



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item
5

DATE: November 12, 2009
MEMO TO: Members of the IPSASB
FROM: Annette Davis
SUBJECT: Entity Combinations from Exchange Transactions

OBJECTIVE OF THIS SESSION

To **approve** IPSAS 32, “Entity Combinations from Exchange Transactions”

AGENDA MATERIAL

- 5.1 Draft IPSAS 32, “Entity Combinations from Exchange Transactions”
- 5.2 Analysis of comments on revised wording of scope section
- 5.3 ED 41 Respondents’ comments on other issues (updated to November 12, 2009)

BACKGROUND

1. After the IPSASB meeting in September 2009, Staff sent two out-of-session papers to the Board for comments. They were:
 - Revised wording to the scope section of proposed IPSAS 32, “Entity Combinations from Exchange Transactions”; and
 - Staff’s analysis of other comments received to the Exposure Draft (jointly with ED 40, “Intangible Assets” other comments received).
2. Staff received seven responses (from a mixture of Members and TAs) related to the revised wording to the scope section of ED 41 (Agenda Paper 5.2) and one other comment not related to the two papers.
3. An extract of the draft minutes from the September 2009 meeting is in the Appendix to this memo.

OVERALL SUMMARY

4. Of the seven responses, five of the respondents expressed positive support for the revised wording of the scope section, although three gave comments to further improve the wording. Two respondents disagreed with the revised wording of the scope section on the basis of whether or not the draft Standard should retain the exchange/non-exchange split. At its September 2009 meeting, the Board discussed the exchange/non-exchange split in some detail and agreed that, whilst

- the scope needed to be clarified, guidance is required on entity combinations from exchange transactions and therefore, the ED should become a Standard.
5. Agenda Paper 5.3 is an updated table of ED 41 Respondents' comments on other issues, so that the origin of proposed changes in IPSAS 31 can be easily identified.

KEY ISSUES

6. The draft Standard is based upon the clean version of ED 41 and proposed changes are shown in mark-up.

Scope

7. The Board agreed at its September 2009 meeting that the scope of proposed IPSAS 32 should include further explanation so as to make it clear which entity combinations would be within its scope. Comments received on the revised wording of the scope section made two major points, as detailed below.
8. The first point is that a reorganization can be at the local government level and also at the provisional or state level. Staff has amended the wording of the scope exclusion to "a reorganization involving entities or operations at regional or local government level" so that both levels of government are excluded from the scope. Staff notes that central government reorganizations are excluded from the scope by virtue of the scope exclusion for entity combinations by entities or operations under common control. A comment was made that an explanation of "reorganization" should be included in the scope section and Staff has included an explanation in paragraph 5.
9. The second point is that, one respondent thought that by removing the exclusion for "entity combinations from non-exchange transactions" there is a potential gap in the draft Standard. Staff has addressed this point by reinstating this exclusion, but worded in the following way: "an entity combination arising from a transaction that does not meet the definition of an exchange transaction". Paragraph AG4 has an explanation of what is meant by an exchange entity combination.

Question:

Do the proposed changes to the scope section clarify which entity combinations the proposed Standard applies to?

Goodwill arising on the acquisition of a non-cash-generating operation

10. At the September 2009 meeting, the IPSASB agreed that the paragraphs relating to the treatment of goodwill arising from the acquisition of a non-cash-generating operation or operations should be in the text of the Standard itself and not in the Application Guidance (see paragraphs AG41 and AG42). The Staff has deleted this

text from the Application Guidance and added paragraph 42 to the draft Standard, which is based on the wording from paragraph AG41, as follows:

“Where an acquirer acquires a non-cash-generating operation or operations and the aggregate of the amounts in paragraph 40(a) exceeds the amount in paragraph 40(b), before recognizing this amount, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. If an excess remains after applying these requirements, the acquirer shall recognize the loss in surplus or deficit on the acquisition date”.

Question:

Do you agree with moving AG41 into the body of the Standard?

OTHER CHANGES TO IPSAS 32

11. Other changes that have been made to the draft Standard are set out below.

Paragraphs	Description of change	Page reference in other agenda papers
–	Editorial changes have been made to standardize the wording of several paragraphs to be consistent across the Handbook.	–
5	This is a new paragraph inserted to include an explanation and description of a reorganization.	AP5.2 Page 3
8	This is a new paragraph inserted to place the definitions section in the body of the Standard rather than in Appendix A, consistent with the IPSASB’s decision at its September 2009 meeting.	–
15	This paragraph has been amended to include guidance on how to determine the acquisition date where assets and liabilities are transferred to the acquirer before it obtains control over those assets and liabilities.	AP5.3 Page 8
20	This paragraph has been amended to reflect amendments made to IPSAS 31 regarding its scope exclusion for the power to grant rights and the power to tax.	AP5.3 Page 22
23	This is a new paragraph inserted to explain the term “binding arrangement”.	AP5.3 Page 8
39	This paragraph has been reinserted from IFRS 3 and contains guidance on share-based payment awards. It has been reinserted because Respondent #14	AP5.3 Page 17

Paragraphs	Description of change	Page reference in other agenda papers
	considers that share-based payment awards could occur in an entity combination from an exchange transaction and therefore this guidance is useful. This change has also amended paragraph 47 and reinserted paragraphs AG51–AG57.	
App B	When ED 41 was issued, it omitted certain consequential amendments. These additional consequential amendments have been shaded to highlight the fact that they are new.	AP5.1 Pages 49–75
App B	The consequential amendments to IPSAS 26 include Implementation Guidance. Paragraphs IG51–IG59 (Example 10) of this guidance relates to disclosures about cash-generating units with goodwill or intangible assets with indefinite useful lives. This example has been amended from an international manufacturer to a pastoral farming and farm management services entity.	AP5.3 Page 13 AP5.1 Pages 69–75

UPDATE OF BASIS FOR CONCLUSIONS PARAGRAPHS OF OTHER IPSASS

12. One Member commented that a possible consequential amendment to the Basis for Conclusions paragraphs of other Standards may be required where reference is made to consequential amendments made by the IASB, which have not yet been reflected in the relevant IPSAS. These statements may no longer be appropriate with the issue of IPSAS 32. For example, paragraph BC6 of IPSAS 1, “Presentation of Financial Statements” states:

“IAS 1 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 1 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.”

13. As pointed out by the Member, if these paragraphs are updated as part of the consequential amendments to IPSAS 32, due process issues arise as these changes have not been exposed for public comment. The Member’s suggestion is that these paragraphs be reviewed as part of a general improvements project. This is a project that will be discussed during the strategic planning session of the meeting.

**APPENDIX: EXTRACT FROM DRAFT SEPTEMBER 2009 MEETING
MINUTES**

4. ENTITY COMBINATIONS

Review Responses to ED 41 (Agenda Item 8)

The IPSASB considered the Staff analysis of the key issues raised from the responses to ED 41, “Entity Combinations from Exchange Transactions.”

Key Issue 1: ED 41 not relevant to the public sector

Some respondents to ED 41 questioned whether entity combinations from exchange transactions actually occur in the public sector or occur frequently enough for the proposed guidance to be relevant to public sector entities. The IPSASB discussed this issue and generally agreed that entity combinations from exchange transactions, while rare, do occur in some jurisdictions and therefore this project should continue. Several Members highlighted that it is important to communicate this point and that the IPSASB has a separate project to issue guidance on public sector specific entity combinations.

Key Issue 2: Scope limitation

Several respondents considered that the proposed scope of ED 41 is inappropriately limited and identified several reasons as to why. The IPSASB discussed whether the distinction between exchange and non-exchange entity combinations is the most appropriate distinction. Concerns were raised regarding the lack of clarity of the scope as it is currently worded in ED 41. For example, could a local government merger, where no consideration is transferred, actually be an exchange transaction, because the acquirer receives net assets and assumes responsibilities? The assumption of responsibilities could be seen as an exchange for the net assets. ED 41 does not make it clear that an exchange transaction relates to consideration being transferred and not the exchange of net assets for the assumption of responsibilities, even though the definition of a non-exchange transaction is clear that consideration transferred is financial. Thus, local government mergers would not meet the definition of an entity combination from an exchange transaction. The IPSASB generally agreed that ED 41 should be explicit that local government mergers or amalgamations are excluded from the scope of ED 41 and that the guidance should explain that local government mergers are a public sector specific issue.

Another example was discussed regarding the lack of clarity of scope in ED 41. This situation arises where there is an acquisition of an entity which is insolvent, such as where payment is made of CU1 in exchange for the assumption of net liabilities. This type of combination could be seen to be a non-exchange transaction and thus excluded from the scope of ED 41.

The IPSASB discussed several alternatives regarding how the scope of ED 41 could be clarified by excluding from the scope of ED 41 the following:

- Acquisitions that are directed or forced;
- Acquisitions that are a result of a loss of subsidies; and

- Acquisitions where there is no determined purchase price—although it was acknowledged that a lack of consideration is addressed in ED 41 as it includes in its scope mergers by contract alone.

Alternatively, the IPSASB also discussed whether or not it would be easier to add guidance in ED 41 regarding which combinations are included in the scope (i.e., what is an entity combination from an exchange transaction?). It was noted that as ED 41 is a convergence project with a private sector standard and by its very nature ED 41 will not address most entity combinations occurring in the public sector. Therefore, ED 41 should be explicit that entity combinations from exchange transactions are rare. Further, ED 41 should also be explicit that its underlying assumptions relate to:

- Entity combinations where there is a willing buyer and a willing seller;
- An acquirer can always be identified; and
- There are “owners” of the acquired entity.

The IPSASB also discussed whether or not the phrase “from an exchange transaction” at the end of “entity combination” was a useful phrase to include and whether or not the notion of an exchange transaction was already implicitly embedded in ED 41, as it is based on a private sector standard. Additionally, a suggestion was made that the scope of ED 41 could be made clearer by returning to the original term “business combination” instead of using “entity combination.”

The IPSASB directed the Staff to revise the wording of the scope section of ED 41 to include further explanation to make it clear which entity combinations would be within its scope.

Additionally, a respondent raised a concern that paragraph 5 of ED 41 refers to IPSAS 3 and the hierarchy for guidance on non-exchange entity combinations, but this reference is not helpful because there is currently no international or national guidance on how to account for entity combinations from non-exchange transactions. The IPSASB agreed that the reference to IPSAS 3 and the hierarchy should be removed from ED 41.

Key Issue 3: Need for a project on goodwill

Several respondents considered that the paragraphs relating to the treatment of goodwill arising from the acquisition of a non-cash-generating operation should be in the text of the Standard itself and not in the Application Guidance. The IPSASB agreed with this suggestion.

A respondent also suggested that a separate project be initiated to review the accounting treatment for goodwill in public sector entities. The IPSASB agreed that this issue should be added to the list of potential projects to be considered as the IPSASB’s 2010-2012 Strategic Plan is developed. Project priorities will be assessed at the next IPSASB meeting in December 2009.

Key Issue 4: Changes to IAS 27 not reflected in IPSAS 6

A respondent raised a concern regarding the fact that amendments made to IAS 27, “Consolidated and Separate Financial Statements” at the same time as the revision to IFRS 3, “Business Combinations” in January 2008, have not been reflected in IPSAS 6, “Consolidated and Separate Financial Statements,” either as a consequential amendment to ED 41 or as a separate update of IPSAS 6. The amendments to IAS 27 provide additional guidance which is not currently reflected in IPSASs. The IPSASB generally agreed that the amendments to IAS 27 need to be considered, and that this should be a separate project to ED 41. The IPSASB agreed that this issue should also be added to the list of potential projects to be considered as the IPSASB’s 2010-2012 Strategic Plan is developed.

IPSAS 32—ENTITY COMBINATIONS FROM EXCHANGE TRANSACTIONS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Financial Reporting Standard IFRS 3 (2008), “Business Combinations” published by the International Accounting Standards Board (IASB). Extracts from IFRS 3 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

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IPSAS 32—ENTITY COMBINATIONS FROM EXCHANGE TRANSACTIONS

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International Public Sector Accounting Standard (IPSAS) 32, “Entity Combinations from Exchange Transactions” is set out in paragraphs 1–75 and Appendices A and B. All the paragraphs have equal authority. IPSAS 32 should be read in the context of its objective, the Basis for Conclusions, and the “Preface to International Public Sector Accounting Standards.” IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

- IN1. IPSAS ~~XX (ED 41) 32~~ prescribes the accounting treatment for entity combinations from exchange transactions. It is adapted for public sector entities from IFRS 3, “Business Combinations.”
- IN2. Entity combinations which do not arise from exchange transactions, for example, an amalgamation of municipalities or a restructuring of activities, will be considered in the second component of the IPSASB’s entity combinations project. The specific public sector issues which arise from these types of entity combinations need to be examined in detail in order to determine the appropriate accounting treatment.

Objective

- IN3. The objective of IPSAS ~~XX (ED 41) 32~~ is to enhance the relevance, reliability and comparability of the information that an entity provides in its financial statements about an entity combination from an exchange transaction and its effects. It does that by establishing principles and requirements for how an acquirer:
- (a) Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
 - (b) Recognizes and measures the goodwill acquired in the entity combination or a gain from a bargain purchase; and
 - (c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the entity combination.

Scope

- IN4. IPSAS ~~XX (ED 41) 32~~ is limited to entity combinations arising from exchange transactions and where the entities are not under common control. This type of entity combination occurs when an entity acquires an operation or operations from another entity and gives, directly in exchange, approximately equal value in the form of cash or other consideration. [Entity combinations arising from a reorganization or entities or operations at regional or local government level are excluded from the scope of this Standard.](#)

Core principle Objective

- IN5. An acquirer of an operation recognizes the assets acquired and liabilities assumed at their acquisition-date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition.

Applying the acquisition method

- IN6. An entity combination from an exchange transaction must be accounted for by applying the acquisition method, unless it is a combination involving entities or operations under common control. Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute an operation are not entity combinations.

- IN7. IPSAS ~~XX (ED 41)~~ 32 establishes principles for recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Any classifications or designations made in recognizing these items must be made in accordance with the terms of the contract or other binding arrangement, economic conditions, acquirer's operating or accounting policies and other factors that exist at the acquisition date.
- IN8. Each identifiable asset and liability is measured at its acquisition-date fair value. Any non-controlling interest in an acquiree is measured at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets.
- IN9. IPSAS ~~XX (ED 41)~~ 32 provides limited exceptions to these recognition and measurement principles:
- (a) Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors at the inception of the contract (or when the terms have changed) rather than on the basis of the factors that exist at the acquisition date.
 - (b) Only those contingent liabilities assumed in an entity combination that are a present obligation and can be measured reliably are recognized.
 - (c) Some assets and liabilities are required to be recognized or measured in accordance with other IPSASs, rather than at fair value. The assets and liabilities affected are those falling within the scope of IPSAS 25, "Employee Benefits".
 - (d) There are special requirements for measuring a reacquired right.
 - (e) Indemnification assets are recognized and measured on a basis that is consistent with the item that is subject to the indemnification, even if that measure is not fair value.

