comment to Specific Matter for Comment 2 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.

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.

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?

As noted in our response to Specific Matter for Comment 2, 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.

We agree that the acquisition method of accounting (as set out in IFRS 3 *Business Combinations*) should be 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.

Treatment of residual amount

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.

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.

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.

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.

ANNEXURE B – OTHER COMMENTS

Disclosure requirements

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.

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:

(a) the reason for undertaking the intended public sector combination;

(b) facts and circumstances that can influence the public sector combination, or leading to the expected combination; and

(c) the expected manner and timing of the public sector combination.

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.

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.

Rebuttable presumption in relation to the consideration

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.

Measurement period

We agree with the measurement period of one year where an entity is required to apply the modified pooling of interest method.

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.

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.

Definition of amalgamation date

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”.

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.

ACT Government
Chief Minister and Treasury

Mr Ian Carruthers
Chair
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017 United States of America

Dear Mr Carruthers

Exposure Draft 60 *Public Sector Combinations*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on Exposure Draft (ED) 60 *Public Sector Combinations*.

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

HoTARAC has responded to each of the five questions posed in the ED (see attachment). HoTARAC recommends:

- simplification of the basis for distinguishing amalgamations from acquisitions (see response to question 2), and
- refinements to the 'modified pooling of interests' method (see response to question 3 attached).

If you have any queries regarding our comments, please contact Martin Smith from New South Wales Treasury on +61 2 9228 5158 or by email to martin.smith@treasury.nsw.gov.au.

Yours sincerely

Stephen Miners
Acting Chair
Heads of Treasuries Accounting and Reporting Advisory Committee
17 June 2016

Attachment: HoTARAC Response to the Specific Matters for Comment on 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?

HoTARAC 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, HoTARAC agrees with these exclusions.

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?

HoTARAC agrees with classifying 'public sector combinations' as either 'acquisitions' or 'amalgamations'. However, HoTARAC 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).

In practice, the vast majority of Australian 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'.

HoTARAC recommends replacing this approach with a simpler approach that will achieve the same outcome in most cases. Under this simpler approach:

- all PSCC's would be classified as 'amalgamations', and
- all other public sector combinations would be classified as 'acquisitions' except for circumstances in which;
  - no acquirer can be identified, or
  - the combination is a genuine merger of equals.

Accordingly, in the vast majority of cases, there would be no need to consider:

- whether an acquirer can be identified (paragraph 7),
- whether one entity that existed prior to the combination gains control of another (paragraph 8 and AG10), or
- the rebuttable presumption (paragraphs 9 to 14).

Attachment: HoTARAC Response to the Specific Matters for Comment on ED 60 Public Sector Combinations

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?

HoTARAC 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, HoTARAC recommends refinements to the 'modified pooling of interests' method to address accounting by entities that existed prior to a combination (see (b) below).

(a) New entity formed at the amalgamation date and operations transferred to that entity
HoTARAC 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.

(b) Where a party to an amalgamation existed prior to the amalgamation
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. HoTARAC 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.

Instead, HoTARAC 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:

- Statement of financial position:
  - Current year
    - all assets and liabilities at balance date, and
    - net assets of relevant transferors as owners' equity.
  - Prior year comparatives - all assets and liabilities as reported in its prior year financial statements with any adjustments required by Standards.

- Statement of financial performance:
  - 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.
  - Prior year comparatives – results as reported in its prior year financial statements with any adjustments to those results required by Standards.

- Statement of cash flows:
  - 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.
  - Prior year comparatives – results as reported in its prior year financial statements with any adjustments to those results required by Standards

Attachment: HoTARAC Response to the Specific Matters for Comment on ED 60 Public Sector Combinations

The notes to the financial statements would include:

- a dissection of pre and post combination financial performance, and
- a summarised balance sheet at combination date.

In HoTARAC's view this would satisfy the requirement for users to have access to historical information identified in BC58.

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?

HoTARAC 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).

HoTARAC 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.

As noted in response to Specific Matter for Comment 3 above, HoTARAC considers that a refinement is needed to the 'modified pooling of interests' method.

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?

HoTARAC agrees that the acquisition method of accounting (as set out in IFRS 3 *Business Combinations*) 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.

Schweizerisches Rechnungslegungsgremium für den öffentlichen Sektor (SRS)
Conseil suisse de présentation des comptes publics (CSPCP)
Commissione svizzera per la presentazione della contabilità pubblica (CSPCP)
Swiss Public Sector Financial Reporting Advisory Committee (SRS)

John Stanford
Technical Director
International Public Sector
Accounting Standards Board
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CANADA

Lausanne, June 28, 2016

Swiss Comments to

Exposure Draft 60 Public Sector Combinations

Dear John,

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to Exposure Draft 60 Public Sector Combinations. We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments for the Exposure Draft in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP

Prof Nils Soguel, President

Evelyn Munier, Secretary

Swiss Comments to Exposure Draft 60 Public Sector Combinations

Swiss Comment to

ED 60 Public Sector Combinations

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1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).
The SRS-CSPCP has discussed the *ED 60 Public Sector Combinations* and comments as follows.

2. General Remarks

The SRS-CSPCP is of the opinion that a standard for amalgamations and acquisitions is filling a gap in the current IPSAS literature. Already in its response to the *Consultation Paper* in September 2012 the SRS-CSPCP pointed out that acquisitions, in contrast to amalgamations, in the public sector are of very minor importance. The SRS-CSPCP 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.
The SRS-CSPCP 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 the SRS-CSPCP. 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.

3. 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?

The SRS-CSPCP 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*. The SRS-CSPCP 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 Switzerland the concordats (i.e. arrangement between jurisdictions) and above all the joint operations (*Zweckverbände* in German or *associations de communes* in French) 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 Switzerland 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 the concerned public service. But according to the explanations of the IPSASB this would be a *joint operation* and therefore excluded from the standard. The SRS-CSPCP would be grateful to the IPSASB, if it could comment on this question and provide the necessary clarification.
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.

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.
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 the SRS-CSPCP.

4. 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?

The SRS-CSPCP 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 the SRS-CSPCP, 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.
The addition of a second criterion (*rebuttable presumption*) is rather theoretical but nevertheless has the consequence that many combinations can be considered as amalgamations.

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.

5. 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?

The SRS-CSPCP agrees that in amalgamation of public authorities the ***Modified*** *Pooling of Interest method* is applied. It would, however, be desirable that in the new standard an explanation is immediately given how the ***Modified*** *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).*
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.

However, in the present ED it remains vague how exactly, for example, adjustments have to be made when amalgamating entities had previous considered different useful lifes 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 lifes 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 ***Modified*** *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.

6. 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?

The SRS-CSPCP wonders why *ownership contribution* and *ownership distribution* are mentioned. In connection with amalgamation of public authorities this is not relevant. The question also arises why *amalgamation under common control* and *amalgamation not under common control* should be treated differently. In both case the residual value should be recognized in equity.

7. 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?

The SRS-CSPCP agrees that the *acquisition method of accounting* under IFRS 3 should be applied in the event of acquisitions.

8. Final Remarks

As already noted when commenting on *ED 59 Employee Benefits* it is clear to the SRS-CSPCP 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. The SRS-CSPCP would therefore welcome it if the IPSASB could, following the materiality principle, declare only the most important disclosures to be necessary.

Lausanne, May 24, 2016

Treasury Board of Canada Secretariat
Secrétariat du Conseil du Trésor du Canada

Ottawa, Canada
K1A 0R5

Mr. John Stanford,
Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street, 4th Floor
Toronto, ONTARIO
M5V 3H2

Dear Mr. Stanford:

SUBJECT: Public Sector Combinations

Thank you for the opportunity to comment on the Exposure Draft – *Public Sector Combinations* that was issued in January 2016.

