May 13, 2026

International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants (IFAC)

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

I appreciate the opportunity to comment on Exposure Draft (ED) 96, "***Definition of an Operation and Recognition of Acquired Liabilities and Contingent Liabilities (Amendments to IPSAS 40)***."

Overall, i support the IPSASB's initiative to align IPSAS 40 with the corresponding amendments made to *IFRS 3 (Business Combinations)* by the International Accounting Standards Board (IASB). I believe the proposed amendments will improve consistency, comparability, and clarity in accounting for public sector combinations and remove the diversity in application.

Our detailed comments are as follows:

1. Definition of an Operation:

I support the revised guidance relating to the definition of an operation, particularly:

a) the introduction of the *optional concentration test*; and
b) the enhanced guidance for assessing whether an acquired process is substantive.

The optional concentration test will provide practical relief and reduce complexity in assessing whether an acquired set of activities and assets constitutes an operation. This is especially relevant in public sector restructurings and acquisitions involving real estate portfolios, infrastructure assets, and service delivery arrangements.

I also agree with the clarification that outputs are not required for an integrated set of activities and assets to qualify as an operation, provided substantive processes and inputs exist. This approach appropriately accommodates early-stage or service-oriented public sector activities.

2. Assessing Substantive Processes

I support the introduction of paragraphs AG9A–AG9D, which provide clearer criteria for determining whether an acquired process is substantive.

The emphasis on the existence of an organized workforce possessing the necessary skills, knowledge, and experience is appropriate and enhances consistency in application. The illustrative examples are also helpful in demonstrating practical application across different scenarios.

However, I encourage the IPSASB to consider adding more public sector–specific examples involving:

i. government restructurings,
ii. transfer of regulatory functions,
iii. shared service arrangements, and
iv. non-revenue-generating operations.

Such examples would improve applicability for jurisdictions where outputs are primarily service-oriented rather than revenue-based.

Amendment No. 1
*I proposed one amendment in the **Definition of "Substantive Process":***
*In the public sector, many services are provided through automated systems or third-party contracts without a large "organized workforce" of employees. Keeping in view of this rationale, it is suggested that the definition of a "substantive process" be broadened to explicitly include **automated platforms or digital infrastructure that can function without a significant human workforce.***

Amendment No. 2
Social Benefit Considerations:
*It is suggested that the "concentration test" should consider non-financial value. In the public sector, an asset (like a specialized hospital or a national park) might have immense social value but low "current value" on paper. Keeping in view of this rationale, it is suggested that the assessment of whether a set of assets is an "operation" should include a qualitative look at the **service potential** provided, not just the financial value.*

Clarification on "Internal Recipients"
The ED described that an "operation" may have recipients who are internal to an entity.

It is suggested that more illustrative examples specifically for **Shared Service Centers**. Many public sector combinations involve consolidating back-office functions (HR, IT, Payroll, data centers) that never generate external revenue. More examples in this area would be highly beneficial for government accountants

Alignment with RPG 3:
The ED notes that its definitions of "input" and "output" differ from those in **RPG 3, *Reporting Service Performance Information***.
It is recommended that the IPSASB work toward a unified definition of "outputs" across all its standards. Having different definitions for "outputs" in accounting (IPSAS 40) versus performance reporting (RPG 3) may confuse preparers and users of public sector reports.

3. Recognition of Acquired Liabilities and Contingent Liabilities

I support the proposed alignment with IPSAS 19 (Provisions, Contingent liabilites and contingent asstets) and the Conceptual Framework regarding the assessment of present obligations.

The clarification that contingent liabilities may only be recognized where:

a) a present obligation exists as a result of past events; and
b) fair value can be measured reliably,

will improve consistency and reduce diversity in practice.

I also support the explicit prohibition on recognizing contingent assets at the acquisition date, as this aligns with the prudence and recognition principles in IPSAS 19.

4. Effective Date and Transition

I support permitting earlier application of the amendments. However, considering implementation challenges in many public sector jurisdictions, particularly developing economies, the IPSASB may consider allowing a sufficient implementation period after issuance of the final standard to facilitate:

a) capacity building,
b) system updates, and
c) professional training
d) Internal financial reporting challenges linked with legal provisions/ laws and regulations

Conclusion

In conclusion, I support the proposed amendments in ED 96 and believe these will enhance the clarity and consistency of accounting for public sector combinations under IPSAS 40.

I appreciate the IPSASB's continued efforts to strengthen public sector financial reporting globally and thank you for considering our comments.

Thank you for considering my comments. I would be happy to provide further details or participate in any related outreach if needed.

Yours faithfully,

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