Recognition of goodwill

- IN10. IPSAS ~~XX (ED 41)~~ 32 requires the acquirer, having recognized the identifiable assets, the liabilities and any non-controlling interests, to identify any difference between:
- (a) The aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in an entity combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity or other owner interest in the acquiree; and
 - (b) The net identifiable assets acquired.
- IN11. The difference may give rise to goodwill when the definition of goodwill and related recognition and measurement criteria specified in this Standard are satisfied. If the acquirer has made a gain from a bargain purchase that gain is recognized in surplus or deficit. Impairment of cash-generating assets, including goodwill arising on the acquisition of a cash-generating unit or units, is dealt with in accordance with IPSAS 26, "Impairment of Cash-Generating Assets."

- IN12. Where a non-cash-generating operation is acquired and the total consideration transferred exceeds the net identifiable assets acquired, the acquirer is required to recognize the loss in surplus or deficit as at the acquisition date. Impairment of non-cash-generating assets is dealt with in accordance with IPSAS 21, “Impairment of Non-Cash-Generating Assets.” IPSAS 21 does not provide for the establishment of non-cash-generating units or the allocation of service potential, including service potential arising from goodwill, to a non-cash-generating unit for purposes of impairment testing. IPSAS 21 requires all non-cash-generating assets to be tested for impairment on an individual asset basis.
- IN13. The consideration transferred in an entity combination (including any contingent consideration) is measured at fair value.
- IN14. In general, an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in an entity combination after the entity combination has been completed in accordance with other applicable IPSASs. However, the Standard provides accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets.

Disclosure

- IN15. IPSAS ~~XX (ED-41)~~ 32 requires the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of entity combinations from exchange transactions that occurred during the current reporting period or after the reporting date but before the financial statements are authorized for issue. After an entity combination, the acquirer must disclose any adjustments recognized in the current reporting period that relate to entity combinations that occurred in the current or previous reporting periods.

Objective

1. The objective of this Standard is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about an entity combination arising from an exchange transaction and its effects. To accomplish that, this Standard establishes principles and requirements for how the acquirer:
 - (a) Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
 - (b) Recognizes and measures the goodwill acquired in an entity combination or a gain from a bargain purchase; and
 - (c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of an entity combination.
- ~~2. An entity combination arising from an exchange transaction occurs when an entity acquires an operation or operations from another entity and gives, directly in exchange, approximately equal value in the form of cash or other consideration.~~

Scope

- ~~23.~~ **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to a transaction or other event that meets the definition of an entity combination arising from an exchange transaction ([paragraphs AG1 and AG2 provide related application guidance](#)). This Standard does not apply to:**
 - (a) **[An reorganization involving entities or operations at regional or local government level \(paragraph AG3 provides related application guidance\)](#).**
 - (b) **[An entity combination arising from a non-exchange transaction transaction that does not meet the definition of an exchange transaction \(paragraph AG43 provides related application guidance\)](#).**
 - ~~(c)~~ **The formation of a joint venture.**
 - ~~(d)~~ **The acquisition of an asset or a group of assets that does not constitute an operation. In such cases the acquirer shall identify and recognize the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IPSAS-~~XX~~ [\(ED 40\) 31](#), “Intangible Assets”) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill. [Paragraphs AG11–AG16 provides guidance on identifying whether a group of assets constitutes an operation](#).**
 - ~~(e)~~ **A combination of entities or operations under common control ([paragraphs AG54–AG87 provide related application guidance](#)).**

34. An entity combination arising from an exchange transaction occurs when an entity obtains control of an operation or operations from another entity and gives, directly in exchange, approximately equal value in the form of cash or other consideration. This Standard does not apply to entity combinations arising from non-exchange transactions either under common control or not under common control. The International Public Sector Accounting Standards Board (IPSASB) proposes to address this issue in a separate Standard.
45. Where the transaction or event creating an entity combination has an exchange component and a non-exchange component, the acquirer recognizes the exchange component of the combination according to the principles and requirements of this Standard. ~~The appropriate accounting treatment for the non-exchange component of the combination is determined by using the hierarchy in IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors.”~~ In determining whether an entity combination has identifiable exchange and non-exchange components, professional judgment is exercised. Where it is not possible to distinguish and separate exchange and non-exchange components of an entity combination, the entity should determine whether or not, in substance, the combination is that of an exchange or non-exchange entity combination.
5. A reorganization occurs where an operation or operations is transferred to another entity for no or nominal consideration directly in return. A reorganization may be described as a merger or union of districts or regions, an amalgamation or annexation.
6. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
7. The “Preface to International Public Sector Accounting Standards” issued by the IPSASB explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs), which are issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, “Presentation of Financial Statements.”

Definitions

8. The following terms are used in this Standard with the meanings specified:

An acquiree is the operation or operations that the acquirer obtains control of in an entity combination.

An acquirer is the entity that obtains control of the acquiree.

The acquisition date is the date on which the acquirer obtains control of the acquiree.

Contingent consideration is usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

An entity combination is a transaction or other event in which an acquirer obtains control of one or more operations.

For the purposes of this Standard, equity interests is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities and other owner interests.

Goodwill is an asset representing the future economic benefits or service potential arising from other assets acquired in an entity combination that are not individually identified and separately recognized.

An asset is identifiable if it either:

- (a) Is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
- (b) Arises from binding arrangements (including rights from contracts or other legal rights) regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A mutual entity is an entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.

A non-controlling interest is the equity or other owner interests in a controlled entity not attributable, directly or indirectly, to a controlling entity.

An operation is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of achieving an entity's objectives, either by providing economic benefits or service potential.

For the purposes of this Standard, owners is used broadly to include holders of equity interests of investor-owned entities, owners or members of, or participants in, mutual entities; and interests established by mechanisms other than equity interests, such as a binding arrangement.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Identifying an Entity Combination

98. An entity shall determine whether a transaction or other event is an entity combination by applying the definition in this Standard, which requires that the assets acquired and liabilities assumed constitute an operation. If the assets acquired are not an operation, the reporting entity shall account for the transaction or other event as an asset acquisition. Paragraphs AG98–AG1615 provide guidance on identifying an entity combination and the definition of an operation.

The Acquisition Method

- 109.** An entity shall account for each entity combination arising from an exchange transaction by applying the acquisition method.
- 110.** Applying the acquisition method requires:
- (a) Identifying the acquirer;
 - (b) Determining the acquisition date;
 - (c) Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
 - (d) Recognizing and measuring goodwill or a gain from a bargain purchase.

Identifying the Acquirer

- 121.** For each entity combination arising from an exchange transaction, one of the combining entities shall be identified as the acquirer.
- 132.** The guidance in IPSAS 6, “Consolidated and Separate Financial Statements” shall be used to identify the acquirer—the entity that obtains control of the acquiree. If an entity combination has occurred but applying the guidance in IPSAS 6 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs AG~~1817~~–AG~~2224~~ shall be considered in making that determination.

Determining the Acquisition Date

- 143.** The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.
- 154.** The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date. Further, where assets and liabilities are transferred to the acquirer before the acquirer obtains control of those assets, the acquisition date is the date on which the acquirer obtains control, not the date of the transfer. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquiree

Recognition Principle

- 165.** As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling

interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs [1716](#) and [1718](#).

Recognition Conditions

- [176](#). To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in IPSAS 1, “Presentation of Financial Statements” at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree’s employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognize those costs as part of applying the acquisition method. Instead, the acquirer recognizes those costs in its post-combination financial statements in accordance with other IPSASs.
- [187](#). In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree (or its former *owners*) exchanged in the entity combination transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs [60–6256—58](#) to determine which assets acquired or liabilities assumed are part of the exchange for the acquiree and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable IPSASs.
- [198](#). The acquirer’s application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquiree had not previously recognized as assets and liabilities in its financial statements. For example, the acquirer recognizes the acquired identifiable intangible assets, such as a brand name, a patent or lists of customers or users of a service, that the acquiree did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.
- [2019](#). [IPSAS 31, “Intangible Assets” excludes from its scope the power to grant rights or the power to tax. Consistent with IPSAS 31, wWhere anthe acquirer acquires the power to grant rights or the power to tax in an entity combination from an exchange transaction, this power does not satisfy the specified criteria for recognition as an intangible asset. Accordingly, these powers are not recognized by the acquirer.](#)
- [210](#). Paragraphs [AG2322–AG3534](#) provide guidance on recognizing operating leases and intangible assets. Paragraphs [30–3728—35](#) specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in an Entity Combination

- [221](#). **At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other IPSASs subsequently.**

The acquirer shall make those classifications or designations on the basis of the terms of the contract or other binding arrangement, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

23. For the purposes of this Standard, a binding arrangement describes arrangements that are binding on the parties to the arrangement and confers similar rights and obligations on the parties to it as if it were in the form of a contract. For example, a government department may enter into a formal arrangement with a private sector entity, but the arrangement may not constitute a legal contract because in that jurisdiction government departments do not have the power to contract.

242. In some situations, IPSASs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

- (a) Classification of particular financial assets and liabilities as a financial asset or liability at fair value through surplus or deficit, or as a financial asset available for sale or held to maturity, in accordance with IPSAS ~~XX (ED 38)~~ 29, “Financial Instruments: Recognition and Measurement”;
- (b) Designation of a derivative instrument as a hedging instrument in accordance with IPSAS ~~XX (ED 38)~~ 29; and
- (c) Assessment of whether an embedded derivative should be separated from the host contract in accordance with IPSAS ~~XX (ED 38)~~ 29 (which is a matter of ‘classification’ as this Standard uses that term).

253. This Standard provides two exceptions to the principle in paragraph 224:

- (a) Classification of a lease contract as either an operating lease or a finance lease in accordance with IPSAS 13, “Leases”; and
- (b) Classification of a contract as an insurance contract in accordance with the relevant international or national accounting standard dealing with insurance contracts.

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Measurement Principle

264. **The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.**

275. For each entity combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.

286. Paragraphs AG~~3635~~–AG~~4039~~ provide guidance on measuring the fair value of particular identifiable assets and a non-controlling interest in an acquiree. Paragraphs ~~33–4031–37~~ specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

297. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs ~~30–4028–37~~ specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs ~~30–4028–37~~, which will result in some items being:

- (a) Recognized either by applying recognition conditions in addition to those in paragraphs ~~16–17~~ and ~~17–18~~ or by applying the requirements of other IPSASs, with results that differ from applying the recognition principle and conditions.
- (b) Measured at an amount other than their acquisition-date fair values.

Exception to the Recognition Principle

Contingent Liabilities

3028. IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” defines a contingent liability as:

- (a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) A present obligation that arises from past events but is not recognized because:
 - (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - (ii) The amount of the obligation cannot be measured with sufficient reliability.

3129. The requirements in IPSAS 19 do not apply in determining which contingent liabilities to recognize as of the acquisition date. Instead, the acquirer shall recognize as of the acquisition date a contingent liability assumed in an entity combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to IPSAS 19, the acquirer recognizes a contingent liability assumed in an entity combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Paragraph ~~636+~~ provides guidance on the subsequent accounting for contingent liabilities.

320. The scope of IPSAS 19 excludes provisions and contingent liabilities arising from social benefits from non-exchange transactions. The requirements in paragraph ~~3228~~ therefore do not apply in determining whether to recognize a contingent liability arising from social benefits from non-exchange transactions.

Exceptions to Both the Recognition and Measurement Principles

Income Taxes

331. Where ~~the acquiree is liable for income taxes~~applicable, the acquirer shall recognize and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in an entity combination in accordance with the relevant international or national accounting standard dealing with income taxes.
342. Where ~~the acquiree is liable for income taxes~~applicable, the acquirer shall account for the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition in accordance with the relevant international or national accounting standard dealing with income taxes.

Employee Benefits

353. The acquirer shall recognize and measure a liability (or asset, if any) related to the acquiree's employee benefit arrangements in accordance with IPSAS 25, "Employee Benefits."

Indemnification Assets

364. The seller in an entity combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognize an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognized at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognize the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph AG~~3635~~ provides related application guidance).
375. In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognized at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset shall be recognized and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectibility of the indemnification asset and any limitations in the terms of the

contract or other binding arrangement on the indemnified amount. Paragraph [662](#) provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the Measurement Principle

Reacquired Rights

[386](#). The acquirer shall measure the value of a reacquired right recognized as an intangible asset on the basis of the remaining term of the related contract or other binding arrangement regardless of whether market participants would consider potential renewals of the contract or other binding arrangement in determining its fair value. Paragraphs [AG3029](#) and [AG3130](#) provide related application guidance.

Share-Based Payment Awards

[39](#). The acquirer shall measure a liability or an equity instrument related to the replacement of an acquiree's share-based payment awards with share-based payment awards of the acquirer in accordance with the relevant international or national accounting standard dealing with share-based payment.

Assets Held for Sale

[4037](#). The acquirer shall measure an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations.

Recognizing and Measuring Goodwill or a Gain from a Bargain Purchase

[4138](#). The acquirer shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below:

- (a) The aggregate of:
 - (i) The consideration transferred measured in accordance with this Standard, which generally requires acquisition-date fair value (see paragraph [4743](#));
 - (ii) The amount of any non-controlling interest in the acquiree measured in accordance with this Standard; and
 - (iii) In an entity combination achieved in stages (see paragraphs [5147](#) and [5248](#)), the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- (b) The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.

~~Paragraphs [AG40](#), [AG41](#) and [AG52](#) provide related application guidance. The subsequent measurement and accounting for goodwill is addressed in [IPSAS 26](#),~~

~~“Impairment of Cash-Generating Assets” and IPSAS XX (ED 40), “Intangible Assets.”~~

42. Where an acquirer acquires a non-cash-generating operation or operations and the aggregate of the amounts in paragraph 41(a) exceeds the amount in paragraph 41(b), before recognizing this amount, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. If an excess remains after applying these requirements, the acquirer shall recognize the loss in surplus or deficit on the acquisition date.

4339. In an entity combination in which the acquirer and the acquiree (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquiree’s equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer’s equity interests. If so, the acquirer shall determine the amount of goodwill by using the acquisition-date fair value of the acquiree’s equity interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in an entity combination achieved by indirect acquisition, the acquirer shall use the acquisition-date fair value of the acquirer’s interest in the acquiree determined using a valuation technique in place of the acquisition-date fair value of the consideration transferred (paragraph 4138(a)(i)). Paragraphs AG4140–AG445 provide related application guidance.