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

We thank you again for providing the opportunity to comment on this Consultation Paper. If you require further information, please do not hesitate to contact me at diane.peressini@tbs-sct.gc.ca (613-369-3107)

Yours sincerely,

Diane Peressini,
Executive Director,
Financial Management Sector
Office of the Comptroller General

Attachment
c.c.: Bill Matthews, Comptroller General of Canada

Canada

Appendix

Exposure Draft – 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?

We agree.

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?

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.

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 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.

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.

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.

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.

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?

We agree.

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?

We agree with these statements.

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?

We agree.

CIPFA The Chartered Institute of Public Finance & Accountancy

Exposure Draft 60
Proposed IPSAS *Public Sector Combinations*

response to exposure draft

29 June 2016

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

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

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

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

Our ref: Responses/ 160629 SC0226

International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
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CANADA
Submitted electronically

June 2016

Dear IPSASB secretariat

Exposure Draft 60

Proposed IPSAS *Public Sector Combinations*

CIPFA is pleased to present its comments on this Exposure Draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

CIPFA supports most of the main proposals in the Exposure Draft. Comments are provided in the attached annex.

We do however disagree with the proposals for the treatment of revaluation reserve
We consider that the proposed 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.

I hope this is a helpful contribution to the Board's standards development process. If you have any questions about this response, please contact Steven Cain (e: steven.cain@cipfa.org, t: +44(0)20 7543 5794).

Yours sincerely

Alison Scott
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CIPFA
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ANNEX

Specific Matter for Comments

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?*
CIPFA agrees with the scope of the Exposure Draft.
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?*
CIPFA agrees with the classification approach adopted in the ED. However, the explanation around 'rebuttal', both in the guidance and the illustrative examples could be made clearer. Specifically, more explanation is required to distinguish the following two cases: 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; whereas 2) the imposition of public sector control over a private sector entity is taken to indicate that the presumption should <u>not</u> be rebutted.
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?*
CIPFA agrees that the modified pooling of interests method should be used to account for amalgamations.

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?

CIPFA agrees with most of the proposals in this ED, but on the specifics of this question, we disagree significantly on several counts.

CIPFA 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*.

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.

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, CIPFA is content that adjustments which arise from the adoption of common accounting policies for the resulting entity should be taken to the residual amount.

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.

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.

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.

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.

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.

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.

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 approach may have consequences for some entities…' We are not convinced that these adverse consequences are balanced by any benefits.

BC66 provides further comment as follows:

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.

CIPFA's view on this is that

- The need for adjustments arises because the consolidated statements reflect the historical continuity and better capture the economic substance.

- We are not convinced that the IPSASB has in fact adopted 'the conceptual approach'. At best, it is one conceptual approach among several.

- The 'benefits' of this reserve accounting approach are unclear

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.

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.

Specific Matter for Comment 4 (continued) *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?*
CIPFA 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.
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?*
CIPFA agrees that the acquisition method, as so described, should be used in accounting for acquisitions.



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June 28, 2016

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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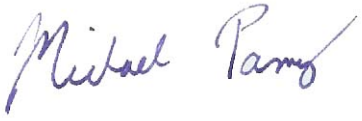
Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to IPSAS ED60 - 'Public Sector Combinations'.

2. We provide our comments in the attached paper.

3. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at Michael.parry@michaelparry.com or on +44 7525 763381.

Yours faithfully,



Michael Parry

ICGFM Accounting Standards Committee
Michael Parry, Chair
Andrew Wynne
Anne Owuor
Hassan Ouda
Iheariyi Anyahara

Jesse Hughes
Kennedy Musonda
Mark Silins
Maru Tjihumino
Masud Mazaffar
Nino Tchelishvili
Paul Waiswa
Steve Glauber
Tony Bennett

Cc: Jack Maykoski
President, ICGFM

ICGFM Ad Hoc Committee on Accounting Standards

Response to ED60:

Public Sector Combinations

Overview

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.

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?

We agree with the scope of the exposure draft

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?

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:

Situation 1. An amalgamation of two government entities, for example two government agencies combining into one new agency

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.

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.

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.

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 reorganisations and should both be accounted for in the same manner using the modified pool approach as described in the ED.

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.

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?

Yes - and also for situation 2 above, acquisitions without consideration (see above)

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?

We agree with the above treatment but consider it should also be applied to acquisitions without consideration (see above)

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?

No - as indicated above it is our view that this should only be applied to acquisitions for a consideration.

Other issues - definitions

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.

Conclusions

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.



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ZICA/12/21/6

29th June 2016

The International Public Sector Accounting Standards Board

Dear Sir,

COMMENTS ON EXPOSURE DRAFT 60 – PUBLIC SECTOR COMBINATIONS

The Zambia Institute of Chartered Accountants (ZiCA), the national regulator of the Accountancy Profession in Zambia, welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft 60: *Public Sector Combinations* issued in January 2016, with the comment period closing on 30th June, 2016.

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, *Business Combinations*) for acquisitions in the public Sector may not be appropriate.

Our comments on the proposals in the ED are included in detail in the Appendix to this letter, where we have answered the specific questions asked.

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

Yours faithfully

Chansa A Chiteba
DIRECTOR STANDARDS & REGULATION
FOR/SECRETARY AND CHIEF EXECUTIVE OFFICER

Appendix- Public Sector Combinations

The Specific Matters for Comment requested for the Exposure Draft are provided below.

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?

Comment:
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.

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?

Comment:
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.

However, we think the option given to entities in paragraph 14 may lead to inconsistency in the classification and resulting accounting treatment of one operation or more operations by different entities.

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?

Comment:
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.

BC51 also justifies that it is one of the methods that are seen as generally the least costly to apply, because:
a) It uses the existing carrying amounts of the assets, liabilities, and net assets/equity of the combining operations; and
b) it does not require identifying, measuring, and recognizing assets or liabilities not previously recognized before the amalgamation.

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.

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?

Comment:
No comment

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?

Comment:
No comment

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?

Comment:
We do not support the use of acquisition method of accounting (as set out in IFRS 3, *Business Combinations*) 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 impossible to identify an acquirer.
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.

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.

FINANCIAL REPORTING COUNCIL OF NIGERIA

Federal Ministry of Industry, Trade and Investment

27 June 2016

Paul Mason/Joao Fonseca (Project Officers)
International Public Sector Accounting Standards Board
International Federation of Accountants
529 5th Avenue
New York, New York 10017
United State of America
Submitted electronically

Dear Joao Fonseca,

RE: EXPOSURE DRAFT 60, PUBLIC SECTOR COMBINATIONS

The Financial Reporting Council (FRC) of Nigeria welcomes the idea of issuing a standard on Public Sector Combinations (ED 60). In the light of this, the Council sent out letters to various entities especially public sector entities, professional accountancy bodies, audit/accountancy firms and other entities that use IPSASs in Nigeria.

The following entities sent their responses which the Council collated:

1. The Institute of Chartered Secretaries and Administrators of Nigeria (ICSAN)
2. KPMG Professional Services, Nigeria
3. Office of the State Auditor-General Cross River State of Nigeria

In view of the responses received from the above entities, the Council put forward the following comments on the proposed standard.

1. **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?

Comments

The Council 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.

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Central Business District, Alausa, P. O. Box 10968, Ikeja, Lagos, Nigeria.
Tel: (234) 1-7937405, 7918779, Fax: 2712153, 2712156, www.financialreportingcouncil.gov.ng

2. **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?

