Public Sector Combinations

Paul Mason, Principal

IPSASB Meeting
September 20-23, 2016
Toronto, Canada
Public Sector Combinations

Where did the respondents come from? (Agenda Item 9.3.1)

Key
- Accountancy Firm
- Audit Office
- Member or Regional Body
- Preparer
- Standard Setter or Standards Advisory Board
- Other

Europe:
- 8

Australasia and Oceania:
- 5

North America:
- 2

Asia:
- 3

Latin America and the Caribbean:
- 1

Africa & Middle East:
- 9

International Organizations

[Map showing geographic distribution of respondents]
Public Sector Combinations

Scope of the Project (Agenda Item 9.2.1)

Changes to scope proposed by respondents:

- Joint Ventures & Joint Arrangements
- Transferor Accounting
- Other common control transactions, e.g. entity separations

Clarifications sought by respondents:

- Temporary measures, e.g. bailouts
- IPSAS 35 control criteria
- Entity absorbing an operation

Staff Proposal:

- No changes required

Does the IPSASB wish to include any clarifications?
Classification of Public Sector Combinations (Agenda Item 9.2.2)

Did respondents agree with the classification in the ED?

- Agree 61%
- Disagree 23%
- Partially Agree 16%

Issues raised:
- Rebuttable presumption
- Common control
- Control
- Alternative classification approaches
Public Sector Combinations

Accounting for amalgamations (Agenda Item 9.2.3)

**Modified pooling of interests method**

- Appropriate for combinations classified as amalgamations
- Permit (but not require) comparatives – unmodified pooling of interests method

**Exemptions**

- Tax forgiveness as part of amalgamation and subsequent to amalgamation
- No further amendments required

**Retain Paragraph 30**

- Provides signposting

**“Modified pooling of interests” terminology**

- Retain

**Additional guidance**

- Does the IPSASB wish to include any additional guidance?
Public Sector Combinations

Residual amount in an amalgamation (Agenda Item 9.2.4)

Did respondents support recognizing all amounts in the residual amount?

- **Agree**: 61%
- **Disagree**: 39%
- **Partially Agree**: 0%

Retaining existing reserves better represents the combination, is more transparent and better meets users’ needs.

The proposals will result in reliable information on the revaluation reserve being discarded.

The combining entities are effectively continuing as one entity rather than as two or more separate entities.

Reporting subsequent revaluation losses as an expense risks misrepresenting financial performance in future years.

The proposals will produce ongoing consolidation adjustments where the amalgamation takes place under common control.

Retaining existing reserves would be consistent with the pooling approach required under IAS 22 (revised 1993) *Business Combinations*.

The proposals will impact on a wide range of reserves, including those relating to employee benefits, hedging and reserves restricted by legislation, which would be inconsistent with the ED’s requirement the existing classifications and designations are maintained.
ED proposed that the residual amount be recognized as an ownership contribution or ownership distribution for amalgamations under common control.

- **Majority support**

- **Some respondents** – 
  Standard should not prescribe treatment.

**Recommendation**

Standard should not prescribe where in net assets/equity amounts are recognized.
Public Sector Combinations

Accounting for Acquisitions
(Agenda Item 9.2.5)

**Recommendations**

- Acquisition method appropriate for combinations classified as acquisitions
- Goodwill – delete paragraph 85 (no consideration paid), no further changes
- Amend heading over paragraphs 100-101 (stapling arrangements etc.)
- Include disclosure on loss on acquisition recognized in surplus or deficit
- Use of carrying amount / deemed cost where cannot reliably measure fair value
- Tax forgiveness consistent with modified pooling of interests method

**Question**

- Measurement period extended to two years?
Public Sector Combinations

Other issues raised by respondents (Agenda Item 9.2.6)

Disclosures

- Intended combinations?
  - Transferor and recipient?
- Financial effect on transferor?
- Materiality in examples?

Other Issues

- Modify definition of amalgamation date?
- Consequential amendment to IPSAS 17?
- Clarify definitions of inputs and outputs?