Bargain Purchases

440. Occasionally, an acquirer will make a bargain purchase, which is an entity combination in which the amount in paragraph 4138(b) exceeds the aggregate of the amounts specified in paragraph 38(a). If that excess remains after applying the requirements in paragraph 4642, the acquirer shall recognize the resulting gain in surplus or deficit on the acquisition date. The gain shall be attributed to the acquirer.

451. A bargain purchase might happen, for example, in an entity combination that is a forced sale in which the seller is acting under compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 30–4028–37 may also result in recognizing a gain (or change the amount of a recognized gain) on a bargain purchase.

462. Before recognizing a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts this Standard requires to be recognized at the acquisition date for all of the following:

- (a) The identifiable assets acquired and liabilities assumed;
- (b) The non-controlling interest in the acquiree, if any;
- (c) For an entity combination achieved in stages, the acquirer’s previously held equity interest in the acquiree; and

(d) The consideration transferred.

The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

Consideration Transferred

473. The consideration transferred in an entity combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. (However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the entity combination shall be measured in accordance with paragraph 39 rather than at fair value.) Examples of potential forms of consideration include cash, other assets, an operation or a controlled entity of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants, member interests of mutual entities and other owner interests.
484. The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or an operation of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognize the resulting gains or losses, if any, in surplus or deficit. However, sometimes the transferred assets or liabilities remain within the combined entity after the entity combination (for example, because the assets or liabilities were transferred to the acquiree rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognize a gain or loss in surplus or deficit on assets or liabilities it controls both before and after the entity combination.

Contingent Consideration

495. The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 473). The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.
5046. The acquirer shall classify an obligation to pay contingent consideration as a liability or as net assets/equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 9 of IPSAS ~~XX (ED-37)~~ 28, "Financial Instruments: Presentation," or other applicable IPSASs. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph ~~67-63~~ provides guidance on the subsequent accounting for contingent consideration.

Additional Guidance for Applying the Acquisition Method to Particular Types of Entity Combinations

An Entity Combination Achieved in Stages

- [5147.](#) An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. For example, on December 31, 20X1, Entity A holds a 35 per cent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 per cent interest in Entity B, which gives it control of Entity B. This Standard refers to such a transaction as an entity combination achieved in stages, sometimes also referred to as a step acquisition.
- [5248.](#) In an entity combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in surplus or deficit. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree directly in net assets/equity (for example, because the investment was classified as available for sale). If so, the amount that was recognized directly in net assets/equity shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

An Entity Combination Achieved by Indirect Acquisition

- [5349.](#) An acquirer sometimes obtains control of an acquiree by indirect acquisition. The acquisition method of accounting for an entity combination applies to those combinations. Such circumstances include the acquiree repurchasing a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.

Measurement Period

- [540.](#) **If the initial accounting for an entity combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.**
- [551.](#) The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for an entity combination. The

measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Standard:

- (a) The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;
- (b) The consideration transferred for the acquiree (or the other amount used in measuring goodwill);
- (c) In an entity combination achieved in stages, the equity interest in the acquiree previously held by the acquirer; and
- (d) The resulting goodwill or gain on a bargain purchase.

562. The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognized or whether that information results from events that occurred after the acquisition date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value determined at that date is likely to indicate an error in the provisional amount.

573. The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in goodwill. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquiree's facilities, part or all of which are covered by the acquiree's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

584. During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the entity combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other revenue effects recognized in completing the initial accounting.

595. After the measurement period ends, the acquirer shall revise the accounting for an entity combination only to correct an error in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors."

Determining What is Part of the Entity Combination Transaction

- [6056](#). The acquirer and the acquiree may have a pre-existing relationship or other arrangement before negotiations for the entity combination began, or they may enter into an arrangement during the negotiations that is separate from the entity combination. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the entity combination, i.e. amounts that are not part of the exchange for the acquiree. The acquirer shall recognize as part of applying the acquisition method only the consideration transferred for the acquiree and the assets acquired and liabilities assumed in the exchange for the acquiree. Separate transactions shall be accounted for in accordance with the relevant IPSASs.
- [6157](#). A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquiree (or its former owners) before the combination, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:
- (a) A transaction that in effect settles pre-existing relationships between the acquirer and acquiree;
 - (b) A transaction that remunerates employees or former owners of the acquiree for future services; and
 - (c) A transaction that reimburses the acquiree or its former owners for paying the acquirer's acquisition-related costs.

Paragraphs AG4~~56~~–AG5~~7~~+ provide related application guidance.

Acquisition-Related Costs

- [6258](#). Acquisition-related costs are costs the acquirer incurs to effect an entity combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with IPSAS ~~XX (ED 37)~~ [28](#) and IPSAS ~~XX (ED 38)~~ [29](#).

Subsequent Measurement and Accounting

- [6359](#). In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in an entity combination in accordance with other applicable IPSASs for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in an entity combination:

- (a) **Reacquired rights;**
- (b) **Contingent liabilities recognized as of the acquisition date;**
- (c) **Indemnification assets; and**
- (d) **Contingent consideration.**

Paragraph AG582 provides related application guidance.

Reacquired Rights

640. A reacquired right recognized as an intangible asset shall be amortised over the remaining period of the contract or other binding arrangement in which the right was granted. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Contingent Liabilities

654. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in an entity combination at the higher of:
- (a) The amount that would be recognized in accordance with IPSAS 19; and
 - (b) The amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with IPSAS 9, “Revenue from Exchange Transactions.”

This requirement does not apply to contracts accounted for in accordance with IPSAS ~~XX~~, (ED-38) 29.

Indemnification Assets

662. At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognized at the acquisition date on the same basis as the indemnified liability or asset, subject to any limitations in the terms of the contract or other binding arrangement on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management’s assessment of the collectibility of the indemnification asset. The acquirer shall derecognize the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

Contingent Consideration

673. Some changes in the fair value of contingent consideration that the acquirer recognizes after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 54–58 50—54. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer

shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

- (a) Contingent consideration classified as net assets/equity shall not be remeasured and its subsequent settlement shall be accounted for within net assets/equity.
- (b) Contingent consideration classified as an asset or a liability that:
 - (i) Is a financial instrument and is within the scope of IPSAS ~~XX (ED 38)~~ 29 shall be measured at fair value, with any resulting gain or loss recognized either in surplus or deficit or directly in net assets/equity in accordance with that Standard.
 - (ii) Is not within the scope of IPSAS ~~XX (ED 38)~~ 29 shall be accounted for in accordance with IPSAS 19 or other IPSASs as appropriate.

Disclosures

684. The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an entity combination that occurs either:

- (a) **During the current reporting period; or**
- (b) **After the end of the reporting period but before the financial statements are authorized for issue.**

695. To meet the objective in paragraph **6864**, the acquirer shall disclose the information specified in paragraphs **AG593**–**AG6155**.

7066. The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to entity combinations that occurred in the period or previous reporting periods.

7167. To meet the objective in paragraph **7066**, the acquirer shall disclose the information specified in paragraph **AG6256**.

7268. If the specific disclosures required by this and other IPSASs do not meet the objectives set out in paragraphs **6864** and **7066**, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

Effective Date and Transition

Effective Date

7369. This Standard shall be applied prospectively to entity combinations for which the acquisition date is on or after the beginning of the first annual reporting period. An entity shall apply this Standard for annual financial statements covering periods beginning on or after Month–Day April 1, Year 2011. Earlier application is permitted encouraged. If an entity applies this Standard for a period beginning

before ~~Month Day~~April 1, ~~Year~~2011, it shall disclose that fact ~~and apply IPSAS 6 (as amended in 200X) at the same time.~~

74. When an entity adopts the accrual basis of accounting, as defined by IPSASs, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Transition

750. **Assets and liabilities that arose from entity combinations whose acquisition dates preceded the application of this Standard shall not be adjusted upon application of this Standard.**

Appendix A

Defined terms

This appendix is an integral part of the IPSAS.

acquiree	The operation or operations that the acquirer obtains control of in an entity combination .
acquirer	The entity that obtains control of the acquiree .
acquisition date	The date on which the acquirer obtains control of the acquiree .
contingent consideration	Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.
entity combination	A transaction or other event in which an acquirer obtains control of one or more operations .
equity interests	For the purposes of this Standard, equity interests is used broadly to mean ownership interests of investor owned entities and owner, member or participant interests of mutual entities .
goodwill	An asset representing the future economic benefits or service potential arising from other assets acquired in an entity combination that are not individually identified and separately recognized.
identifiable	An asset is identifiable if it either: <ul style="list-style-type: none">(a) Is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or(b) Arises from contractual rights, rights arising from other binding arrangements or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
intangible asset	An identifiable non-monetary asset without physical substance.
mutual entity	An entity, other than an investor owned entity, that provides dividends, lower costs or other economic benefits directly to its

	owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.
non-controlling interest	The equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.
operation	An integrated set of activities and assets that is conducted and managed for the purpose of achieving an entity's objectives, either by providing economic benefits or service potential.
owners	For the purposes of this Standard, owners is used broadly to include holders of equity interests of investor owned entities, owners or members of, or participants in, mutual entities; and interests established by mechanisms other than equity interests, such as a binding arrangement.

~~Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.~~

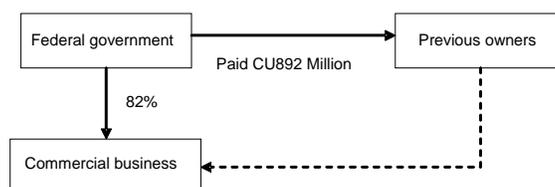
Appendix A Appendix B

Application guidance

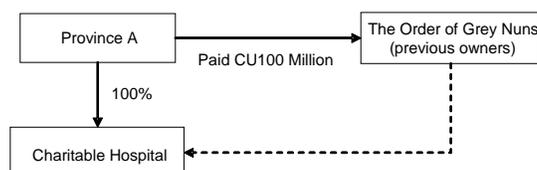
This appendix is an integral part of ~~the~~ IPSAS 32.

Scope (application of paragraph 23)

AG1. This Standard applies to a transaction or other event that meets the definition of an entity combination arising from an exchange transaction. This type of entity combination will occur between independent and willing parties in an arm's length transaction to determine the amount of consideration transferred. It is presumed that the consideration transferred will be approximately equal to the net assets transferred in exchange. Other aspects of this type of entity combination are that an acquirer can normally be easily identified and there are "owners" of the acquired entity. For example, a Federal government acquires an operation which is capable of being conducted and managed for the purpose of providing a return. The Federal government acquires an 82% shareholding directly in exchange for consideration transferred of CU892 million, which is approximately equal to the fair value of the shareholding acquired, as set out below.

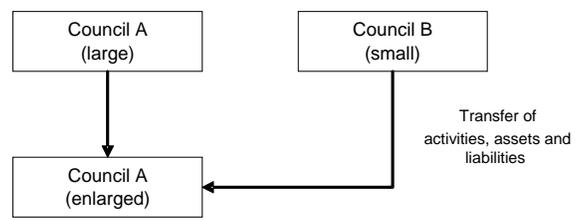


AG2. Another example of an entity combination arising from an exchange transaction is as follows: Province A acquires a charitable hospital which is owned and run by the Order of Grey Nuns, for providing hospital services to the disadvantaged in the community. Province A acquires all of the hospital's activities, assets and liabilities, which constitute an operation, directly in exchange for consideration transferred of CU100 million, which is approximately equal to the fair value of the net assets transferred in exchange, as set out below.



Entity combinations arising from a reorganization non-exchange or a transaction that does not meet the definition of an exchange transaction (application of paragraphs 23(a) and 2(b))

AG3. This Standard does not apply to an entity combination arising from a reorganization involving entities or operations at regional or local government level. non-exchange transaction either under common control or not under common control. An entity combination involving entities or operations arising from a non-exchange transaction is an entity combination in which an acquirer receives value from another entity without directly giving approximately equal value in exchange, i.e. the consideration does not approximate the fair value of the resources received. A reorganization may be described as a merger or union of districts or regions, an amalgamation or annexation. An example of an entity combination from a non-exchange transaction a reorganization is where a Federal-Provincial government creates legislation which mandates that a small local government entity, Council B must transfer all its activities, assets and liabilities; without consideration, to an existing local government entity, Council A, as set out below.



AG4. An entity combination that does not meet the definition of an exchange transaction occurs where one entity receives an operation or operations, and does not give approximately equal value to another entity in exchange, in an arm's length transaction, between willing and independent parties.

Entity combinations of entities under common control arising from exchange transactions (application of paragraph 23(ed))

AG54. This Standard does not apply to a combination of entities or operations under common control arising from an exchange transaction. An entity combination involving entities or operations under common control is an entity combination in which all of the combining entities or operations are ultimately controlled by the same party or parties both before and after the entity combination, and that control is not transitory.

AG65. A group of individuals shall be regarded as controlling an entity when, as a result of contractual or other binding arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities. Therefore, an entity combination is outside the scope of this Standard when the same group of individuals has, as a result of contractual or other binding arrangements, ultimate collective power to govern the financial and operating policies of each of the combining

entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory.

AG76. An entity may be controlled by an individual or by a group of individuals acting together under a contractual or other binding arrangement, and that individual or group of individuals may not be subject to the financial reporting requirements of IPSASs. Therefore, it is not necessary for combining entities to be included as part of the same consolidated financial statements for an entity combination to be regarded as one involving entities under common control.

AG87. The extent of non-controlling interests in each of the combining entities before and after an entity combination is not relevant to determining whether the combination involves entities under common control. Similarly, the fact that one of the combining entities is a controlled entity that has been excluded from the consolidated financial statements is not relevant to determining whether a combination involves entities under common control.

Identifying an entity combination (application of paragraph 98)

AG98. This Standard defines an entity combination as a transaction or other event in which an acquirer obtains control of one or more operations. An acquirer might obtain control of an acquiree in a variety of ways, for example:

- (a) By transferring cash, cash equivalents or other assets (including net assets that constitute an operation);
- (b) By incurring liabilities;
- (c) By issuing equity interests;
- (d) By providing more than one type of consideration; or
- (e) By indirect acquisition (see paragraph 5349).

AG109. An entity combination may be structured in a variety of ways for legal, taxation, statutory or other reasons, which include but are not limited to:

- (a) One or more operations become controlled entities of an acquirer or the net assets of one or more operations are legally merged into the acquirer;
- (b) One combining entity transfers its net assets, or its owners transfer their equity interests, to another combining entity or its owners;
- (c) All of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests, to a newly formed entity (sometimes referred to as a roll-up or put-together transaction); or
- (d) A group of former owners of one of the combining entities obtains control of the combined entity.