Comments

The Council agrees with the approach to classification of Public Sector Combinations by ED 60 as either acquisition or amalgamation. However, the Council 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). The Council 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. The Council 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.

3. **The 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?

Comment

The Council 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.

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.

The Council 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.

4. **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?

(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.

(c) Comment

The Council 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.

Furthermore the Council 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.

In both cases of amalgamation under common control and amalgamation not under common control the Council agrees that residual amount arising from amalgamation should be recognized directly in nets assets/equity.

5. **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?

Comment

The Council 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.

If you require any further information or clarification please contact the Executive Secretary/Chief Executive Officer on (234) 1-7937405 or joobazee@financialreporting council.gov.ng

Yours sincerely,

JIM OBAZEE
Executive Secretary/CEO

Australian Government
Australian Accounting Standards Board

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30 June 2016

Mr John Stanford
International Public Sector Accounting Standards Board
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Canada

Dear John,

IPSASB ED 60 *Public Sector Combinations*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on IPSASB ED 60 *Public Sector Combinations* ('the ED'). In formulating its comments, the AASB sought and considered the views of Australian constituents through targeted outreach.

The AASB supports the IPSASB's efforts in addressing public sector combinations. However, the AASB has some concerns regarding the classification of some combinations as amalgamations. In particular, the AASB does not agree that public sector combinations with private sector entities should be classified as amalgamations. In the AASB's view, such combinations should always be accounted for as acquisitions.

The AASB also does not agree that the modified pooling of interests method for amalgamations achieves comparability between current period and prior period operating results. In the AASB's view such comparability would be best achieved with an unmodified pooling of interests method. However, the AASB is aware that requiring entities to restate prior periods could be onerous without providing sufficient benefit to users. In that case, the AASB 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.

The AASB's responses to the specific matters for comment in IPSASB ED 60 are included in the Appendix to this letter. If you have queries regarding any matters in this submission, please contact me or Shaun Steenkamp (ssteenkamp@aasb.gov.au).

Yours sincerely,

K. E. Peach

Kris Peach
Chair and CEO

APPENDIX

AASB comments on IPSASB ED 60 *Public Sector Combinations*

The specific matters for comment in the ED are addressed in turn below. Unless otherwise stated, constituent feedback supports the AASB views.

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?

1. The AASB agrees with the scope proposed in the ED.

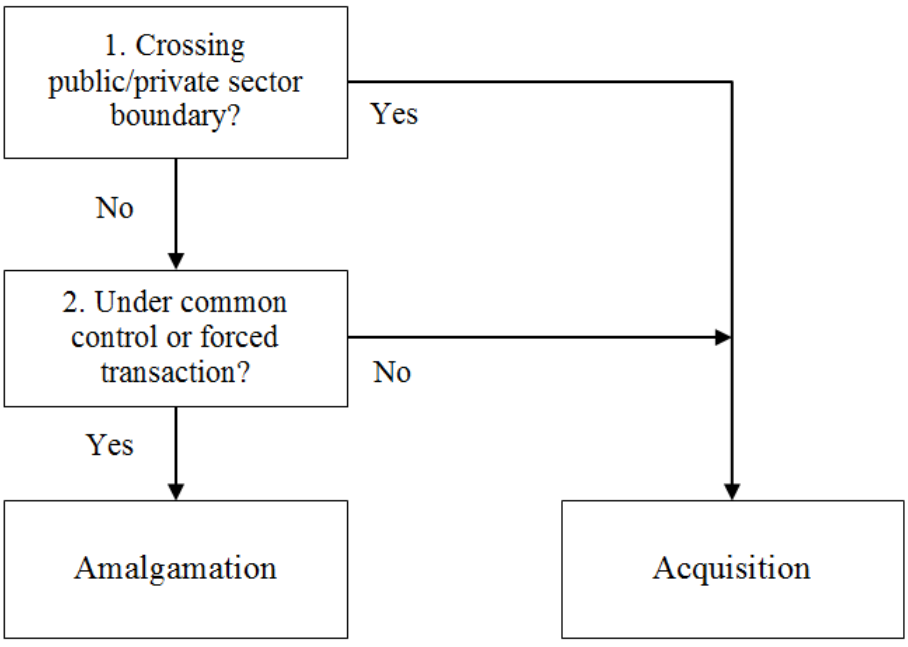
Specific Matter for Comment 2

Do you agree with the approach to classifying public sector combinations adopted in this Exposure Draft (see paragraphs 714 and AG10–AG50)? If not, how would you change the approach to classifying public sector combinations?

2. The AASB disagrees with the proposed approach to classifying public sector combinations.

3. The AASB 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.

AASB alternative classification approach



Explanation of AASB classification approach

4. The first step in the approach filters business combinations for those that combine public sector operations with private sector operations. The AASB'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, the AASB 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).

5. 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 legislative requirement). In the AASB'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. The AASB 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.

6. 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. The AASB 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. The AASB 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.

7. In the AASB'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, the AASB 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. The AASB suggests the IPSASB:

   (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 the AASB's view that any combination involving a private sector entity should be accounted for as an acquisition.

   (b) remove the indicator in paragraph 13(b) of the ED. The AASB 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.

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?

8. The AASB disagrees that the modified pooling of interests method of accounting should be used in accounting for amalgamations.

9. The AASB considers that the pooling of interests method specified in IAS 22 *Business Combinations* 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.

10. However, the AASB acknowledges that the benefits derived from applying the IAS 22 pooling of interests method might not outweigh the costs. Accordingly, the AASB 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, the AASB suggests the IPSASB include a cost / benefit rationale for the decision in its basis for conclusions.

11. If the IPSASB proceeds with the modified pooling of interests method the AASB 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.

12. In addition, the AASB suggests that the final Standard should not conclude that the modified pooling of interests method assists comparability of current period with prior period results.

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 the adjustments be recognised?

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

(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 recognised?

13. The AASB 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.

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?

14. The AASB agrees that the acquisition method in IFRS 3 should be used in accounting for acquisitions.



30 June 2016

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA
Submitted to: www.ifac.org

Dear John

Public Sector Combinations

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the International Public Sector Accounting Standards Board's (IPSASB's) Exposure Draft 60, *Public Sector Combinations* (the Exposure Draft).

The Exposure Draft was issued for comment in New Zealand and, as a result, you may also receive comments directly from New Zealand constituents.

We are pleased the IPSASB has made progress on the public sector combinations project and has produced a comprehensive Exposure Draft.

The NZASB 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:

1. the narrow definitions of equity interests and owners;

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

3. the proposed accounting for the residual amount in an amalgamation.

The NZASB 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, the NZASB does not support the approach to classifying public sector combinations adopted in this Exposure Draft.

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, 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.

The NZASB 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.

Our responses to the Specific Matters for Comment are set out in the Appendices to this letter. If you have any queries or require clarification of any matters in this letter, please contact Vanessa Sealy-Fisher (Vanessa.sealy-fisher@xrb.govt.nz) or me.

Yours sincerely



Kimberley Crook

Chair – New Zealand Accounting Standards Board

APPENDIX 1

Response to Specific Matters for Comment

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?

The NZASB 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.

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.

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.

In summary, the NZASB propose the definitions of equity interests and owners be broadened to fully reflect the public sector and NFP equivalents of ownership.

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?

General comments

The NZASB 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, the NZASB does not support the approach to classifying public sector combinations adopted in this Exposure Draft. The NZASB 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. The NZASB 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. Our rationale is explained further below.

Classification based on gaining control

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.

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:

- 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 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.

- 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.

<u>NZASB's proposed alternative approach</u>

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.

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.

The NZASB'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 Exposure Draft.

(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.

