JUNE 30, 2026

DEFINITION OF AN OPERATION AND RECOGNITION OF ACQUIRED LIABILITIES AND CONTINGENT LIABILITIES (AMENDMENTS TO IPSAS 40)

ED 96 CONSULTATION RESPONSE

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Manj has over 30 years' experience working in public sector, focusing on implementation of accrual accounting across UK central Govt departments and the Whole of Government Accounts consolidation. She has advised several jurisdictions on implementing accrual accounting.

Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.

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Submitted electronically

30 June 2026

Dear IPSASB Members,

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

Dear IPSASB Members,

Thank you for the opportunity to comment on Exposure Draft 96, *Definition of an Operation and Recognition of Acquired Liabilities and Contingent Liabilities (Amendments to IPSAS 40)*. I support the IPSASB's ongoing work to maintain IPSAS so that they remain clear, internally consistent, and responsive to developments in public sector transactions. I also welcome the Board's consideration of relevant IFRS developments, while adapting them appropriately to reflect the distinctive nature of public sector combinations.

Overall Position

I broadly support the proposals in ED 96. The proposed amendments are targeted and helpful because they clarify the definition of an operation and improve the recognition requirements for acquired liabilities and contingent liabilities in public sector combinations. These matters are important in practice because governments and public sector entities frequently undertake restructurings, transfers of functions, amalgamations, controlled entity reorganisations, and acquisitions involving assets, services, obligations, staff, contracts, and policy responsibilities.

I support aligning IPSAS 40 with relevant improvements to IFRS 3 where those improvements enhance clarity and comparability. However, I encourage the IPSASB to retain a public sector lens in finalising the amendments, particularly where combinations arise from legislation, public policy decisions, administrative reorganisations, or non-exchange transfers rather than market transactions.

Summary of Positions

My formal position is summarised below. Overall, I support ED 96, subject to the recommendations set out in this response.

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Proposal area	Formal position	Key rationale or condition
Definition of an operation	Support with clarification	The proposed definition should improve consistency in determining whether an acquired set of activities and assets constitutes an operation. I recommend public sector examples addressing service delivery functions, statutory responsibilities, and transfers of activities without commercial consideration.
Optional concentration test or similar assessment approach	Support if retained as practical relief	A practical assessment tool can reduce unnecessary complexity. If included, it should be clearly explained and adapted for public sector fact patterns where value may not be reflected primarily through market-based consideration.
Recognition of acquired liabilities	Support	Clarifying recognition requirements should improve comparability and reduce diversity in practice. The final amendments should explain how recognition applies to obligations arising from legislation, constructive obligations, service commitments, environmental remediation, employee benefits, and social policy responsibilities.
Recognition of acquired contingent liabilities	Support with safeguards	I support clearer guidance for contingent liabilities acquired in public sector combinations. The final standard should preserve discipline in recognition and measurement so that uncertain obligations are not overstated or recognised without a sufficiently reliable basis.
Alignment with the Conceptual Framework and IFRS developments	Support	Alignment is appropriate where it improves clarity and consistency. However, the IPSASB should continue to tailor IFRS-derived amendments to the public sector context, particularly for amalgamations, non-exchange transactions, and combinations directed by government policy.
Transition and implementation	Support with implementation guidance	I support prospective application or practical transition relief where appropriate. Implementation materials would assist jurisdictions that have limited experience applying IPSAS 40 to complex public sector reorganisations.

Key Recommendations

In finalising ED 96, I recommend that the IPSASB:

- Retain the targeted nature of the amendments while ensuring that all IFRS-derived guidance is adapted appropriately for public sector combinations.
- Include public sector-specific examples for service delivery functions, regulatory functions, statutory transfers, local government amalgamations, and acquisitions of public corporations.
- Clarify how substantive processes, workforce capability, statutory powers, dormant functions, and incomplete transfers should be assessed when determining whether a transferred set constitutes an operation.
- Explain how the definition of outputs applies where an operation delivers services, social benefits, regulatory outcomes, or public policy objectives rather than commercial revenue.
- Clarify the interaction between IPSAS 40 and IPSAS 19 for acquired liabilities and contingent liabilities, particularly where obligations arise from legislation, policy commitments, or administrative direction.
- Provide practical transition and implementation materials, including decision trees, illustrative examples, implementation checklists, and disclosure guidance where information is incomplete at the reporting date.