Definition of an operation (application of paragraphs [2\(d\)](#) and [98](#))

AG110. An operation consists of inputs and processes applied to those inputs that have the ability to create outputs. Although operations usually have outputs, outputs are not required for an integrated set to qualify as an operation. The three elements of an operation are defined as follows:

- (a) Input: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights and employees.
- (b) Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but an organized workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)
- (c) Output: The result of inputs and processes applied to those inputs that provide or have the ability to provide economic benefits or service potential, such as providing a commercial return, delivery of goods or services, reducing costs or increasing efficiencies.

AG124. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs, which together are or will be used to create outputs. However, an operation need not include all of the inputs or processes that the seller used in operating that operation if market or other participants are capable of acquiring the operation and continuing to produce outputs, for example, by integrating the operation with their own inputs and processes.

AG132. The nature of the elements of an operation varies by industry and by the structure of an entity's activities, including the entity's stage of development. Established operations often have many different types of inputs, processes and outputs, whereas new operations often have few inputs and processes and sometimes only a single output (product or service). Nearly all operations also have liabilities, but an operation need not have liabilities.

AG143. An integrated set of activities and assets in the development stage might not have outputs. If not, the acquirer should consider other factors to determine whether the set is an operation. Those factors include, but are not limited to, whether the set:

- (a) Has begun planned principal activities;

- (b) Has employees, intellectual property and other inputs and processes that could be applied to those inputs;
- (c) Is pursuing a plan to produce outputs; and
- (d) Will be able to obtain access to customers that will purchase the outputs or users that will use the outputs, whom may or may not be required to purchase the outputs.

Not all of those factors need to be present for a particular integrated set of activities and assets in the development stage to qualify as an operation.

AG154. Determining whether a particular set of assets and activities is an operation should be based on whether the integrated set is capable of being conducted and managed as an operation by a market or other participant. Thus, in evaluating whether a particular set is an operation, it is not relevant whether a seller operated the set as an operation or whether the acquirer intends to operate the set as an operation.

AG165. In the absence of evidence to the contrary, a particular set of cash-generating assets and activities in which goodwill is present shall be presumed to be an operation. However, ~~an~~ a cash-generating operation need not have goodwill.

Identifying the acquirer (application of paragraphs 1211 and 1312)

AG176. The guidance in IPSAS 6, “Consolidated and Separate Financial Statements” shall be used to identify the acquirer—the entity that obtains control of the acquiree. If an entity combination has occurred but applying the guidance in IPSAS 6 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs AG1817–AG2221 shall be considered in making that determination.

AG187. In an entity combination effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities.

AG198. In an entity combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in an entity combination effected by exchanging equity interests, including:

- (a) *The relative voting rights in the combined entity after the entity combination*—The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity. In determining which group of owners retains or receives the largest portion of the voting rights, an entity shall consider the existence of any unusual or special voting arrangements and options, warrants or convertible securities.
- (b) *The existence of a large minority voting interest in the combined entity if no other owner or organized group of owners has a significant voting interest*—The acquirer is usually the combining entity whose single owner or organized group of owners holds the largest minority voting interest in the combined entity.

- (c) *The composition of the governing body of the combined entity*—The acquirer is usually the combining entity whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.
- (d) *The composition of the senior management of the combined entity*—The acquirer is usually the combining entity whose (former) management dominates the management of the combined entity.
- (e) *The terms of the exchange of equity interests*—The acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities.

AG2049. The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or surplus) is significantly greater than that of the other combining entity or entities.

AG210. In an entity combination involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities initiated the combination, as well as the relative size of the combining entities.

AG224. A new entity formed to effect an entity combination is not necessarily the acquirer. If a new entity is formed to issue equity interests to effect an entity combination, one of the combining entities that existed before the entity combination shall be identified as the acquirer by applying the guidance in paragraphs AG1746–AG2120. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.

Recognizing particular assets acquired and liabilities assumed (application of paragraphs 16–1915–18)

Operating leases

AG232. The acquirer shall recognize no assets or liabilities related to an operating lease in which the acquiree is the lessee except as required by paragraphs AG2423 and AG2524.

AG243. The acquirer shall determine whether the terms of each operating lease in which the acquiree is the lessee are favorable or unfavorable. The acquirer shall recognize an intangible asset if the terms of an operating lease are favorable relative to market terms and a liability if the terms are unfavorable relative to market terms. Paragraph AG3736 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquiree is the lessor.

AG254. An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits that qualify as identifiable intangible assets, for example, as a customer relationship. In that

situation, the acquirer shall recognize the associated identifiable intangible asset(s) in accordance with paragraph AG2625.

Intangible assets

AG265. The acquirer shall recognize, separately from goodwill, the identifiable intangible assets acquired in an entity combination. An intangible asset is identifiable if it meets either the separability criterion or the [binding arrangement contractual legal binding](#) criterion.

AG276. An intangible asset that meets the [binding arrangement contractual legal binding](#) criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations. For example:

- (a) An acquiree leases a manufacturing facility under an operating lease that has terms that are favorable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favorable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the [binding arrangement contractual legal binding](#) criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease contract.
- (b) An acquiree owns and operates a nuclear power plant. The licence to operate that power plant is an intangible asset that meets the [binding arrangement contractual legal binding](#) criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognize the fair value of the operating licence and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.
- (c) An acquiree owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related license agreement meet the [binding arrangement contractual legal binding](#) criterion for recognition separately from goodwill even if selling or exchanging the patent and the related license agreement separately from one another would not be practical.

AG287. The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquiree and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract or other binding arrangement, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, customer, user and subscriber lists are frequently

licensed and thus meet the separability criterion. Even if an acquiree believes its customer lists have characteristics different from other customer lists, the fact that customer lists are frequently licensed generally means that the acquired customer list meets the separability criterion. However, a customer list acquired in an entity combination would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its customers.

AG298. An intangible asset that is not individually separable from the acquiree or combined entity meets the separability criterion if it is separable in combination with a related contract or other binding arrangement, identifiable asset or liability. For example:

- (a) Market participants exchange deposit liabilities and related depositor relationship intangible assets in observable exchange transactions. Therefore, the acquirer should recognize the depositor relationship intangible asset separately from goodwill.
- (b) An acquiree owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquiree or combined entity and sold if the related trademark is sold, it meets the separability criterion.

Reacquired rights

AG3029. As part of an entity combination, an acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's trade name under an ~~an franchise~~ agreement or a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognizes separately from goodwill. Paragraph 3836 provides guidance on measuring a reacquired right and paragraph 6460 provides guidance on the subsequent accounting for a reacquired right.

AG310. If the terms of the contract or other binding arrangement giving rise to a reacquired right are favorable or unfavorable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognize a settlement gain or loss. Paragraph AG478 provides guidance for measuring that settlement gain or loss.

Assembled workforce and other items that are not identifiable

AG324. The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired operation from the acquisition date. An assembled workforce does not represent the intellectual capital of

the skilled workforce—the (often specialized) knowledge and experience that employees of an acquiree bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognized separately from goodwill, any value attributed to it is subsumed into goodwill.

- AG3~~32~~. The acquirer also subsumes into goodwill any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential contracts the acquiree is negotiating with prospective new customers at the acquisition date. Because those potential contracts or other binding arrangements are not themselves assets at the acquisition date, the acquirer does not recognize them separately from goodwill. The acquirer will determine whether any goodwill recognized for the acquisition of a cash-generating operation or operations is impaired in accordance with IPSAS 21, “Impairment of Non-Cash-Generating Assets” and IPSAS 26, “Impairment of Cash-Generating Assets,” as appropriate. In accordance with paragraph 42, where an acquirer acquires a non-cash-generating operation or operations and the consideration transferred exceeds the acquisition-date net assets acquired, the acquirer shall recognize the loss in surplus or deficit on the acquisition date. The acquirer should not subsequently reclassify the value of those contracts or other binding arrangements from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognizable intangible asset existed at the acquisition date.
- AG3~~43~~. After initial recognition, an acquirer accounts for intangible assets acquired in an entity combination in accordance with the provisions of IPSAS ~~XX (ED 40)~~ 31, “Intangible Assets.” However, as described in paragraph ~~45~~ of IPSAS ~~XX (ED 40)~~ 31, the accounting for some acquired intangible assets after initial recognition is prescribed by other IPSASs.
- AG3~~54~~. The identifiability criteria determine whether an intangible asset is recognized separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in estimating the fair value of an intangible asset. For example, the acquirer would take into account assumptions that market or other participants would consider, such as expectations of future contract or other binding arrangement renewals, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph ~~3836~~, which establishes an exception to the fair value measurement principle for reacquired rights recognized in an entity combination.) Paragraphs 45 and 46 of IPSAS ~~XX (ED 40)~~ 31 provide guidance for determining whether intangible assets should be combined into a single unit of account with other intangible or tangible assets.

Measuring the fair value of particular identifiable assets and a non-controlling interest in an acquiree (application of paragraphs [2624](#) and [2725](#))

Assets with uncertain cash flows (valuation allowances)

AG365. The acquirer shall not recognize a separate valuation allowance as of the acquisition date for assets acquired in an entity combination that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Standard requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values, the acquirer does not recognize a separate valuation allowance for the contractual or other binding arrangement cash flows that are deemed to be uncollectible at that date.

Assets subject to operating leases in which the acquiree is the lessor

AG376. In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the acquirer shall take into account the terms of the lease. In other words, the acquirer does not recognize a separate asset or liability if the terms of an operating lease are either favorable or unfavorable when compared with market terms as paragraph AG2423 requires for leases in which the acquiree is the lessee.

Assets that the acquirer intends not to use or to use in a way that is different from the way other market participants would use them

AG387. For competitive or other reasons, the acquirer may intend not to use an acquired asset, for example, a research and development intangible asset, or it may intend to use the asset in a way that is different from the way in which other market participants would use it. Nevertheless, the acquirer shall measure the asset at fair value determined in accordance with its use by other market participants.

Non-controlling interest in an acquiree

AG398. This Standard allows the acquirer to measure a non-controlling interest in the acquiree at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of active market prices for the equity shares not held by the acquirer. In other situations, however, an active market price for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other valuation techniques.

AG4039. The fair values of the acquirer's interest in the acquiree and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquiree or, conversely, the inclusion of a discount for lack of control (also referred to as a minority discount) in the per-share fair value of the non-controlling interest.

Measuring goodwill or a gain from a bargain purchase

~~Measuring goodwill on the acquisition of a non-cash-generating operation (application of paragraph 38)~~

~~AG40. Paragraph 34A in IPSAS 21, “Impairment of Non-Cash-Generating Assets” does not provide for the establishment of non-cash-generating units or the allocation of service potential, including service potential arising from goodwill, to a non-cash-generating unit for purposes of impairment testing. IPSAS 21 requires all non-cash-generating assets to be tested for impairment on an individual asset basis.~~

~~AG41. Occasionally, an acquirer will make an acquisition of a non-cash-generating operation, in which the aggregate of the amounts in paragraph 38(a) exceeds the amount in paragraph 38(b). Before recognizing this amount, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. If an excess remains after applying these requirements, the acquirer shall recognize the resulting expense in surplus or deficit on the acquisition date.~~

Measuring the acquisition-date fair value of the acquirer’s interest in the acquiree using valuation techniques (application of paragraph [4339](#))

AG412. In an entity combination achieved by indirect acquisition, the acquirer must substitute the acquisition-date fair value of its interest in the acquiree for the acquisition-date fair value of the consideration transferred to measure goodwill or a gain on a bargain purchase (see paragraphs [41-4338-40](#)). The acquirer should measure the acquisition-date fair value of its interest in the acquiree using one or more valuation techniques that are appropriate in the circumstances and for which sufficient data are available. If more than one valuation technique is used, the acquirer should evaluate the results of the techniques, considering the relevance and reliability of the inputs used and the extent of the available data.

Special considerations in applying the acquisition method to combinations of mutual entities (application of paragraph [4339](#))

AG423. When two mutual entities combine, the fair value of the equity or member interests in the acquiree (or the fair value of the acquiree) may be more reliably measurable than the fair value of the member interests transferred by the acquirer. In that situation, paragraph [4339](#) requires the acquirer to determine the amount of goodwill by using the acquisition-date fair value of the acquiree’s equity interests instead of the acquisition-date fair value of the acquirer’s equity interests transferred as consideration. In addition, the acquirer in a combination of mutual entities shall recognize the acquiree’s net assets as a direct addition to capital or net assets/equity in its statement of financial position, not as an addition to accumulated surplus or deficit, which is consistent with the way in which other types of entities apply the acquisition method.

AG434. Although they are similar in many ways to other operations, mutual entities have distinct characteristics that arise primarily because their members are both customers

and owners. Members of mutual entities generally expect to receive benefits for their membership, often in the form of reduced fees charged for goods and services or patronage dividends. The portion of patronage dividends allocated to each member is often based on the amount of business the member did with the mutual entity during the year.

AG445. A fair value measurement of a mutual entity should include the assumptions that market participants would make about future member benefits as well as any other relevant assumptions market participants would make about the mutual entity. For example, an estimated cash flow model may be used to determine the fair value of a mutual entity. The cash flows used as inputs to the model should be based on the expected cash flows of the mutual entity, which are likely to reflect reductions for member benefits, such as reduced fees charged for goods and services.

Determining what is part of the entity combination transaction (application of paragraphs 60-56 and 6157)

AG456. The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquiree or whether the transaction is separate from the entity combination:

- (a) **The reasons for the transaction**—Understanding the reasons why the parties to the combination (the acquirer and the acquiree and their owners, directors, governing body and managers—and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquiree or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquiree. Accordingly, the acquirer would account for that portion separately from the entity combination.
- (b) **Who initiated the transaction**—Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits or service potential to the acquirer or combined entity with little or no benefit received by the acquiree or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquiree or its former owners is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the entity combination transaction.
- (c) **The timing of the transaction**—The timing of the transaction may also provide insight into whether it is part of the exchange for the acquiree. For example, a transaction between the acquirer and the acquiree that takes place during the

negotiations of the terms of an entity combination may have been entered into in contemplation of the entity combination to provide future economic benefits or service potential to the acquirer or the combined entity. If so, the acquiree or its former owners before the entity combination are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity.

Effective settlement of a pre-existing relationship between the acquirer and acquiree in an entity combination (application of paragraph [6157\(a\)](#))

AG467. The acquirer and acquiree may have a relationship that existed before they contemplated the entity combination, referred to here as a ‘pre-existing relationship’. A pre-existing relationship between the acquirer and acquiree may be contractual (for example, vendor and customer or licensor and licensee) or non-contractual (for example, plaintiff and defendant).

AG478. If the entity combination in effect settles a pre-existing relationship, the acquirer recognizes a gain or loss, measured as follows:

- (a) For a pre-existing non-contractual relationship (such as a lawsuit), fair value.
- (b) For a pre-existing contractual relationship, the lesser of (i) and (ii):
 - (i) The amount by which the contract is favorable or unfavorable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavorable contract is a contract that is unfavorable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.)
 - (ii) The amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavorable.