NZASB's reason

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.

(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.

NZASB's reason

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 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.

(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.

NZASB's reason

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.

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.

Application of the NZASB's proposed alternative approach to illustrative examples

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.

- Scenario 4 variation: Restructuring of Central Government ministries

  (a) Consideration – There is no consideration paid/received. This is not determinative in itself.

  (b) Decision making – The combination is imposed by a third party, Central Government. This suggests it is an amalgamation.

  (c) Entities under common control – The entities are under common control. This suggests it is an amalgamation.

  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.

- Scenario 6: Combination with a not-for-profit organisation

  (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.

(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.

(c) Entities under common control – There is nothing to suggest the entities are under common control. This is not determinative in itself.

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.)

- Scenario 7: Transfer of an operation between levels of government

(a) Consideration – The nil consideration reflects the fair value of Operation J. This suggests it is an acquisition.

(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.

(c) Entities under common control – There is nothing to suggest the entities are under common control. This is not determinative in itself.

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.

- Scenario 11: Donated operations

(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.

(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.

(c) Entities under common control – There is nothing to suggest the entities are under common control. This is not determinative in itself.

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.

Other concerns

In addition to the above points, we have the following concerns with the Exposure Draft:

- 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.

- 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.

- 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 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.

- 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) the NZASB would not conclude that the entity itself is a new entity.

Summary

The NZASB 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). The NZASB 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.

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?

The NZASB 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 response to Specific Matter for Comment 4.

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?

Conceptually the NZASB 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, the NZASB accepts that comparative information is not restated. Restatement of comparative information is costly and may not be particularly useful to users.

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.

The NZASB 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.

The need to carry forward the reserves is also highlighted in the following situations:

- 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.

- 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.

In summary, the NZASB supports the modified pooling of interests method for amalgamations with all reserves being carried over to the combined entity.

Subject to our proposed accounting for reserves in equity, we agree with the proposal in the Exposure Draft for the accounting of the net residual amount in cases of amalgamations of entities under common control and entities not under common control.

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?

The NZASB agrees with the acquisition method of accounting for combinations that are acquisitions. There is no public sector specific reason for a different accounting method from the for-profit sector.

Other Matters

Additional guidance for applying the acquisition method where no consideration is transferred

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.

Disclosures

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.

Consequential Amendments

In the consequential amendments to IFRS 3 *Business Combinations* (2008), the amendments to IAS 16 *Property, Plant and Equipment*, paragraph 44 were:

> 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. 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.

It appears that this was missed as a consequential amendment to the equivalent paragraph in IPSAS 17 *Property, Plant and Equipment*. 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:

Depreciation

…

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. 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.

We recommend the IPSASB include this amendment in the final standard for Public Sector Combinations.



The Japanese Institute of
Certified Public Accountants

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June 30, 2016

Mr. James Gunn
Managing Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario, Canada M5V 3H2

Comments on Exposure Draft 60 "Public Sector Combinations"

Dear Mr. Gunn,

The Japanese Institute of Certified Public Accountants ("we", "our", and "JICPA") is pleased to provide you with our comments on Exposure Draft 60 "Public Sector Combinations."

I. Comments on the specific matter

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?

We agree with the scope of the Exposure Draft.

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?

We generally agree with the approach in the Exposure Draft.

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" 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.

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?

We agree that the modified pooling of interests method of accounting should be used in accounting for amalgamations.

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?

We agree with the proposals in the Exposure Draft.

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?

We agree that the acquisition method of accounting should be used in accounting for acquisitions.

II. Other comments

1. Definition of terms (AG4)

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.

2. Paragraph 30

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.

3. Paragraph 31

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.

Yours sincerely,

Naohide Endo
Executive Board Member
Public Sector Accounting and
Audit Practice
JICPA

Azuma Inoue
Executive Board Member
Public Sector Accounting and
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30 June 2016

Mr. John Stanford
International Public Sector Accounting
Standards Board
529 Fifth Avenue, 6th Floor
New York
NY 10017, USA

submitted electronically through the IPSASB website

Re.: Proposed International Public Sector Accounting Standard (IPSAS), Public Sector Combinations

Dear Mr. Stanford,

The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with our comments on the Exposure Draft “Public Sector Combinations” (hereinafter referred to as “the ED”).

This letter includes general comments. We respond to the Specific Matters for Comment (SMCs) in the appendix.

General comments

As the IDW 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.

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

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB;
Dr. Daniela Kelm, RA LL.M.

develop this ED tailored to the public sector environment to deal with the differentiation between amalgamations and acquisitions.

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. We refer to the appendix for further details of these and other concerns.

If you have any questions relating to our comments in this letter, we should be pleased to discuss matters further with you.

Yours truly,

Klaus-Peter Feld
Executive Director

Gillian G. Waldbauer
Head of International Affairs

541/584

Appendix

Specific Matters for Comment

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?

We agree with the proposed scope of the ED, and the explicit exclusions listed in paragraph 3.

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.

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.

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?

Yes. However, we have the following comments:

Amalgamations

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”).

Acquisitions

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.

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.

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.

Definitions

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:

"An amalgamation is …..

(a) …
(b) All parties to the combination are under common control of another party, or
(c) A public sector combination in which
    a. one party to the combination gains control of one or more operations; and
    b. no further factors exist that are persuasive that the economic substance of the transaction is that of an acquisition."

"An acquisition is a public sector combination in which

(a) one party to the combination gains control of one or more operations; and
(b) one or more further factors exist that are persuasive that the economic substance of the transaction is that of an acquisition."

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?

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.

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.

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.

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?

In our view, the ED proposals represent the most appropriate treatment for any adjustments arising on amalgamation.

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?

We agree with the proposed treatment outlined above.

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?

We agree that an acquisition method of accounting analogue to IFRS 3 will generally be appropriate for acquisitions within the public sector.

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.

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.

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Our Ref: PSD/ED09/2016

Thursday, 23 June 2016

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

Dear Mr Stanford,

RE: Exposure Draft ED 60: Proposed International Public Sector Accounting Standard - Public Sector Combinations

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Exposure Draft (ED 60), *Proposed International Public Sector Accounting Standard - Public Sector Combinations*, issued by the International Public Sector Accounting Standards Board (IPSASB) of IFAC.

The Institute 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.

We have included our responses to each of the Specific Matters for Comment in an appendix to this letter.

If you would like to discuss these comments further, please contact the undersigned on nixon.omindi@icpak.com.

Yours Faithfully,

Nixon Omindi
For Professional Standards Committee

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?

We agree with the scope as defined in this exposure draft.

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?

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.

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.

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?

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 Business Combinations 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.

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?

ICPAK 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.

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?

As noted in our comments to question 3 above, ICPAK agrees that the acquisition method in IFRS 3 should be used in accounting for acquisitions.

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30 June 2016

Dear Sir/Madam

COMMENT ON EXPOSURE DRAFT 60: PUBLIC SECTOR COMBINATIONS

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

We welcome the opportunity to comment on Exposure Draft 60: *Public Sector Combinations.*

Exposure Draft 60: *Public Sector Combinations* aims to establish requirements for classifying, recognizing and measuring public sector combinations.

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.

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

Yours sincerely

KPMG Services Proprietary Limited

Per : Werner Roetz
Director
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KPMG Services Proprietary Limited is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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Registration number 1999/012876/07

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Chief Executive: TH Hoole

Executive Directors: N Dlomu, M Letsitsi, SL Louw, NKS Malaba, M Oddy, M Saloojee, CAT Smit

Other Directors: ZA Beseti, ZH De Beer, LP Fourie, N Fubu, AH Jaffer (Chairman of the Board), FA Karreem, ME Magondo, F Mall, GM Pickering, JN Pierce, T Rossouw, GCC Smith

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

KPMG

International Public Sector Accounting Standards Board
COMMENT ON EXPOSURE DRAFT 60:
PUBLIC SECTOR COMBINATIONS
30 June 2016

SPECIFIC MATTERS FOR COMMENT

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?