Detailed Comments

1. Definition of an Operation

I support clarifying the definition of an operation in IPSAS 40. A clearer definition should assist preparers in determining whether a transaction should be accounted for as a public sector combination or as the acquisition of individual assets and liabilities. This distinction is important because the accounting consequences can differ significantly, including in relation to recognition, measurement, disclosures, and the identification of goodwill or a gain from a bargain purchase where relevant.

Public sector examples

I recommend that the final amendments include examples that reflect common public sector fact patterns. These could include the transfer of a service delivery function from one ministry to another, the amalgamation of local authorities, the transfer of a regulatory function, the acquisition of a public corporation, and the transfer of assets together with staff, systems, contracts, and statutory responsibilities. Such examples would help preparers apply the definition consistently where the acquired set does not generate commercial returns but is capable of delivering services or supporting public policy objectives.

Substantive processes

The final amendments should clarify the threshold for identifying a substantive process in a public sector context. In many public sector combinations, the relevant process may be embedded in legislation, statutory authority, staff capability, operating protocols, information systems, programme governance, or established service delivery arrangements. Guidance should explain how these features are assessed when determining whether the transferred set is capable of being managed as an operation.

Statutory powers and workforce capability

Further clarification would also be helpful where a transferred set includes statutory powers, rights, licences, data, budgets, workforce capability, or institutional knowledge, but few physical assets. Public sector operations may depend on legal authority to regulate, license, inspect, enforce, administer benefits, or deliver services. The final amendments should explain whether, and how, such powers and capabilities form part of the inputs and processes needed for an operation.

Dormant or incomplete functions

The IPSASB should also address dormant, temporarily inactive, or incomplete functions. A transferred activity may not be producing outputs at the combination date because of funding cycles, policy decisions, seasonal activity, emergency suspension, or transitional disruption, but may nevertheless retain the capability to deliver services. Similarly, a restructuring may initially transfer only some staff, systems, contracts, data, budgets, or statutory responsibilities. These are common occurrences in the public sector. Guidance would help preparers assess when such a transferred set remains capable of being an operation rather than merely a collection of assets and obligations.

A related issue is whether an optional concentration test or similar practical assessment should be retained. If retained, it should be adapted carefully for public sector circumstances. A test that relies too heavily on market value or the concentration of fair value in a single identifiable asset may not appropriately reflect service potential, specialised assets, statutory responsibilities, or integrated service delivery capability. The final guidance should explain how any practical relief should be applied where value is not primarily evidenced by market-based consideration.

2. Optional Concentration Test or Similar Assessment Approach

If an optional concentration test or similar practical assessment is retained, it should be clearly explained as a practical relief rather than a substitute for applying the definition of an operation. In the public sector, such an assessment should not rely too heavily on market-based values, because specialised assets, statutory responsibilities, service capacity, and integrated public service delivery capability may not be reflected in commercial valuation evidence.

The final amendments should explain how any concentration test applies where the transferred set is organised primarily to deliver services, social benefits, regulatory outcomes, or public policy objectives. This would help avoid a conclusion that an integrated service function is not an operation merely because the value of the transferred set is concentrated in one specialised asset or one group of related assets.

3. Recognition of Acquired Liabilities

I support the proposed amendments addressing the recognition of acquired liabilities. Public sector combinations can involve a wide range of obligations, including employee-related obligations, lease and service contracts, environmental remediation responsibilities, grant commitments, litigation exposures, and obligations arising from legislation or policy commitments. Clearer recognition requirements should reduce diversity in practice and improve comparability between entities and jurisdictions.

I recommend that the IPSASB clarify the interaction between IPSAS 40 and IPSAS 19 for obligations acquired in a public sector combination. In particular, the final amendments should explain whether recognition at the acquisition date depends on the existence of a present obligation, whether the obligation can be measured reliably, and how uncertainty about timing or amount should be reflected. This would be especially useful for obligations transferred through legislation or administrative direction where legal enforceability and practical responsibility may not be straightforward.

4. Recognition of Acquired Contingent Liabilities

I support clearer requirements for acquired contingent liabilities because such obligations can be significant in public sector combinations. Examples may include litigation claims, guarantees, unresolved contractual disputes, environmental obligations, decommissioning responsibilities, and obligations linked to transferred programmes. Recognition and disclosure requirements should provide users with relevant information about risks assumed in a combination without overstating uncertain or remote obligations.