If (ii) is less than (i), the difference is included as part of the entity combination accounting.

The amount of gain or loss recognized may depend in part on whether the acquirer had previously recognized a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

AG489. A pre-existing relationship may be a contract or other binding arrangement that the acquirer recognizes as a reacquired right. If the contract includes terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer recognizes, separately from the entity combination, a gain or loss for the effective settlement of the contract or other binding arrangement, measured in accordance with paragraph [AG478](#).

Arrangements for contingent payments to employees or former owners (application of paragraph 6157(b))

AG4950. Whether arrangements for contingent payments to employees or former owners are contingent consideration in the entity combination or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

AG504. If it is not clear whether an arrangement for payments to employees or former owners is part of the exchange for the acquiree or is a transaction separate from the entity combination, the acquirer should consider the following indicators:

- (a) Continuing employment—The terms of continuing employment by the former owners who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.
- (b) Duration of continuing employment—If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.
- (c) Level of remuneration—Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than remuneration.
- (d) Incremental payments to employees—If former owners who do not become employees receive lower contingent payments on a per-share basis than the former owners who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the former owners who become employees is remuneration.
- (e) Number of shares owned or other ~~types of~~ owner interests—The relative number of shares owned or other ~~types of~~ owner interests held by the former owners who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the former owners who owned substantially all of the shares or other types of owner interest in the acquiree continue as key employees, that fact may indicate that the arrangement is, in substance, an ~~profit-sharing—earnings~~ arrangement intended to provide remuneration for post-combination services. Alternatively, if former owners who continue as key employees owned only a small number of shares of the acquiree

or other ~~types of~~ owner interests and all former owners receive the same amount of contingent consideration on a per-share or other pro-rata basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to former owners who continue as key employees, such as family members, should also be considered.

- (f) Linkage to the valuation—If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquiree and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration. Alternatively, if the contingent payment formula is consistent with prior ~~profit-sharing-earnings~~ arrangements, that fact may suggest that the substance of the arrangement is to provide remuneration.
- (g) Formula for determining consideration—The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of ~~the entity's~~ surplus, that might suggest that the obligation is contingent consideration in the entity combination and that the formula is intended to establish or verify the fair value of the acquiree. In contrast, a contingent payment that is a specified percentage of earnings might suggest that the obligation to employees is an ~~profit-sharing-earnings~~ arrangement to remunerate employees for services rendered.
- (h) Other agreements and issues—The terms of other arrangements with former owners (such as agreements not to compete, executory contracts, consulting contracts and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquiree. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant former owner. If the lease payments specified in the lease contract are significantly below market, some or all of the contingent payments to the lessor (the former owner) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognize separately in its post-combination financial statements. In contrast, if the lease contract specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the former owner may be contingent consideration in the entity combination.

Acquirer share-based payment awards exchanged for awards held by the acquiree's employees (application of paragraph 61(b))

AG51. An acquirer may exchange its share-based payment awards (replacement awards) for awards held by employees of the acquiree. Exchanges of share options or other share-based payment awards in conjunction with an entity combination are accounted for as modifications of share-based payment awards in accordance with the relevant

international or national accounting standard dealing with share-based payment. If the acquirer is obliged to replace the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the entity combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this requirement, the acquirer is obliged to replace the acquiree's awards if replacement is required by:

- (a) the terms of the acquisition agreement;
- (b) the terms of the acquiree's awards; or
- (c) applicable laws or regulations.

In some situations, acquiree awards may expire as a consequence of an entity combination. If the acquirer replaces those awards even though it is not obliged to do so, all of the market-based measure of the replacement awards shall be recognised as remuneration cost in the post-combination financial statements. That is to say, none of the market-based measure of those awards shall be included in measuring the consideration transferred in the entity combination.

AG52. To determine the portion of a replacement award that is part of the consideration transferred for the acquiree and the portion that is remuneration for post-combination service, the acquirer shall measure both the replacement awards granted by the acquirer and the acquiree awards as of the acquisition date in accordance with the relevant international or national accounting standard dealing with share-based payment. The portion of the market-based measure of the replacement award that is part of the consideration transferred in exchange for the acquiree equals the portion of the acquiree award that is attributable to pre-combination service.

AG53. The portion of the replacement award attributable to pre-combination service is the market-based measure of the acquiree award multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The vesting period is the period during which all the specified vesting conditions are to be satisfied. Vesting conditions are defined in the relevant international or national accounting standard dealing with share-based payment.

AG54. The portion of a non-vested replacement award attributable to post-combination service, and therefore recognised as remuneration cost in the post-combination financial statements, equals the total market-based measure of the replacement award less the amount attributed to pre-combination service. Therefore, the acquirer attributes any excess of the market-based measure of the replacement award over the market-based measure of the acquiree award to post-combination service and recognises that excess as remuneration cost in the post-combination financial statements. The acquirer shall attribute a portion of a replacement award to post-combination service if it requires post-combination service, regardless of whether employees had rendered all of the service required for their acquiree awards to vest before the acquisition date.

AG55. The portion of a non-vested replacement award attributable to pre-combination service, as well as the portion attributable to post-combination service, shall reflect the best available estimate of the number of replacement awards expected to vest. For example, if the market-based measure of the portion of a replacement award attributed to pre-combination service is CU100 and the acquirer expects that only 95 per cent of the award will vest, the amount included in consideration transferred in the entity combination is CU95. Changes in the estimated number of replacement awards expected to vest are reflected in remuneration cost for the periods in which the changes or forfeitures occur—not as adjustments to the consideration transferred in the entity combination. Similarly, the effects of other events, such as modifications or the ultimate outcome of awards with performance conditions, that occur after the acquisition date are accounted for in accordance with the relevant international or national accounting standard dealing with share-based payment in determining remuneration cost for the period in which an event occurs.

AG56. The same requirements for determining the portions of a replacement award attributable to pre-combination and post-combination service apply regardless of whether a replacement award is classified as a liability or as an equity instrument in accordance with the provisions of the relevant international or national accounting standard dealing with share-based payment. All changes in the market-based measure of awards classified as liabilities after the acquisition date and the related income tax effects, if applicable, are recognised in the acquirer’s post-combination financial statements in the period(s) in which the changes occur.

AG57. Where applicable, the income tax effects of replacement awards of share-based payments shall be recognised in accordance with the provisions of the relevant international or national accounting standard dealing with income taxes.

Other IPSASs that provide guidance on subsequent measurement and accounting (application of paragraph 6359)

AG582. Examples of other IPSASs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an entity combination include:

- (a) IPSAS ~~XX (ED 40)~~ 31 prescribes the accounting for identifiable intangible assets acquired in an entity combination from an exchange transaction. Where an acquirer acquires a cash-generating operation or operations, tThe acquirer measures goodwill at the amount recognized at the acquisition date less any accumulated impairment losses. IPSAS 21, “Impairment of Non-Cash-Generating Assets” prescribes the accounting for impairment losses for non-cash-generating assets and IPSAS 26, “Impairment of Cash-Generating Assets” prescribes the accounting for cash-generating unit and cash-generating asset impairment losses. Where an acquirer acquires a non-cash-generating operation or operations and the consideration transferred exceeds the acquisition-date net assets acquired, the acquirer shall recognize the loss in surplus or deficit on the acquisition date, in accordance with paragraph 42.

- (b) IPSAS 6 ~~(as amended in 200X)~~ provides guidance on accounting for changes in a controlling entity's ownership interest in a controlled entity after control is obtained.

Disclosures (application of paragraphs [6864](#) and [7066](#))

AG593. To meet the objective in paragraph [6864](#), the acquirer shall disclose the following information for each entity combination that occurs during the reporting period:

- (a) The name and a description of the acquiree.
- (b) The acquisition date.
- (c) The percentage of voting equity interests acquired.
- (d) The primary reasons for the entity combination and a description of how the acquirer obtained control of the acquiree.
- (e) A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.
- (f) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
 - (i) Cash;
 - (ii) Other tangible or intangible assets, including an operation or controlled entity of the acquirer;
 - (iii) Liabilities incurred, for example, a liability for contingent consideration; and
 - (iv) Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of determining the fair value of those instruments or interests.
- (g) ~~The acquisition date amount of goodwill representing unallocated service potential arising from the acquisition of a non-cash-generating operation which has been immediately expensed.~~ The amount recognized in surplus or deficit on the acquisition date in an entity combination where the acquirer acquires a non-cash-generating operation or operations and incurs a loss.
- (h) For contingent consideration arrangements and indemnification assets:
 - (i) The amount recognized as of the acquisition date;
 - (ii) A description of the arrangement and the basis for determining the amount of the payment; and
 - (iii) An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the

maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

- (i) For acquired receivables:
 - (i) The fair value of the receivables;
 - (ii) The gross ~~contractual and non-contractual~~ amounts receivable from binding arrangements split between contractual and non-contractual amounts; and
 - (iii) The best estimate at the acquisition date of the contractual and non-contractual cash flows not expected to be collected.

The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.

- (j) The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed.
- (k) For each contingent liability recognized in accordance with paragraph 3129, the information required in paragraph 98 of IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets.” If a contingent liability is not recognized because its fair value cannot be measured reliably, the acquirer shall disclose:
 - (i) The information required by paragraph 100 of IPSAS 19; and
 - (ii) The reasons why the liability cannot be measured reliably.
- (l) The total amount of goodwill that is expected to be deductible for tax purposes (where applicable).
- (m) For transactions that are recognized separately from the acquisition of assets and assumption of liabilities in the entity combination in accordance with paragraph 60-56:
 - (i) A description of each transaction;
 - (ii) How the acquirer accounted for each transaction;
 - (iii) The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized; and
 - (iv) If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.
- (n) The disclosure of separately recognized transactions required by (m) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognized as an expense and the line item or items in the statement of financial performance in which those expenses are recognized. The amount of any issue costs not recognized as an expense and how they were recognized shall also be disclosed.
- (o) In a bargain purchase (see paragraphs 44-4640-42):

- (i) The amount of any gain recognized in accordance with paragraph [4440](#) and the line item in the statement of financial performance in which the gain is recognized; and
- (ii) A description of the reasons why the transaction resulted in a gain.
- (p) For each entity combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:
 - (i) The amount of the non-controlling interest in the acquiree recognized at the acquisition date and the measurement basis for that amount; and
 - (ii) For each non-controlling interest in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value.
- (q) In an entity combination achieved in stages:
 - (i) The acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and
 - (ii) The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the entity combination (see paragraph [5248](#)) and the line item in the statement of financial performance in which that gain or loss is recognized.
- (r) The following information:
 - (i) The amounts of revenue and surplus or deficit of the acquiree since the acquisition date included in the consolidated statement of financial performance for the reporting period; and
 - (ii) The revenue and surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all entity combinations that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Standard uses the term ‘impracticable’ with the same meaning as in IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors.”

[AG6054](#). For individually immaterial entity combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph [AG593](#)(e)–(r).

[AG6155](#). If the acquisition date of an entity combination is after the end of the reporting period but before the financial statements are authorized for issue, the acquirer shall disclose the information required by paragraph [AG593](#) unless the initial accounting for the entity combination is incomplete at the time the financial statements are authorized for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

- AG~~6256~~. To meet the objective in paragraph ~~7066~~, the acquirer shall disclose the following information for each material entity combination or in the aggregate for individually immaterial entity combinations that are material collectively:
- (a) If the initial accounting for an entity combination is incomplete (see paragraph ~~5450~~) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognized in the financial statements for the entity combination thus have been determined only provisionally:
 - (i) The reasons why the initial accounting for the entity combination is incomplete;
 - (ii) The assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete; and
 - (iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph ~~5854~~.
 - (b) For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:
 - (i) Any changes in the recognized amounts, including any differences arising upon settlement;
 - (ii) Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
 - (iii) The valuation techniques and key model inputs used to measure contingent consideration.
 - (c) For contingent liabilities recognized in an entity combination, the acquirer shall disclose the information required by paragraphs 97 and 98 of IPSAS 19 for each class of provision.
 - (d) A reconciliation of the carrying amount of goodwill (arising on the acquisition of cash-generating ~~entities or~~ operations) at the beginning and end of the reporting period showing separately:
 - (i) The gross amount and accumulated impairment losses at the beginning of the reporting period.
 - (ii) Additional goodwill recognized during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations.
 - (iii) Goodwill included in a disposal group classified as held for sale in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations and goodwill

- derecognized during the reporting period without having previously been included in a disposal group classified as held for sale.
- (iv) Impairment losses recognized during the reporting period in accordance with IPSAS 26. (IPSAS 26 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)
 - (v) Net exchange rate differences arising during the reporting period in accordance with IPSAS 4, “The Effects of Changes in Foreign Exchange Rates.”
 - (vi) Any other changes in the carrying amount during the reporting period.
 - (vii) The gross amount and accumulated impairment losses at the end of the reporting period.
- (e) The amount and an explanation of any gain or loss recognized in the current reporting period that both:
- (i) Relates to the identifiable assets acquired or liabilities assumed in an entity combination that was effected in the current or previous reporting period; and
 - (ii) Is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity’s financial statements.

Appendix B

Amendments to other IPSASs*

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies this Standard for a period beginning before April 1, 2011, these amendments shall also be applied for that earlier period (deleted text is struck through and new text is underlined).

References to “minority interests” are amended to “non-controlling interests” in the following IPSASs:

- (a) IPSAS 1, “Presentation of Financial Statements” paragraphs IN7, IN20, IN21, 88(n), 95(d), 97, 103, 118(c) and 135.
- (b) IPSAS 2, “Cash Flow Statements” paragraph 30(b).
- (c) IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” paragraph 47.
- (d) IPSAS 6, “Consolidated and Separate Financial Statements” paragraph IN8, IN14, 7, 44, 54, 55, 56, 57 and IG6.

IPSAS 6, “Consolidated and Separate Financial Statements”

Paragraph 2 is amended as follows:

- 2. This Standard does not deal with methods of accounting for entity combinations and their effects on consolidation, including goodwill arising on an entity combination (guidance on accounting for entity combinations can be found in IPSAS 32, “Entity Combinations from Exchange Transactions”~~the relevant international or national accounting standard dealing with business combinations~~).

Paragraph 24 is amended as follows:

- 24. When a controlled entity previously excluded from consolidation in accordance with paragraph 21 is not disposed of within twelve months, it shall be consolidated as from the acquisition date (guidance on the acquisition date can be found in IPSAS 32~~the relevant international or national accounting standard dealing with business combinations~~). Financial statements for the periods since acquisition are restated.