We support the proposed scope of the Exposure Draft.

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?

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 combination, as well as the indicators listed in paragraphs 12 and 13.

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.

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.

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?

We agree that the modified pooling of interests method of accounting should be used to account for amalgamations.

KPMG

International Public Sector Accounting Standards Board
COMMENT ON EXPOSURE DRAFT 60:
PUBLIC SECTOR COMBINATIONS
30 June 2016

In South Africa, the Accounting Standards Board (ASB) is the national public entity charged with developing and maintaining financial reporting standards that lead to proficient performance in the public sector, namely Standards of Generally Recognised Accounting Practice (GRAP). GRAP 107: *Mergers* was issued in November 2010 and takes a similar approach to the modified pooling of interest method.

GRAP 107: *Mergers* requires the combined entity to recognise all the assets acquired and liabilities assumed at their carrying amounts, similar to ED 60. GRAP 107: *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.

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.

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.

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?

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.

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?

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.

KPMG

International Public Sector Accounting Standards Board
COMMENT ON EXPOSURE DRAFT 60:
PUBLIC SECTOR COMBINATIONS
30 June 2016

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?

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*.

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 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.

OTHER COMMENTS

Measurement period

Paragraph 102 states that the measurement period shall not exceed one year from the acquisition date. We are of the opinion that a two year measurement period may be more appropriate, as the acquirer will need to determine the fair value of the identifiable assets acquired and liabilities assumed. As noted in our response to Specific Matter for Comment 5, the acquirer might experience challenges in determining these fair values. Whilst the one year measurement exemption might be suitable for private sector entities, it might be difficult for public sector entities to determine the fair value of certain assets and liabilities and thus a longer measurement period is proposed.

Guidance for combining entities

ED 60 does not provide accounting and disclosure requirements for the combining entities. We recommend that accounting and disclosure requirements with regards to the de-recognition of the combining entities' assets and liabilities be provided in the IPSAS Standard on Public Sector Combinations.

Disclosure of the intended combination

ED 60 does not provide disclosure requirements with regards to the entities' intention to undertake a public sector combination. We recommend that disclosure requirements be provided in the IPSAS Standard on Public Sector Combinations. Possible disclosure requirements include the intent to undertake a public sector combination, the nature and reasons for the combination taking place and the financial implications of the combination.

ED 60 PUBLIC SECTOR COMBINATIONS

Dear IPSASB,

Thank you so much for the opportunity to comment on the ED 60 Public Sector Combinations.
We, I agree with the wording and provisions in the draft.
However, you may consider the following paragraph 13 (b) as

A public sector combination is subject to approval by each party's citizens through referenda (paragraph AG36 provides additional guidance);

Comment [A1]: Insert or an enabling law

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CNOCP
Conseil de normalisation des comptes publics

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Paris, July 4, 2016

Mr John Stanford
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International Public Sector Accounting Standards Board
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277 Wellington Street, 4th floor
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Re: Response to Exposure Draft ED60 *Public Sector Combinations*

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Exposure Draft ED60 *Public Sector Combinations* published in January 2016.

One of the main objectives of the public sector in France 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 France.

In that sense, a major public sector difference with the private sector is the absence of quantifiable ownership interest in public sector entities.

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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.

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.

Finally, we would also suggest that the standard should address the accounting treatment in the accounts of the entity that disposed of the operation.

Details of our response to the specific matter for comment are set out in the following appendix.

Yours sincerely,

Michel Prada

CNOCP
Conseil de normalisation des comptes publics

APPENDIX

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?

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*.

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.

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 resulting entity.

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.

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?

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 France, the proposed approach seems to us appropriate for the classification and the ensuing accounting treatment.

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.

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.

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).

Going into further detail, we note that, in the illustrative examples provided in scenario 9 and scenario 13[1], where the indicators relating to the decision-making process[2] are considered, it would be useful to clarify[3] 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 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).

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?

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.

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 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.

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1 Please note that these are examples that we picked out, but we did not review all the illustrative examples for completeness purposes.

2 See ED60 paragraph 13(a)

3 More specifically, in paragraphs IE105 and IE146.

Additionally, with respect to the exceptions to both the recognition and measurement principles[4], we would suggest that the provision that allows not recognising taxation items that are forgiven as a result of the amalgamation[5] should be clarified to permit the exception only where forgiveness is explicitly/officially granted by the tax authority and well documented.

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?

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.

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.

[4] See paragraphs 33 and 34

[5] In paragraph 33, we note that the term « acquisition » should be replaced with that of amalgamation.

CNOCP
Conseil de normalisation des comptes publics

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?

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.

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Paris, le 27 JUIN 2016

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Subject: Exposure Draft 60 Public sector combinations.

I am writing on behalf of the French Directorate of Public Finances (hereinafter mentioned as DGFiP) to express our views on the mentioned above exposure draft (hereinafter mentioned as ED).

The Head of Central Government Accounting Department

François Tanguy

MINISTÈRE DES FINANCES
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This ED deals with combination in public sector.

The French public sector 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.

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.

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.

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...).

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.

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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?

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.

- 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.
- 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[1] or it can be a merger entity, ie one of the initial entity with an extended scope[2]. 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.
- 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 weither in the accounts of the transferring entity or those of the resulting entity (mirror effect).

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?

The classification proposed for public sector combinations seems to us relevant.

At the same time, we would draw your attention that in France acquisitions are uncommon. Our administrative and legal framework should conduct to define public combination as amalgamation in most of cases.

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.

1 For example, during the recent modernisation of health care system, 3 entities have been removed, all their assets, liabilities, debts and receivables have been transferred to a new entity especially created to pursue a well-coordinated health public action.

2 For example, the rationalisation of local public sector in France had conducted to reduce the regions from 22 to 13 on the first January 2016.

Specific Matter for Comment 3
Do you agree that the modified pooling of interests method accounting should be used in accounting for amalgamations?
If not, what method of accounting should be used?

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.

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.

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?

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 goodwill regarding the definition of goodwill stated in IFRS 3 and the economic meaning of the goodwill.

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?

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, we haven't identified such a case in France.

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.

Version française

Cette consultation (ED) traite des regroupements d'entités dans le secteur public.

Le secteur public français est engagé dans un processus de rationalisation de son organisation et de ses missions afin de fournir le meilleur service public aux usagers, au moindre coût. De fait, le regroupement d'entités publiques est de plus en plus fréquent. Ces regroupements entre entités publiques ne s'accompagnent pas d'une rémunération contrairement aux regroupements opérés dans le secteur privé. Ainsi, les cas de regroupements similaires à ce qui est pratiqué dans le secteur privé sont très rares. Par conséquent, il est nécessaire de disposer de règles comptables dédiées permettant de refléter fidèlement la réalité de ces opérations.

La classification proposée des regroupements (fusions ou acquisitions), nous semble pertinente, même si les cas d'acquisition sont rares dans le secteur public français. Par ailleurs, la reconnaissance des effets des fusions en situation nette et l'évaluation des actifs et passifs transférés à leur valeur nette comptable nous semblent totalement adaptées aux spécificités du secteur public.