I recommend that the final standard include safeguards to ensure that contingent liabilities are recognised only when the recognition criteria are satisfied and when measurement is sufficiently reliable. Where recognition is not appropriate, robust disclosure may still be necessary to explain the nature, uncertainty, and potential financial effect of significant obligations assumed in the combination.

5. Public Sector Application of IFRS-Derived Guidance

I agree that relevant IFRS 3 developments can provide a useful basis for improving IPSAS 40. Nevertheless, public sector combinations often differ from private sector business combinations. They may be mandated by legislation, undertaken without consideration, driven by service continuity, or designed to improve accountability, efficiency, or public policy outcomes. Accordingly, I encourage the IPSASB to ensure that concepts drawn from private sector guidance are applied with appropriate modification to reflect the substance of public sector arrangements.

In particular, terminology such as inputs, processes, outputs, and substantive processes should be explained in terms that are meaningful for service delivery activities, regulatory functions, policy programmes, and non-commercial operations. The final amendments should emphasise that outputs in the public sector may include goods or services delivered to citizens, regulatory outcomes, social benefits, or the fulfilment of statutory responsibilities, rather than revenue or profit generation.

6. Implementation and Transition

I support a transition approach that is practical and proportionate. Public sector entities may not frequently apply IPSAS 40, and when they do, transactions can be complex, time-sensitive, and driven by policy decisions rather than commercial negotiations. Entities may need time to update accounting policies, transaction assessment templates, consolidation procedures, and guidance for finance teams involved in restructurings and transfers of functions.

I recommend that the IPSASB provide implementation support materials, including decision trees, illustrative examples, and a comparison between the previous and revised requirements. These materials would support consistent application across jurisdictions and reduce the risk that similar public sector combinations are accounted for differently because of uncertainty about the revised definition of an operation or the recognition of acquired obligations.

Implementation guidance should address practical challenges that are particularly relevant in the public sector. Combinations are often initiated by legislation, ministerial direction, or administrative decision rather than by a negotiated transaction. As a result, the accounting team may receive limited advance notice, incomplete transaction documentation, or insufficient information about the assets, liabilities, rights, obligations, staff, contracts, and service responsibilities transferred. This can make it difficult to determine the acquisition or amalgamation date, identify the reporting entity that obtains control, and assess whether the transferred set constitutes an operation.

Public sector combinations may also involve assets and obligations for which valuation evidence is limited or not market-based. Examples include heritage assets, specialised infrastructure, defence assets, internally generated systems, public service delivery networks, environmental remediation obligations, social benefit commitments, and regulatory responsibilities. The final amendments should clarify the extent to which preparers should use existing IPSAS measurement requirements, cost-based information, replacement cost, service potential assessments, or disclosure when reliable measurement is difficult at the combination date.

Liabilities and contingent liabilities in public sector combinations may arise from non-contractual sources, including legislation, budget appropriations, public announcements, intergovernmental agreements, policy commitments, or past practice. Determining whether these matters create present obligations can require significant judgement. Examples distinguishing enforceable obligations, constructive obligations, political commitments, and future policy intentions would support consistent recognition and disclosure.

Finally, implementation may be affected by whole-of-government consolidation timetables, legacy information systems, differing chart-of-account structures, and the need to coordinate between finance ministries, line ministries, local governments, public corporations, auditors, and valuation specialists. These practical constraints increase the risk of inconsistent application or delayed reporting. Transition guidance should therefore be operational as well as technical, including suggested documentation steps, illustrative implementation checklists, and guidance on disclosures where information is incomplete at the reporting date.

Conclusion

I appreciate the IPSASB's continued commitment to maintaining and improving IPSAS Accounting Standards. Overall, I support ED 96 and believe the proposed amendments will improve the clarity and consistency of accounting for public sector combinations. My support is subject to the IPSASB providing sufficient public sector application guidance and ensuring that the final amendments reflect the distinctive features of public sector reorganisations, transfers, and amalgamations.

I would be pleased to discuss these comments further or provide additional input as the IPSASB finalises the amendments.

Thank you once again for the opportunity to comment.

Please do not hesitate to contact me for further information.

Yours sincerely,

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Manj Kalar

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30 June 2026