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International Public Sector Accounting Standards Board (IPSASB)

70 York Street, Suite 710

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Canada

SUBJECT: Comments on Exposure Draft 96, Definition of an Operation and Recognition of Acquired Liabilities and Contingent Liabilities (Amendments to IPSAS 40)

Dear Members of the IPSASB,

Thank you for the opportunity to comment on Exposure Draft (ED) 96. As an Internal Auditor with a Master's background in Accounting and Auditing operating in Ecuador, I appreciate the Board's ongoing efforts to align public sector standards with IFRS 3. However, applying these private-sector principles directly to the public sector presents unique operational and auditability challenges, particularly in emerging economies.

Please find my detailed observations and recommendations below:

1. The Concentration Test and Fair Value Measurement (Paragraph AG4B) The proposed optional concentration test relies heavily on determining the current or fair value of the gross assets acquired. While intended to simplify the assessment of whether a set of activities is an operation, it may inadvertently complicate it. In the public sector, many assets (e.g., historical landmarks, specialized infrastructure, or restricted-use land) lack an active market.

- **Recommendation:** The IPSASB should clarify how to apply this optional test when the fair value of gross assets cannot be measured reliably without incurring undue cost or effort. Alternatively, the Board could provide specific practical expedients for valuing non-cash-generating public sector assets specifically for the purpose of this test.

2. Recognition of Contingent Liabilities Regardless of Probability (Paragraph 77A) ED 96 proposes that an acquirer shall recognize a contingent liability assumed in an acquisition if it is a present obligation arising from past events and its fair value can be measured reliably, explicitly stating this applies *even if it is not probable* that an outflow of resources will be required to settle the obligation.

- **Concern from an Audit Perspective:** Determining the "fair value" of an improbable event is highly subjective and leaves significant room for estimation bias. In public sector amalgamations, recognizing improbable liabilities could artificially inflate opening liabilities, distorting the financial reality of the acquiring entity. Furthermore, auditing the "reliability" of a measurement for a highly improbable contingent liability lacks robust methodological grounding.

- **Recommendation:** The IPSASB should introduce stricter guidelines or specific measurement frameworks for valuing improbable contingent liabilities to prevent manipulation or undue volatility in the financial statements during public sector combinations.

3. Contextual Relevance of Illustrative Examples (Paragraphs IE279 - IE326) The illustrative examples provided in the ED—such as the acquisition of a drug candidate by a biotech entity (Example B/C) or a television station (Example D)—are directly imported from the private sector context of IFRS 3.

- **Recommendation:** To truly assist public sector preparers and auditors in understanding and applying the standard, the IPSASB should replace or supplement these with realistic public sector scenarios. Examples such as the amalgamation of two municipal hospitals, the transfer of public transit operations between regional governments, or the absorption of a public waste management facility would significantly enhance the standard's practical application.

Thank you for considering these comments. I remain available should you require any further clarification on these points.

Sincerely,

Henry Marcelo Benavidez Campoverde

Internal Auditor