Néanmoins, nous regrettons que l'ED ne tienne pas assez compte des caractéristiques propres au secteur public. Ainsi, le contrôle d'une entité par une autre ne repose généralement pas sur des liens capitalistiques. Dès lors, concernant les opérations d'acquisitions, la reconnaissance au bilan d'un écart d'acquisition et donc de l'évaluation des actifs et passifs transférés à la juste valeur, mériterait d'être traitée au regard de sa signification économique. En effet, un écart d'acquisition positif correspond à la fraction de rémunération versée en contrepartie des avantages retirés de la prise de contrôle de l'entité (élimination d'une entreprise concurrente, assurance d'un approvisionnement, etc.).

Enfin, dans le secteur public, les cas de prise de contrôle d'une entité du secteur privé par une entité publique sont rares et n'ont pas vocation à aboutir à un retour sur investissement.

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Question 1

Le périmètre envisagé dans cet ED vous convient-il ?

Sinon, quels aménagements y apporteriez-vous ?

Il nous semble nécessaire de lever toute ambiguïté sur la signification des termes employés et donc de clarifier certaines définitions. C'est notamment le cas du « contrôle », « d'entité résultante » ou « d'opération ».

- Les critères de contrôle sont déterminants dans la classification de l'opération (fusion ou acquisition) et donc de son traitement comptable. Néanmoins, l'ED fait explicitement référence aux principes retenus pour la consolidation d'entités. Or dans le secteur public, le contrôle ne repose généralement pas sur des liens capitalistiques et donc des droits de propriété quantifiables. En conséquence, les critères de contrôle doivent être complétés.

- Dans le secteur public, l'autorité qui décide d'un regroupement (activités et leurs actifs / passifs dédiés) n'est généralement pas partie prenante à celui-ci et ne correspond donc pas à l'« entité déclarante » ou l'« entité résultante ». Ainsi, une distinction devrait être faite entre l'entité(s) apporteuse(s), qui transfère ses actifs et passifs liés à une opération, et l'entité finale (unité receveuse) qui sera chargée de cette activité dans l'avenir. Cette entité finale peut être créée ex-nihilo[3] ou résulter d'une entité, partie prenante à la fusion, et dont son périmètre d'action est étendu[4]. Par conséquent, la norme comptable devrait proposer des dispositions couvrant toutes les entités concernées par un regroupement, à savoir l'entité initiale (ou les entités initiales), et l'entité finale tout en garantissant la cohérence d'ensemble.

- Au regard de ces éléments, nous considérons que les effets du regroupement, et notamment le montant résiduel, devraient impacter la situation nette et non le résultat que ce soit dans les comptes de l'entité apporteuse ou dans ceux de l'entité résultante (effet miroir).

Question 2

Êtes-vous d'accord avec la classification des regroupements du secteur public envisagée dans cet ED ?

Dans la négative, quel changement proposeriez-vous ?

La classification proposée pour les regroupements au sein du secteur public nous semble pertinente.

Dans le même temps, nous attirons votre attention sur le fait que, dans notre juridiction, les acquisitions seront rares. Notre cadre administratif et juridique devrait conduire à caractériser les regroupements comme des fusions dans la plupart des cas.

Toutefois, nous sommes conscients de l'existence de cadres différents dans d'autres États pouvant conduire à caractériser des regroupements comme des acquisitions, ce qui rend nécessaire la définition de traitements comptables adaptés à ces situations.

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3 Par exemple, au cours de la récente modernisation du système de soins, 3 entités ont été supprimées, tous leurs actifs, passifs, dettes et créances ont été transférés à une nouvelle entité créée spécialement pour mettre en œuvre une politique de santé publique mieux coordonnée.

4 Par exemple, la rationalisation du secteur public local en France a conduit à réduire le nombre des régions de 22 à 13 au 1er janvier 2016.

Question 3

D'après vous, la comptabilisation des fusions (amalgamation) peut-elle être réalisée via une méthode modifiée de la mise en commun des intérêts (modified pooling of interests method) ?
Sinon quelle méthode privilégieriez-vous pour comptabiliser ces intérêts ?

Dans le cadre de fusion d'entités publiques, l'utilisation de la méthode modifiée des intérêts mis en commun nous convient. En effet, cette méthode modifiée, basée sur la valeur nette comptable des actifs et passifs, semble pertinente.

Néanmoins, s'agissant des § 33 et 34 de l'ED, nous souhaitons mettre en évidence, d'une part, le principe juridique de la continuité des dettes et des créances dans le cadre d'une opération de regroupement d'entités publiques, et, d'autre part, le respect des principes comptables de non-contraction et de non-compensation. La mise en œuvre de ces deux principes ne peut conduire à l'élimination de dettes ou de créances transférées (contraction des dettes et créances réciproques). De ce fait, tous les actifs et tous les passifs existants avant le regroupement doivent être transférés à l'entité résultante. L'annulation d'un écart potentiel (comme pour des dettes fiscales résultant de différents régimes d'imposition) nécessitera une décision juridique après le regroupement. Par exemple, si l'entité résultante n'est pas assujettie à l'impôt qui aurait du être payé par l'entité transférant l'opération, alors une décision administrative sera émise pour annuler juridiquement la dette d'impôt dans les états financiers de l'entité résultante.

Question 4

- Pensez-vous que les ajustements doivent être réalisés par le montant résiduel plutôt que par d'autres composantes de l'actif net/capitaux propres, comme par exemple l'écart de réévaluation? Dans la négative, comment devraient-être comptabilisés ces ajustements ?

– Concernant le montant résiduel résultant d'une fusion, pensez-vous qu'il doit être reconnu :

- Dans le cas d'une fusion aboutissant à un contrôle commun, en tant que recapitalisation ou rémunération par dividende ; et

- Dans le cas d'une fusion sans contrôle commun, directement dans le haut de bilan (actif net ou capitaux propres)?

Si non, comment comptabiliser le montant résiduel ?

Oui. L'éventuel montant résiduel résultant de fusions entre entités publiques devrait être comptabilisé en situation nette dans les comptes de l'entité résultante car, comme indiqué dans le § 36 de l'ED, ces opérations ne donnent pas lieu à la reconnaissance d'un goodwill au regard d'une part, de sa définition dans la norme IFRS 3 et d'autre part, de sa signification économique.

Question 5 (paragraphe 4.76 et suivants)

Pour les acquisitions, pensez-vous que les dispositions d'IFRS 3 « combinaison d'entreprises » peuvent être utilisées ?
Sinon, quelle méthode préconisez-vous ?

Pour les cas d'acquisitions qui sont identiques à la fois dans le secteur public et dans le secteur privé, nous ne voyons pas de raisons de déroger à la norme IFRS 3. Mais, comme expliqué précédemment, nous n'avons pas identifié de tel cas en France.

Néanmoins, comme indiqué en introduction, une réflexion doit être menée sur la pertinence de la reconnaissance au bilan d'un écart d'acquisition. En effet, les cas de prise de contrôle d'une entité du secteur privé par une entité publique sont rares et ne visent pas un retour sur investissement.

PUBLIC SECTOR ACCOUNTING BOARD
PSAB CCSP
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June 30, 2016

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277 Welling Street West
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Re: Exposure Draft 60 “Public Sector Combinations”

Thank you for the opportunity to comment on the proposed IPSAS on Public Sector Combinations.

Scope

We support addressing public sector combinations between entities under common control in this proposed IPSAS 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.

IFRS convergence

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.

Accounting methods

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.

Key issue

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.

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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.

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.

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 description of amalgamations in the dictionaries.

Classification approach

We have reservations with the classification approach and related guidance proposed in the ED. We question if it would result in:

- consistent accounting treatment for similar combinations; and
- accounting of public sector combinations reflecting their economic substance.

Consistent accounting treatment

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.