Paragraph 43 is amended as follows:

- 43. In preparing consolidated financial statements, an entity combines the financial statements of the controlling entity and its controlled entities line by line by adding together like items of assets, liabilities, net assets/equity, revenue and expenses. In order that the consolidated financial statements present financial information about the economic entity as that of a single entity, the following steps are then taken:
 - (a) The carrying amount of the controlling entity’s investment in each controlled entity and the controlling entity’s portion of net assets/equity of each controlled

* When ED 41 was issued, it omitted certain consequential amendments. The shaded text highlights the additional consequential amendments.

entity are eliminated (~~IPSAS 32 the relevant international or national accounting standard dealing with business combinations provides guidance on the treatment of any resultant goodwill~~);

- (b) ~~Non-controlling~~Minority interests in the surplus or deficit of consolidated controlled entities for the reporting period are identified; and
- (c) ~~Non-controlling~~Minority interests in the net assets/equity of consolidated controlled entities are identified separately from the controlling entity's net assets/equity in them. Minority interests in the net assets/equity consist of:
 - (i) The amount of those ~~non-controlling~~ minority interests at the date of the original combination (~~IPSAS 32 the relevant international or national accounting standard dealing with business combinations provides guidance on calculating this amount~~); and
 - (ii) The ~~non-controlling interest's~~ minority's share of changes in net assets/equity since the date of combination.

Paragraph 51 is amended as follows:

51. The revenue and expenses of a controlled entity are included in the consolidated financial statements from the acquisition date as defined in IPSAS 32, "Entity Combinations from Exchange Transactions"~~(the relevant international or national accounting standard dealing with business combinations provides guidance on the meaning of the acquisition date).~~ The revenue and expenses of a controlled entity are included in the consolidated financial statements until the date on which the controlling entity ceases to control the controlled entity. The difference between the proceeds from the disposal of the controlled entity and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognized in net assets/equity in accordance with IPSAS 4, "The Effects of Changes in Foreign Exchange Rates," is recognized in the consolidated statement of financial performance as the gain or loss on the disposal of the controlled entity.

IPSAS 7, "Investments in Associates"

Paragraph 29 is amended as follows:

29. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. Guidance on accounting for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is treated as goodwill (guidance can be found in the relevant international or national accounting standard dealing with business combinations). On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as follows:
- (a) Goodwill relating to an a cash-generating associate is included in the carrying amount of the investment. Amortization of that goodwill is not permitted. Goodwill

relating to a non-cash-generating associate is recognized as a loss in surplus or deficit on the acquisition date.

- (b) Any excess of the investor's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as revenue in the determination of the investor's share of the associate's surplus or deficit in the period in which the investment is acquired.

Appropriate adjustments to the investor's share of the associate's surpluses or deficits after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date ~~of acquisition~~. Similarly, appropriate adjustments to the investor's share of the associate's surpluses or deficits after acquisition are made for impairment losses recognized by the associate, such as for goodwill or property, plant and equipment.

Paragraph 39 is amended as follows:

39. ~~If application of the requirements in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments indicates that the investment may be impaired, an entity applies IPSAS 21, "Impairment of Non-Cash Generating Assets." IPSAS 21 directs an entity to refer IAS 36 to determine the value in use of the cash-generating investment. Based on IAS 36, For cash-generating associates, goodwill that forms part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IPSAS 26, "Impairment of Cash-Generating Assets." Instead, the entire carrying amount of the investment is tested for impairment in accordance with IPSAS 26 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in IPSAS 29, "Financial Instruments: Recognition and Measurement" indicates that the investment may be impaired. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognized in accordance with IPSAS 26 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:~~
- (a) ~~Its share of the present value of the estimated future cash flows expected to ~~be~~ generated by the ~~associate~~ investee, including the cash flows from the operations of the ~~associate~~ investee and the proceeds on the ultimate disposal of the investment;~~
or
- (b) ~~The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment and from its ultimate disposal.~~

~~Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with IAS 36. Therefore, it is allocated first to any remaining goodwill (see paragraph 29).~~

A new paragraph is inserted after paragraph 47 as follows:

47A. IPSAS 32, “Entity Combinations from Exchange Transactions” amended paragraphs 29 and 39. An entity shall apply the amendments for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 32 for a period beginning before April 1, 2011, the amendments shall also be applied for that earlier period.

IPSAS 8, “Interests in Joint Ventures”

Paragraph 49 is amended as follows:

49. When, in accordance with paragraphs 3(a) and 47, an interest in a jointly controlled entity previously accounted for as a held for trading financial instrument is not disposed of within twelve months, it shall be accounted for using proportionate consolidation or the equity method as from the date of acquisition. (Guidance on the meaning of the date of acquisition can be found in IPSAS 32~~the relevant international or national accounting standard dealing with business combinations.~~) Financial statements for the periods since acquisition shall be restated.

IPSAS 10 “Financial Reporting in Hyperinflationary Economies”

Paragraph 22 is amended as follows:

22. To determine whether the restated amount of a non-monetary item has become impaired and should be reduced an entity applies relevant impairment tests in IPSAS 21, “Impairment of Non-Cash-Generating Assets;” and IPSAS 26, “Impairment of Cash-Generating Assets”~~or international and/or national accounting standards addressing impairment of goodwill.~~ Hence, in such cases, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount or recoverable service amount, restated amounts of inventories are reduced to net realizable value or current replacement cost, and restated amounts of current investments are reduced to market value. An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The statement of financial position and statement of financial performance of such an investee are restated in accordance with this Standard in order to calculate the investor’s share of its net assets/equity and results of operations. Where the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

IPSAS 17 “Property, Plant and Equipment”

Paragraph 60 is amended as follows:

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 favorable or unfavorable lease terms relative to market terms.

A new paragraph is inserted after paragraph 107 as follows:

107A. IPSAS 32, “Entity Combinations from Exchange Transactions” amended paragraph 60. An entity shall apply that amendment for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 32 for a period beginning before April 1, 2011, the amendment shall also be applied for that earlier period.

IPSAS 18, “Segment Reporting”

Paragraph 33 is amended as follows:

Segment Assets, Liabilities, Revenue and Expense

33. Examples of segment assets include current assets that are used in the operating activities of the segment; property, plant and equipment; assets that are the subject of finance leases; and intangible assets. If a particular item of depreciation or amortization is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for general entity or head office purposes, for example:
- (a) The office of the central administration and policy development unit of a department of education is not included in segments reflecting the delivery of primary, secondary and tertiary educational services; or
 - (b) The parliamentary or other general assembly building is not included in segments reflecting major functional activities such as education, health and defense when reporting at the whole-of-government level.

Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists. Segment assets include goodwill that is directly attributable to a segment or can be allocated to a segment on a reasonable basis, and segment expense includes any impairment losses recognized for goodwill.

Paragraph 34 is amended as follows:

34. The consolidated financial statements of a government or other entity may encompass entities acquired in an entity acquisition which gives rise to purchased goodwill (guidance on accounting for the acquisition of an entity from an exchange transaction is included in IPSAS 32, “Entity Combinations from Exchange Transactions”~~IFRS 3, “Business Combinations”~~). In these cases, segment assets will include goodwill that is directly attributable to a segment or that can be allocated to a segment on a reasonable basis, and segment expense includes related amortization of goodwill.

Paragraph 37 is amended as follows:

37. ~~International or national accounting standards may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an entity acquired in an acquisition (see for example IFRS 3). Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in an entity combination from an exchange transaction accounted for as a purchase, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recognized recorded in either the controlling entity's separate or the controlled entity's individual financial statements. Similarly, if property, plant, and equipment has been revalued after subsequent to acquisition in accordance with the revaluation model in IPSAS 17, "Property, Plant and Equipment," measurements of segment assets reflect those revaluations.~~

A new paragraph is inserted after paragraph 76 as follows:

76A. IPSAS 32, "Entity Combinations from Exchange Transactions" amended paragraphs 33, 34 and 37. An entity shall apply the amendments for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 32 for a period beginning before April 1, 2011, the amendments shall also be applied for that earlier period.

IPSAS 23, "Revenue from Non-Exchange Transactions (Taxes and Transfers)"

Paragraph 5 is amended as follows:

5. Governments may reorganize the public sector, merging some public sector entities and dividing other entities into two or more separate entities. An entity combination occurs when two or more reporting entities are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another entity, but may result in a new or existing entity acquiring all the assets and liabilities of another entity. The International Public Sector Accounting Standards Board (IPSASB) has not addressed entity combinations from non-exchange transactions and has excluded them from the scope of this Standard. Therefore, this Standard does not specify whether an entity combination, which is a non-exchange transaction, will give rise to revenue or not.

Paragraph BC8 of the Basis for Conclusions is amended as follows:

- BC8. This Standard does not specify whether entity combinations resulting from non-exchange transactions will give rise to revenue. This is because the IPSASB has not considered the financial reporting of entity combinations from non-exchange transactions in the public sector, ~~including the applicability of International Financial Reporting Standard (IFRS) 3, "Business Combinations" to public sector entities.~~

IPSAS 25, "Employee Benefits"

Paragraph 128 is amended as follows:

Entity Combinations from Exchange Transactions

128. ~~In determining the assets and liabilities to be recognized related to postemployment benefits in an entity combination, an entity considers the international or national accounting standard dealing with entity combinations. In an entity combination from an exchange transaction, an entity recognizes assets and liabilities arising from post-employment benefits at the present value of the obligation less the fair value of any plan assets (see IPSAS 32, “Entity Combinations from Exchange Transactions”). The present value of the obligation includes all of the following, even if the acquiree had not recognized them at the acquisition date:~~
- ~~(a) Actuarial gains and losses that arose before the acquisition date (whether or not they fell inside the 10% ‘corridor’); and~~
 - ~~(b) Past service cost that arose from benefit changes, or the introduction of a plan before the acquisition date.~~

A new paragraph is inserted after paragraph 177 as follows:

177A. IPSAS 32, “Entity Combinations from Exchange Transactions” amended paragraph 128. An entity shall apply that amendment for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 32 for a period beginning before April 1, 2011, the amendment shall also be applied for that earlier period.

IPSAS 26, “Impairment of Cash-Generating Assets”

Paragraph 2(i) is deleted.

Paragraph 6 deleted.

Paragraph 23 is amended as follows:

23. **Irrespective of whether there is any indication of impairment, an entity shall also:**
- (a) Test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.**
 - (b) Test goodwill acquired in an entity combination for impairment annually in accordance with paragraphs 90A–90O.**

Paragraph 76 is amended as follows:

76. **Paragraphs 77–97 set out the requirements for identifying the cash-generating unit to which the asset belongs and determining the carrying amount of, and recognizing impairment losses for, cash-generating units and goodwill.**

New headings and paragraphs are inserted after paragraph 90, as follows:

Goodwill

Allocating goodwill to cash-generating units

- 90A. For the purpose of impairment testing, goodwill acquired in an entity combination shall, from the acquisition date, be allocated to each of the acquirer’s cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:
- (a) Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
 - (b) Not be larger than a service or geographical segment determined in accordance with IPSAS 18, “Segment Reporting.”
- 90B. Goodwill recognized in an entity combination is an asset representing the future economic benefits arising from other assets acquired in an entity combination that are not individually identified and separately recognized. Goodwill does not generate cash flows independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs 90D–90O to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated.
- 90C. Applying the requirements in paragraph 90A results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.
- 90D. A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by IPSAS 4 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.
- 90E. If the initial allocation of goodwill acquired in an entity combination cannot be completed before the end of the annual period in which the entity combination is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.

90F. In accordance with IPSAS 32, “Entity Combinations from Exchange Transactions”, if the initial accounting for an entity combination can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:

- (a) Accounts for the combination using those provisional values; and
- (b) Recognizes any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognized in the combination before the end of the annual period in which the combination is effected. When this is the case, the entity discloses the information required by paragraph 122A.

90G. If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:

- (a) Included in the carrying amount of the operation when determining the gain or loss on disposal; and
- (b) Measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.

90H. If an entity reorganizes its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.

Testing cash-generating units with goodwill for impairment

90I. When, as described in paragraph 90B, goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit’s carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss shall be recognized in accordance with paragraph 91.

90J. If a cash-generating unit described in paragraph 90I includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use and that asset can be tested for impairment only as part of the cash-generating unit, paragraph 23 requires the unit also to be tested for impairment annually.

90K. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be

impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss in accordance with paragraph 91.

Timing of impairment tests

- 90L. The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in an entity combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.
- 90M. If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.
- 90N. At the time of impairment testing a cash-generating unit to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognizes any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognizes any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.
- 90O. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:
- (a) The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;
 - (b) The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and

- (c) Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.

Paragraph 91 is amended as follows:

91. An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit (group of units)
- (a) First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and
- (b) Then, to the other assets of the unit (group of units) on a pro rata on the basis, based on of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized in accordance with paragraph 73.

A new heading and paragraphs are inserted after paragraph 111, as follows:

Reversing an impairment loss for goodwill

- 111A. An impairment loss recognized for goodwill shall not be reversed in a subsequent period.
- 111B. IPSAS 31, “Intangible Assets” prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognized for the acquired goodwill.

A new paragraph is inserted after paragraph 122, as follows:

Disclosure

- 122A. If, in accordance with paragraph 90E, any portion of the goodwill acquired in an entity combination during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.

Paragraph 123 and the heading above it are amended as follows:

Disclosure of Estimates used to Measure Recoverable Amounts of Cash-Generating Units Containing Goodwill or Intangible Assets with Indefinite Useful Lives

123. An entity shall disclose the information required by (a)–(ef) for each cash generating unit for which the carrying amount of goodwill or intangible assets with indefinite

useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:

- (a) The carrying amount of goodwill allocated to the unit (group of units);
- (ab) The carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units);
- (bc) The basis on which the unit's (group of units') recoverable amount has been determined (i.e., value in use or fair value less costs to sell);
- (ed) If the unit's (group of units') recoverable amount is based on value in use:
 - (i) A description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive;
 - (ii) A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;
 - (iii) The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified;
 - (iv) The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated; and
 - (v) The discount rate(s) applied to the cash flow projections.
- (de) If the unit's recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:
 - (i) A description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive; and
 - (ii) A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past

experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

- (e~~f~~) If a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:
- (i) The amount by which the unit's (group of units') recoverable amount would exceed its carrying amount;
 - (ii) The value assigned to the key assumption; and
 - (iii) The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

Paragraphs 124 and 125 are amended as follows:

124. If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units). In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumption(s) and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:
- (a) The aggregate carrying amount of goodwill allocated to those units (groups of units);
 - (ab) The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units);
 - (bc) A description of the key assumption(s);
 - (ed) A description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;

- (de) If a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units) carrying amounts to exceed the aggregate of their recoverable amounts:
- (i) The amount by which the aggregate of the units' (groups of units) recoverable amounts would exceed the aggregate of their carrying amounts;
 - (ii) The value(s) assigned to the key assumption(s); and
 - (iii) The amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units) recoverable amounts to be equal to the aggregate of their carrying amounts.

125. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (group of units) may, in accordance with paragraph 37 or 90O, be carried forward and used in the impairment test for that unit (group of units) in the current period provided specified criteria are met. When this is the case, the information for that unit (group of units) that is incorporated into the disclosures required by paragraphs 123 and 124 relate to the carried forward calculation of recoverable amount.”

A new paragraph is inserted after paragraph 125, as follows:

125A. Example 10 in the Implementation Guidance illustrates the disclosures required by paragraphs 123 and 124.

A new paragraph is inserted after paragraph 127A, as follows:

Effective Date

127B. IPSAS 32, “Entity Combinations from Exchange Transactions” inserts paragraphs 90A–90O, 111A, 111B, 122A, 125A, Appendix C and examples 7 and 8 in the Implementation Guidance. IPSAS 32 also amends paragraphs 23, 76, 91, 123, 124 and 125 and deletes paragraphs 2(i) and 6. An entity shall apply the amendments for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 32 for a period beginning before April 1, 2011, the amendments shall also be applied for that earlier period.

A new appendix to IPSAS 26 is added after Appendix B, as follows:

Appendix C

This appendix is an integral part of IPSAS 26.

Impairment testing cash-generating units with goodwill and non-controlling interests

C1. In accordance with IPSAS 32, the acquirer measures and recognizes goodwill as of the acquisition date as the excess of (a) over (b) below:

- (a) The aggregate of:
 - (i) The consideration transferred measured in accordance with IPSAS 32, which generally requires acquisition-date fair value;
 - (ii) The amount of any non-controlling interest in the acquiree measured in accordance with IPSAS 32; and
 - (iii) In an entity combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- (b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IPSAS 32.

Allocation of goodwill

C2. Paragraph 90A of this Standard requires goodwill acquired in an entity combination to be allocated to each of the acquirer's cash-generating units, or groups of cash generating units, expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units, or groups of units. It is possible that some of the synergies resulting from an entity combination will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

Testing for impairment

- C3. Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.
- C4. If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a controlled entity at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognized in the controlling entity's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Allocating an impairment loss

- C5. Paragraph 91 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.
- C6. If a controlled entity, or part of a controlled entity, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

- C7. If a controlled entity, or part of a controlled entity, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:
- (a) To the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and
 - (b) To the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro rata on the basis of the carrying amount of each asset in the part.
- In those parts that have a non-controlling interest, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.
- C8. If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognized in the controlling entity's consolidated financial statements (see paragraph C4), that impairment is not recognized as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the controlling entity is recognized as a goodwill impairment loss.
- C9 Illustrative Example 9 illustrates the impairment testing of a non-wholly-owned cash-generating unit with goodwill.

Paragraph BC7 and the related heading is deleted.

Four new examples are added to the implementation guidance after paragraph IG29 as follows:

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 26. All the examples assume that the entities concerned have no transactions other than those described.

Example 7 – Allocating goodwill when an entity disposes of an operation within that unit

Background

IG30. An entity sells for CU100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is CU300.

Allocation of goodwill

IG31. Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill

associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25 per cent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.

Example 8 – Allocating goodwill when an entity reorganizes a cash-generating unit

Background

IG32. Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

Allocation of goodwill

IG33. Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.

Example 9 Impairment testing cash-generating units with goodwill and non-controlling interests

Example 9A Non-controlling interests measured initially as a proportionate share of the net identifiable assets

In this example, tax effects are ignored.

Background

IG34. Controlling entity acquires an 80 per cent ownership interest in controlled entity for CU2,100 on January 1, 20X3. At that date, controlled entity's net identifiable assets have a fair value of CU1,500. Controlling entity chooses to measure the non-controlling interests as the proportionate interest of controlled entity's net identifiable assets of CU300 (20% of CU1,500). Goodwill of CU900 is the difference between the aggregate of the consideration transferred and the amount of the non-controlling interests (CU2,100 + CU300) and the net identifiable assets (CU1,500).

IG35. The assets of controlled entity together are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Therefore controlled entity is a cash-generating unit. Because other cash-generating units of controlling entity are expected to benefit from the synergies of the combination, the goodwill of CU500 related to those synergies has been allocated to other cash-generating units within controlling entity. Because the cash-generating unit comprising controlled entity includes goodwill within its carrying amount, it must be tested for impairment annually, or more frequently if there is an indication that it may be impaired (see paragraph 90K of IPSAS 26).

IG36. At the end of 20X3, controlling entity determines that the recoverable amount of cash-generating unit controlled entity is CU1,000. The carrying amount of the net assets of controlled entity, excluding goodwill, is CU1,350.

Testing Controlled entity (cash-generating unit) for impairment

IG37. Goodwill attributable to non-controlling interests is included in controlled entity's recoverable amount of CU1,000 but has not been recognized in controlling entity's consolidated financial statements. Therefore, in accordance with paragraph D4 of Appendix D of IPSAS 26, the carrying amount of controlled entity is grossed up to include goodwill attributable to the non-controlling interests, before being compared with the recoverable amount of CU1,000. Goodwill attributable to controlling entity's 80 per cent interest in controlled entity at the acquisition date is CU400 after allocating CU500 to other cash-generating units within controlling entity. Therefore, goodwill attributable to the 20 per cent non-controlling interests in controlled entity at the acquisition date is CU100.

Schedule 1. Testing controlled entity for impairment at the end of 20X3

<u>End of 20X3</u>	<u>Goodwill of Controlled entity</u>	<u>Net identifiable assets</u>	<u>Total</u>
	CU	CU	CU
Carrying amount	400	1,350	1,750
Unrecognized non-controlling	100	—	100
Adjusted carrying amount	500	1,350	1,850
Recoverable amount			1,000
Impairment loss			850

Allocating the impairment loss

IG38. In accordance with paragraph 91 of IPSAS 26, the impairment loss of CU850 is allocated to the assets in the unit by first reducing the carrying amount of goodwill.

IG39. Therefore, CU500 of the CU850 impairment loss for the unit is allocated to the goodwill. In accordance with paragraph D6 of Appendix D of IPSAS 26, if the partially-owned controlled entity is itself a cash-generating unit, the goodwill impairment loss is allocated to the controlling and non-controlling interests on the same basis as that on which surplus or deficit is allocated. In this example, surplus or deficit is allocated on the basis of relative ownership interests. Because the goodwill is recognized only to the extent of controlling entity's 80 per cent ownership interest in controlled entity,

Controlling entity recognizes only 80 per cent of that goodwill impairment loss (ie CU400).

IG40. The remaining impairment loss of CU350 is recognized by reducing the carrying amounts of controlled entity's identifiable assets (see Schedule 2).

Schedule 2. Allocation of the impairment loss for controlled entity at the end of 20X3

<u>End of 20X3</u>	<u>Goodwill</u>	<u>Net identifiable assets</u>	<u>Total</u>
	<u>CU</u>	<u>CU</u>	<u>CU</u>
<u>Carrying amount</u>	<u>400</u>	<u>1,350</u>	<u>1,750</u>
<u>Impairment loss</u>	<u>(400)</u>	<u>(350)</u>	<u>(750)</u>
<u>Carrying amount after impairment loss =</u>	<u> </u>	<u>1,000</u>	<u>1,000</u>

Example 9B Non-controlling interests measured initially at fair value and the related controlled entity is a stand-alone cash-generating unit

In this example, tax effects are ignored.

Background

IG41. Controlling entity acquires an 80 per cent ownership interest in controlled entity for CU2,100 on January 1, 20X3. At that date, controlled entity's net identifiable assets have a fair value of CU1,500. Controlling entity chooses to measure the non-controlling interests at fair value, which is CU350. Goodwill of CU950 is the difference between the aggregate of the consideration transferred and the amount of the non-controlling interests (CU2,100 + CU350) and the net identifiable assets (CU1,500).

IG42. The assets of controlled entity together are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Therefore, controlled entity is a cash-generating unit. Because other cash-generating units of controlling entity are expected to benefit from the synergies of the combination, the goodwill of CU500 related to those synergies has been allocated to other cash-generating units within controlling entity. Because controlled entity includes goodwill within its carrying amount, it must be tested for impairment annually, or more frequently if there is an indication that it might be impaired (see paragraph 90K of IPSAS 26).

Testing Controlled entity for impairment

IG43. At the end of 20X3, controlling entity determines that the recoverable amount of cash-generating unit controlled entity is CU1,650. The carrying amount of the net assets of controlled entity, excluding goodwill, is CU1,350.

Schedule 1. Testing controlled entity for impairment at the end of 20X3

<u>End of 20X3</u>	<u>Goodwill</u>	<u>Net identifiable assets</u>	<u>Total</u>
	<u>CU</u>	<u>CU</u>	<u>CU</u>
<u>Carrying amount</u>	<u>450</u>	<u>1,350</u>	<u>1,800</u>
<u>Recoverable amount</u>			<u>1,650</u>
<u>Impairment loss</u>			<u>150</u>

Allocating the impairment loss

IG44. In accordance with paragraph 91 of IPSAS 26, the impairment loss of CU150 is allocated to the assets in the unit by first reducing the carrying amount of goodwill.

IG45. Therefore, the full amount of impairment loss of CU150 for the unit is allocated to the goodwill. In accordance with paragraph D6 of Appendix D of IPSAS 26, if the partially-owned controlled entity is itself a cash-generating unit, the goodwill impairment loss is allocated to the controlling and non-controlling interests on the same basis as that on which surplus or deficit is allocated.

Example 9C Non-controlling interests measured initially at fair value and the related controlled entity is part of a larger cash-generating unit

In this example, tax effects are ignored.

Background

IG46. Suppose that, for the entity combination described in paragraph IG41 of Example 9B, the assets of controlled entity will generate cash inflows together with other assets or groups of assets of controlling entity. Therefore, rather than controlled entity being the cash-generating unit for the purposes of impairment testing, controlled entity becomes part of a larger cash-generating unit, Z. Other cash-generating units of controlling entity are also expected to benefit from the synergies of the combination. Therefore, goodwill related to those synergies, in the amount of CU500, has been allocated to those other cash-generating units. Z's goodwill related to previous entity combinations is CU800.

IG47. Because Z includes goodwill within its carrying amount, both from controlled entity and from previous entity combinations, it must be tested for impairment annually, or more frequently if there is an indication that it might be impaired (see paragraph 90K of IPSAS 26).

Testing controlled entity for impairment

IG48. At the end of 20X3, controlling entity determines that the recoverable amount of cash-generating unit Z is CU3,300. The carrying amount of the net assets of Z, excluding goodwill, is CU2,250.

Schedule 3. Testing Z for impairment at the end of 20X3

<u>End of 20X3</u>	<u>Goodwill</u>	<u>Net identifiable assets</u>	<u>Total</u>
	CU	CU	CU
Carrying amount	1,250	2,250	3,500
Recoverable amount			<u>3,300</u>
Impairment loss			<u>200</u>

Allocating the impairment loss

IG49. In accordance with paragraph 91 of IPSAS 26, the impairment loss of CU200 is allocated to the assets in the unit by first reducing the carrying amount of goodwill. Therefore, the full amount of impairment loss of CU200 for cash-generating unit Z is allocated to the goodwill. In accordance with paragraph D7 of Appendix D of IPSAS 26, if the partially-owned controlled entity forms part of a larger cash-generating unit, the goodwill impairment loss would be allocated first to the parts of the cash-generating unit, Z, and then to the controlling and non-controlling interests of the partially owned controlled entity.

IG50. Controlling entity allocates the impairment loss to the parts of the cash-generating unit on the basis of the relative carrying values of the goodwill of the parts before the impairment. In this example controlled entity is allocated 36 per cent of the impairment (450/1,250). The impairment loss is then allocated to the controlling and non-controlling interests on the same basis as that on which surplus or deficit is allocated.

Example 10 Disclosures about cash-generating units with goodwill or intangible assets with indefinite useful lives

The purpose of this example is to illustrate the disclosures required by paragraphs 123 and 124 of IPSAS 26.

Background

IG51. Entity M is a pastoral farming and farm management services entity that uses service segments for reporting segment information. M's three reportable segments are Farming owned land (FOL), Farming leased land (FLL) and Farm management services (FMS).

Goodwill has been allocated for impairment testing purposes to three individual cash-generating units—two in FOL (units A and B) and one in FMS (unit C)—and one in FLL (unit D). Units A, B, C and D each represent the lowest level within M at which the goodwill is monitored for internal management purposes.

IG52. M acquired unit C in December 20X2. Unlike M’s other operations, C operates in an industry with high margins and high growth rates, and with the benefit of a 10-year patent on its primary service. The patent was granted to C just before M’s acquisition of C. As part of accounting for the acquisition of C, M recognized, in addition to the patent, goodwill of CU3,000 and a brand name of CU1,000. M’s management has determined that the brand name has an indefinite useful life. M has no other intangible assets with indefinite useful lives.

IG53. The carrying amounts of goodwill and intangible assets with indefinite useful lives allocated to units A, B, C and D are as follows:

	<u>Goodwill</u>	<u>Intangible assets with indefinite useful lives</u>
	<u>CU</u>	<u>CU</u>
<u>A</u>	<u>350</u>	
<u>B</u>	<u>450</u>	
<u>C</u>	<u>3,000</u>	<u>1,000</u>
<u>D</u>	<u>1,200</u>	
<u>Total</u>	<u>5,000</u>	<u>1,000</u>

IG54. During the year ending December 31, 20X3, M determines that there is no impairment of any of its cash-generating units or group of cash-generating units containing goodwill or intangible assets with indefinite useful lives. The recoverable amounts (i.e. higher of value in use and fair value less costs to sell) of those units and group of units are determined on the basis of value in use calculations. M has determined that the recoverable amount calculations are most sensitive to changes in the following assumptions:

<u>Units A and B</u>	<u>Unit C</u>	<u>Unit D</u>
<u>Gross margin during the budget period (budget period is 4 years)</u>	<u>5-year government bond rate during the budget period (budget period is 5 years)</u>	<u>Gross margin during the budget period (budget period is 5 years)</u>
<u>Euro/US dollar exchange rate during the budget period</u>	<u>Euro/US dollar exchange rate during the budget period</u>	<u>Euro/US dollar exchange rate during the budget period</u>
<u>Market share during the budget period</u>	<u>Market share during the budget period</u>	<u>Market share during the budget period</u>
<u>Growth rate used to extrapolate cash flows beyond the budget period</u>	<u>Growth rate used to extrapolate cash flows beyond the budget period</u>	<u>Growth rate used to extrapolate cash flows beyond the budget period</u>

- IG55. Gross margins during the budget period for A, B and D are estimated by M based on average gross margins achieved in the period immediately before the start of the budget period, increased by 5 per cent per year for anticipated efficiency improvements. A and B produce complementary products and are operated by M to achieve the same gross margins.
- IG56. Market shares during the budget period are estimated by M based on average market shares achieved in the period immediately before the start of the budget period, adjusted each year for any anticipated growth or decline in market shares. M anticipates that:
- (a) market shares for A and B will differ, but will each grow during the budget period by 3 per cent per year as a result of ongoing improvements in product quality.
 - (b) C's market share will grow during the budget period by 6 per cent per year as a result of increased advertising expenditure and the benefits from the protection of the 10-year patent on its primary service.
 - (c) D's market share will remain unchanged during the budget period as a result of the combination of ongoing improvements in product quality and an anticipated increase in competition.
- IG57. The 5-year government bond rate during the budget period is estimated by M to be consistent with the yield on such bonds at the beginning of the budget period. The Euro/US dollar exchange rate is estimated by M to be consistent with the average market forward exchange rate over the budget period.