Accounting reflecting economic substance

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:

- become unambiguous criteria that reflect the economic substance of a combination; and

- justify why the prescribed accounting method would better reflect the economic substance of combinations with these characteristics.

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.

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.

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 represent the economic substance of a combination, regardless if they are imposed or negotiated.

A simplified approach

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.

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:

- there is a controlling entity and a controlled entity relationship between parties in a combination (paragraph AG23);
- a combination that has commercial substance (paragraph AG24);
- 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);
- a donation of the net assets of an operation (paragraph AG30);
- an uncompensated seizure or nationalization (paragraph AG30); and

- public sector combinations not under common control (paragraph AG37).

We believe that this transaction-based approach would improve the understandability and applicability of the standard for more consistent accounting treatment.

However, given our views on the key issue that should be addressed in the proposed IPSAS and what constitutes the economic substance of 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.

Please note that these are views of staff and do not represent the views of the Public Sector Accounting Board. Our more detailed comments are provided in the attached Appendix.

Sincerely,



Lydia P. So

APPENDIX: RESPONSES TO IPSASB SPECIFIC MATTERS FOR COMMENT 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?

We support addressing public sector combinations under common control in this proposed IPSAS because they are common transactions in the public sector.

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.

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.

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?

We have reservations with the classification approach and related guidance proposed in the ED. We question if it would result in:

- *consistent accounting treatment for similar combinations; and*
- *accounting of public sector combinations reflecting their economic substance.*

Consistent accounting treatment

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.

Accounting reflecting economic substance

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:

- *become unambiguous criteria that reflect the economic substance of a combination; and*
- *justify why the prescribed accounting method would better reflect the economic substance of combinations with these characteristics.*

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.

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.

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.

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.

A simplified approach

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.

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:

- *there is a controlling entity and a controlled entity relationship between parties in a combination (paragraph AG23);*
- *a combination that has commercial substance (paragraph AG24);*
- *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);*
- *a donation of the net assets of an operation (paragraph AG30);*
- *an uncompensated seizure or nationalization (paragraph AG30); and*
- *public sector combinations not under common control (paragraph AG37).*

We believe that this transaction-based approach would improve the understandability and applicability of the standard for more consistent accounting treatment.

Specific concerns with the proposed guidance in the ED

Economic substance

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.

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.

Also, combinations entered through mutual agreement can be amalgamations or acquisitions (paragraph AG24).

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.

Indicators relating to consideration

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.

Indicators relating to the decision-making process

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.

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 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.*

Guidance for paragraph 14

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.

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.

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?

As indicated in our answer to Specific Matter for Comment 2, 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 method.

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.

We find the following guidance regarding the modified pooling of interests method confusing:

- *Guidance on income taxes in paragraph 33 does not seem to reflect the guidance in paragraphs AG57-58.*
- *It is unclear what the second half of paragraph 20 intends to clarify about the amalgamation date.*

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?

We agree that the adjustments to conform to the accounting policies of the resulting entity should be made to the residual amount.

We agree that the residual amount related to combinations between entities under common control should be recognized as ownership contribution or distribution.

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.

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?

As indicated in our answer to Specific Matter for Comment 2, 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 not relevant to public sector is removed.

THE TREASURY
Kaitohutohu Kaupapa Rawa

12 July 2016

AC-4-5-14

Mr John Stanford
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017 United States of America

Dear John

ED 60: Public Sector Combinations

The New Zealand Treasury welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board on ED 60 *Public Sector Combinations*.

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:

- proposed treatment of a single residual amount, and
- lack of flexibility around prior-year comparatives.

We have attached our responses to the specified matters for comment.

Yours sincerely

Nicola Haslam
Manager, Fiscal Reporting

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New Zealand

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ATTACHMENT

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?

We agree with the scope of the standard applying to transactions or other events that meet the definition of a public sector combination.

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?

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.

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.

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.

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.

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.

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?

We support the modified pooling of interest method of accounting, but with two further proposed modifications:

- A different approach to accounting for the residual amount as noted in our response to Specific Matter for Comment 4 below, and
- An option to include prior comparatives, particularly for combinations under common control.

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.

In our jurisdiction there are regular restructures of entities within the New Zealand 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.

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.

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. 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.

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?

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.

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.

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.

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 Employee Benefits 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.

These separate reserves are typically re-measurements of specific assets and liabilities inherited at 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.

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.

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]

We disagree with the IPSASB's conclusion in BC 66 on the benefits and costs in relation to the consequence of ongoing consolidation adjustments.

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".

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 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.

The Treasury 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.

Similarly the Treasury 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.

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.

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.

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.

In the case of an amalgamation under common control, we agree that accumulated surplus and deficits should be treated as an ownership contribution or ownership distribution.

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?

We agree with the acquisition method of accounting as set out in IFRS 3, Business Combinations.

United Nations Nations Unies

HEADQUARTERS • SIEGE NEW YORK, NY 10017

TEL.: 1 (212) 963.1234 • FAX: 1 (212) 963.4879

REFERENCE:

15 July 2016

Dear Mr. Stanford,

Exposure Draft 60: *Public Sector Combinations*

1. This submission has been prepared by the UN IPSAS Team to comment specifically on the specific matter for comment 2 of the above mentioned Exposure Draft (ED) of the IPSAS Board as shown below:

Specific Matter for Comment 2:

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?

Response of the UN IPSAS Team

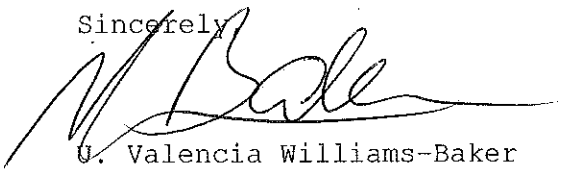
3. In general, we agree with the adopted approach to classifying the PSC but it is our view that further detailed guidance is still required, especially when the classification determination and effective date become issues due to the element of time as described in the Annex to this memorandum. The Annex describes an actual scenario of progressive combination of entities.

4. 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 actual combination date.

5. Given this example of the United Nations 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 the United Nations and other preparers of IPSAS-compliant financial statements to report on PSC with similar issues.

6. The United Nations appreciates the work that the IPSAS Board is carrying out in developing accounting standards and guidance for public sector entities, including international organizations such as the United Nations. Should you have any queries on our comments, please contact Mr. Jeriphanos Gutu, Officer-in-Charge, UN IPSAS Team, at gutuj@un.org or myself at williams-baker@un.org.

Sincerely,



V. Valencia Williams-Baker
Deputy Director, Accounts
Division, OPPBA

Mr. John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto Ontario Canada M5V 3H2

ANNEX

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?

Think Ahead ACCA

Exposure Draft 60, Public Sector Combinations

A public consultation issued by International Public Sector Accounting Standards Board® (IPSASB®)
Comments from ACCA to IPSASB
30th June 2016

Ref: TECH CR ED 60 Public Sector Combinations

ACCA is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA has 178,000 members and 455,000 students in 181 countries, with approximately 75,000 members and over 70,000 students in the UK, and works to help them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 92 offices and centres and more than 7,110 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; pensions; education; and corporate governance and corporate social responsibility. www.accaglobal.com

Further information about ACCA's comments on the matters discussed here can be requested from:

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Think Ahead ACCA

ACCA welcomes the opportunity to comment on the proposals issued by IPSASB. The ACCA Global Forum for Public Sector has considered the matters raised and their views are represented in the following:

SUMMARY

We agree with the proposed amendments set out in Exposure Draft 60 relating to public sector combinations.

AREAS FOR SPECIFIC COMMENT:

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?

We agree with the proposed amendments for the reasons given in the Basis for Conclusions

SPECIFIC MATTER FOR COMMENT 2:

Do you agree with the approach to classifying public sector combinations adopted in this Exposure Draft (see paragraphs **Error! Reference source not found.–Error! Reference source not found.** and **Error! Reference source not found.–Error! Reference source not found.**)? If not, how would you change the approach to classifying public sector combinations?

We agree with the proposed amendments for the reasons given in the Basis for Conclusions

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?

We agree with the proposed amendments for the reasons given in the Basis for Conclusions

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Think Ahead ACCA

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?

We agree with the proposed amendments for the reasons given in the Basis for Conclusions

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?

We agree with the proposed amendments for the reasons given in the Basis for Conclusions

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Exposure Draft 60, Public Sector Combinations

Electronic response received

Group	Government Organizations
Country/Region	Nigeria
Organization	Local Governments Audit, Kaduna State

SPECIFIC MATTER FOR COMMENT 1

Comment: Yes

SPECIFIC MATTER FOR COMMENT 2

Comment: Yes

SPECIFIC MATTER FOR COMMENT 3

Comment: Yes

SPECIFIC MATTER FOR COMMENT 4

Comment: Yes

SPECIFIC MATTER FOR COMMENT 5

Comment: Yes

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Exposure Draft 60, Public Sector Combinations

Electronic response received

Group	Government Organizations
Country/Region	Nigeria
Organization	Office of the Auditor General for Local Governments, Katsina State

I ADMIRE YES.

Denise Silva Ferreira Juvenal

rio1042370@terra.com.br

Accountant

Commentary individual

Rio de Janeiro / Brazil

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
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23 July, 2016

Public Sector Combinations

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

Guide for Respondents
The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment request for the Exposure Draft are provide below.
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?

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 impact in the identification of Public Sector Combinations, I have doubt in relation this point.

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 change the approach to classifying public sector combinations?

Yes, I agree with the approach to classifying public sector combinations adopted in this Exposure Draft.

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?

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

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?

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.

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?**

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.

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?

Yes, I agree with the acquisition method of accounting (as set out in IFRS 3, Business Combinations) 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.

Thank you for opportunity for comments this proposal, if you have questions do not hesitate contact to me, rio1042370@terra.com.br.

Yours,

Denise Silva Ferreira Juvenal
rio1042370@terra.com.br
5521993493961

MALAYSIAN INSTITUTE
OF ACCOUNTANTS

3 August 2016

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Toronto, Ontario M5V 3H2
CANADA

Dear John,

EXPOSURE DRAFT 60: *PUBLIC SECTOR COMBINATIONS*

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft 60 ("ED 60") *Public Sector Combinations* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the standard. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2279 9277 or by email at rasmimi@mia.org.my.

Yours sincerely,

DATO' HAJI CHE PEE SAMSUDIN
Chairman of Public Sector Accounting Committee
MALAYSIAN INSTITUTE OF ACCOUNTANTS

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Appendix 1

Part I: Specific Matter for Comment

Do you agree with the scope of the Exposure Draft? If not, what changes to the scope would you make?
We support the scope of the ED.
Do you agree with the approach to classifying public sector combinations adopted in this Exposure Draft (see paragraph 7–14 and AG10–AG50)? If not, how would you change the approach to classifying public sector combinations?
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: 1. Economic substance We noted that paragraph 9 states that *'in assessing whether the presumption is rebutted, an entity considers the economic substance of the public sector combination'*. Paragraph 9 further states that *'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.'* However, paragraph AG19 of the ED states that *'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'*. 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. For better clarity, we propose paragraph AG19 to be amended as follows: *'In assessing whether the presumption is rebutted, an entity considers the economic substance of the public sector combination by taking into accounts ~~and~~ the indicators in paragraphs 12–13 and if relevant, the additional matters to be considered in paragraph 14'*. 2. Assessment of indicators Paragraph 9 also states that *'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.'* 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. 3. Implementation Examples 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.

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.

4. Editorial error

We believe the word 'and' in paragraph 9 which states that '*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*' should be replaced with the word 'an'.

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?

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.

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?

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.

Paragraph 65 of IAS 22 (revised 1993) *Business Combinations* states that '*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 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*'. 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.

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.

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 the residual amount for amalgamations under common control and not under common control are presented in the financial statements.

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?

We agree that the acquisition method of accounting (as set out in IFRS 3 *Business Combinations*) 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.

Part II: Other comments

Additional Comment 1

Paragraph AG17 states that '*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*'.

For better clarity, we propose paragraph AG17 to be amended as follows :

'*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*'.

Additional Comment 2

Paragraph 11 states that '*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*'.

Paragraph 14 states that '*if the analysis of the indicators relating to consideration and the decision-making process 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*'.

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:

'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 and resulting accounting treatment 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~~AG50 provide additional guidance'.

Additional Comment 3

Paragraph IE127 states that '*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'.*

For better clarity, we propose the wordings in the last sentence of the paragraph to be amended as follows:

'*...However, the reason for this is that Not-for-Profit Organization R voluntarily surrendered the rights to receive payment of consideration'.*

Additional Comment 4

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:

a) Scenario 6:
Paragraph IE71 states that '*taking these factors together, the Department of Health considers that the 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*'. 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.

b) Scenario 7:
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.

Additional Comment 5

Paragraph 18 states that *'the resulting entity shall thereafter be identified as the entity that obtains control of the combining operations as a result of the amalgamation'.* Paragraph 5 states that 'An amalgamation gives rise to a resulting entity and is either:
(a) A public sector combination in which no party to the combination gains control of one or more operations; or
(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.

However, the words 'obtains control' in paragraph 18 may give an impression that it is an acquisition. We also noted the words 'obtains control' are used throughout the ED on discussion on amalgamation.

Additional Comment 6

Paragraph AG39 states that *'in such circumstances, the entity considers all other factors in determining whether the presumption should be rebutted'.* We would like to clarify what are some of these 'other factors'.

CPA MALAYSIA

The Malaysian Institute of Certified Public Accountants

(Institut Akauntan Awam Bertauliah Malaysia) (3246-U)

August 15, 2016

Mr John Stanford
Technical Director
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International Federation of Accountants
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United States of America

By Email
johnstanford@ipsasb.org

Dear Mr John Stanford

COMMENTS ON IPSASB EXPOSURE DRAFT 60, *PUBLIC SECTOR COMBINATIONS*

We thank you for the opportunity to comment on IPSASB Exposure Draft 60, *Public Sector Combinations.*

In this regard, we are pleased to attach the Institute's comments as set out in Appendix I for your consideration.

Please do not hesitate to contact the undersigned or the Institute's Senior Technical Manager, Ms Hoh Kim Hyan, at +603-2698 9622 should you require any clarification.

Thank you.

Yours sincerely

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THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
(INSTITUT AKAUNTAN AWAM BERTAULIAH MALAYSIA)

International Public Sector Accounting Standards Board

Exposure Draft 60

Public Sector Combinations

Questionnaire

The IPSASB welcomes comments on all matters discussed in this Consultation Paper. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this Consultation Paper, it will be helpful for the IPSASB to be made aware of this view.

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?

MICPA's Comments:

The Institute agrees with the scope of the Exposure Draft.

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?

MICPA's Comments:

The Institute agrees with the approach to classifying public sector combinations adopted in the Exposure Draft.

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?

MICPA's Comments:

The Institute agrees that the modified pooling of interest method of accounting should be used in the accounting for amalgamations.

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?

MICPA's Comments:

Yes, MICPA agrees.

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?

MICPA's Comments:

MICPA agrees that the acquisition method of accounting should be used in accounting for acquisitions.