- IG58. M uses steady growth rates to extrapolate beyond the budget period cash flows for A, B, C and D. The growth rates for A, B and D are estimated by M to be consistent with publicly available information about the long-term average growth rates for the markets in which A, B and D operate. However, the growth rate for C exceeds the long-term average growth rate for the market in which C operates. M's management is of the opinion that this is reasonable in the light of the protection of the 10-year patent on C's primary service.
- IG59. M includes the following disclosure in the notes to its financial statements for the year ending December 31, 20X3.

Impairment Tests for Goodwill and Intangible Assets with Indefinite Lives

Goodwill has been allocated for impairment testing purposes to three individual cash-generating units—two in Farming owned land (units A and B) and one in Farm management services (unit C)—and one in Farming leased land (unit D). The carrying amount of goodwill allocated to unit C and unit D is significant in comparison with the total carrying amount of goodwill, but the carrying amount of goodwill allocated to each of units A and B is not. Nevertheless, the recoverable amounts of units A and B are based on some of the same key assumptions, and the aggregate carrying amount of goodwill allocated to those units is significant.

Unit D

The recoverable amount of unit D has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 8.4 per cent. Cash flows beyond that five-year period have been extrapolated using a steady 6.3 per cent growth rate. This growth rate does not exceed the long-term average growth rate for the market in which D operates. Management believes that any reasonably possible change in the key assumptions on which D's recoverable amount is based would *not* cause D's carrying amount to exceed its recoverable amount.

Unit C

The recoverable amount of unit C has also been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 9.2 per cent. C's cash flows beyond the five-year period are extrapolated using a steady 12 per cent growth rate. This growth rate exceeds by 4 percentage points the long-term average growth rate for the market in which C operates. However, C benefits from the protection of a 10-year patent on its primary service, granted in December 20X2. Management believes that a 12 per cent growth rate is reasonable in the light of that patent. Management also believes that any reasonably possible change in the key assumptions on which C's recoverable amount is based would *not* cause C's carrying amount to exceed its recoverable amount.

Units A and B

The recoverable amounts of units A and B have been determined on the basis of value in use calculations. Those units produce complementary products, and their recoverable amounts are based on some of the same key assumptions. Both value in use calculations use cash flow projections based on financial budgets approved by management covering a four-year period, and a discount rate of 7.9 per cent. Both sets of cash flows beyond the four-year period are extrapolated using a steady 5 per cent growth rate. This growth rate does not exceed the long-term average growth rate for the market in which A and B operate. Cash flow projections during the budget period for both A and B are also based on the same expected gross margins during the budget period and the same raw materials price inflation during the budget period. Management believes that any reasonably possible change in any of these key assumptions would *not* cause the aggregate carrying amount of A and B to exceed the aggregate recoverable amount of those units.

	<u>Unit D</u>	<u>Unit C</u>	<u>Units A and B</u> <u>(in aggregate)</u>
<u>Carrying amount of goodwill</u>	<u>CU1,200</u>	<u>CU3,000</u>	<u>CU800</u>
<u>Carrying amount of brand name with indefinite useful life</u>	=	<u>CU1,000</u>	=
<u>Key assumptions used in value in use calculations^a</u>			
<ul style="list-style-type: none"> • <u>Key assumption</u> • <u>Basis for determining value(s) assigned to key assumption</u> 	<ul style="list-style-type: none"> • <u>Budgeted gross margins</u> • <u>Average gross margins achieved in period immediately before the budget period, increased for expected efficiency improvements.</u> 	<ul style="list-style-type: none"> • <u>5-year government bond rate</u> • <u>Yield on 5-year government bonds at the beginning of the budget period.</u> 	<ul style="list-style-type: none"> • <u>Budgeted gross margins</u> • <u>Average gross margins achieved in period immediately before the budget period, increased for expected efficiency improvements.</u>

	<ul style="list-style-type: none"> • <u>Values assigned to key assumption reflect past experience, except for efficiency improvements. Management believes improvements of 5% per year are reasonably achievable.</u> 	<ul style="list-style-type: none"> • <u>Value assigned to key assumption is consistent with external sources of information</u> 	<ul style="list-style-type: none"> • <u>Values assigned to key assumption reflect past experience, except for efficiency improvements. Management believes improvements of 5% per year are reasonably achievable.</u>
<ul style="list-style-type: none"> • <u>Key assumption</u> • <u>Basis for determining value(s) assigned to key assumption</u> 	<ul style="list-style-type: none"> • <u>Euro/US dollar exchange rate during the budget period</u> • <u>Average market forward exchange rate over the budget period.</u> • <u>Value assigned to key assumption is consistent with external sources of information.</u> 	<ul style="list-style-type: none"> • <u>Euro/US dollar exchange rate during the budget period</u> • <u>Average market forward exchange rate over the budget period.</u> • <u>Value assigned to key assumption is consistent with external sources of information.</u> 	<ul style="list-style-type: none"> • <u>Euro/US dollar exchange rate during the budget period</u> • <u>Average market forward exchange rate over the budget period.</u> • <u>Value assigned to key assumption is consistent with external sources of information.</u>
<ul style="list-style-type: none"> • <u>Key assumption</u> • <u>Basis for determining value(s) assigned to key assumption</u> 	<ul style="list-style-type: none"> • <u>Budgeted market share</u> • <u>Average market share in period immediately before the budget period.</u> 	<ul style="list-style-type: none"> • <u>Budgeted market share</u> • <u>Average market share in period immediately before the budget period, increased each year for anticipated growth in market share.</u> 	

- Value assigned to key assumption reflects past experience. No change in market share expected as a result of ongoing product quality improvements coupled with anticipated increase in competition.
- Management believes market share growth of 6% per year is reasonably achievable due to increased advertising expenditure, the benefits from the protection of the 10-year patent on C's primary service, and the expected synergies to be achieved from operating C as part of M's Farming management services segment.

a The key assumptions shown in this table for units A and B are only those that are used in the recoverable amount calculations for both units.

Comparison with IAS 36

Bullet point 3 is deleted.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of ~~the proposed International Public Sector Accounting Standard~~ IPSAS 32.

Background

- BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.
- BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the 'Comparison with IFRS' included in each IPSAS. The Comparison with IFRS 3 references the December 31, 2008 version of IFRS 3.
- BC3. The phrase "entity combination" has been used instead of "business combination" to reflect that public sector entities undertake both cash-generating activities and non-cash-generating activities.

Relevance to public sector entities

BC4. The Board considered whether or not an entity combination from an exchange transaction is a relevant topic for public sector entities. The Board acknowledged that the majority of entity combinations occurring in the public sector arise from non-exchange transactions and therefore are excluded from the scope of this Standard. However, entity combinations from exchange transactions do occur in some jurisdictions and therefore, it is important to have guidance on this topic. The Board is aware of the prevalence and importance of entity combinations from non-exchange transactions and has a separate project to address that type of entity combination.

Scope

BC54. IFRS 3 addresses business combinations. These combinations are exchange transactions because one entity receives an operation or operations, and directly gives approximately equal value to another entity in exchange. That is ~~In entity combinations in the private sector~~, former owners of the entity are compensated with cash or other financial instruments at an amount approximately equal to the value of the assets acquired less the liabilities assumed. The consideration transferred is assumed to be the result of an arm's length transaction between willing and independent parties. The Board noted that the Standard is based upon IFRS 3, and so, by its very nature, applies to exchange transactions. The Board decided that the Standard should be explicit on this point.

~~However, entity combinations in the public sector generally do not represent an exchange transaction but rather are based on a non-exchange transaction.~~

BC6. Further, to ensure that the scope of the Standard is clear, the Board decided to include a specific exclusion for reorganizations involving entities or operations at regional or local government level. The scope exclusion did not need to include central government reorganizations because paragraph 2(e) of the Standard excludes from its scope combinations of entities or operations under common control. Such entity combinations may arise from legislation or be the result of a direction from a higher level of government. Typically, the former owners of the entity, if are not compensated, If they are not compensated, it may be at an amount which is below approximately equal to the value of the entity transferred. Because this is a public sector specific issue, entity combinations that result from non-exchange transactions have been excluded from the scope of this Standard and will be dealt with in a separate public sector specific project. As explained in BC4 above, the Board has a separate project to address this type of entity combination.

Replacement of “business” with “operation”

~~BC75.~~ In IFRS 3, an acquirer acquires a business. In this Standard, the term “business” has been replaced with “operation” to encompass integrated sets of activities which have either a primary objective for the purpose of providing economic benefits, such as providing a commercial return, or for the purpose of providing service potential, such as the provision of goods and services.

Exception to the recognition principle

The power to grant rights and the power to tax

BC8. The acquirer’s application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquiree had not previously recognized in its financial statements. The scope of IPSAS 31, “Intangible Assets” excludes the power to grant rights and the power to tax because the Board has not formed a view on this topic. The Board considered that it was important to explicitly state that these powers are also excluded from recognition where an acquirer acquires these powers as a part of an entity combination from an exchange transaction. The Board is currently developing a Conceptual Framework that is specifically considering whether or not these powers give rise to assets in general purpose financial statements. The Board will reconsider, if necessary, the recognition of the power to grant rights and the power to tax as a part of an entity combination from an exchange transaction, in light of its completed Conceptual Framework.

Contingent liabilities

~~BC98.~~ IFRS 3 requires recognition of any contingent liabilities of the acquiree where it is a present obligation that arises from past events and its fair value can be measured reliably. The scope of IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” excludes provisions and contingent liabilities arising from social benefits from non-

exchange transactions because the Board has not determined the appropriate accounting for social benefit obligations. ~~For the sake of clarity, t~~The Board considered that it was important to include the same scope exemption in ~~IPSAS 19 in~~ this Standard, ~~as well.~~ This issue will be reconsidered in the project on social benefit obligations.

Exceptions to the measurement principle

Share-based payment awards

~~BC7. IFRS 3 includes guidance on the measurement of share-based payment awards where an acquirer replaces the acquiree's share-based payment award with another award. This section and the related Application Guidance has not been included in IPSAS XX (ED 41) as the Board considers that an acquirer (applying this Standard) will not replace the acquiree's share-based payment award with another share-based payment award because public sector entities do not award share-based payment.~~

Acquisition of a non-cash-generating operation

BC10. As noted in BC3 above, the change in terminology from “business combination” to “entity combination” is to reflect that an acquirer could acquire cash-generating or non-cash-generating operations. IFRS 3 does not include guidance on the acquisition of non-cash-generating operations. The Board noted that IPSAS 21, “Impairment of Non-Cash-Generating Assets” deals with testing of impairment of non-cash-generating assets. IPSAS 21 does not consider that unallocated service potential, including goodwill, will arise at a non-cash-generating unit level. The IPSASB agreed that IPSAS 32 should include guidance on the treatment of unallocated service potential at a non-cash-generating unit level and requires the acquirer to recognize the loss in surplus or deficit at the acquisition date.

An entity combination achieved by indirect acquisition

BC11. IFRS 3 includes guidance on entity combinations which are achieved without the transfer of consideration. However, IPSAS 32 includes within its scope entity combinations from exchange transactions only, and therefore, immediately excludes combinations where there is no transfer of consideration. Thus, this term has been amended to reflect that consideration would be transferred, but it would be indirect. Further, two of the circumstances where an entity combination can be achieved without the transfer of consideration have not been included in this section of IPSAS 32 as the Board considers that the lapse of minority veto rights and the combination of entities by contract alone do not occur in the public sector.

Reverse acquisitions

BC128. IFRS 3 includes, in its Application Guidance, a section on accounting for a reverse acquisition. The Board considered that the usual drivers for a reverse acquisition, such as a back door listing, do not exist for public sector entities and therefore has not included this section in IPSAS ~~XX (ED 41)~~ 32.

ILLUSTRATIVE EXAMPLES

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Illustrative Examples

These examples accompany, but are not part of, IPSAS ~~XX (ED 41)~~ 32.

Identifiable Intangible Assets

Illustrating the consequences of applying paragraphs ~~16–2115–20~~ and AG~~2625–AG3534~~ of IPSAS ~~XX (ED 41)~~ 32.

- IE1. The following are examples of identifiable intangible assets acquired in an entity combination from an exchange transaction. Some of the examples may have characteristics of assets other than intangible assets. The acquirer should account for those assets in accordance with their substance. The examples are not intended to be all-inclusive.
- IE2. Intangible assets identified as having a contractual basis are those that arise from contractual or other legal rights. Those designated as having a non-contractual basis do not arise from contractual or other legal rights but are separable. Intangible assets identified as having a non-contractual basis may arise from a binding arrangement. Intangible assets identified as having a contractual basis might also be separable but separability is not a necessary condition for an asset to meet the ~~contractual~~binding arrangement ~~legal-binding~~ criterion.

Marketing-Related Intangible Assets

- IE3. Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples of marketing-related intangible assets are:

Class	Basis
Trademarks, trade names, service marks, collective marks and certification marks	Contractual
Trade dress (unique color, shape or package design)	Contractual
Newspaper mastheads	Contractual
Internet domain names	Contractual
Non-competition agreements	Contractual

Trademarks, Trade Names, Service Marks, Collective Marks and Certification Marks

- IE4. Trademarks are words, names, symbols or other devices used in trade to indicate the source of a product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks identify the goods or services of members of a group. Certification marks certify the geographical origin or other characteristics of a good or service.
- IE5. Trademarks, trade names, service marks, collective marks and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce or by other means. If it is protected legally through registration or other

means, a trademark or other mark acquired in an entity combination from an exchange transaction is an intangible asset that meets the [contractual binding arrangement – legal binding](#) criterion. Otherwise, a trademark or other mark acquired in an entity combination can be recognized separately from goodwill if the separability criterion is met, which normally it would be.

- IE6. The terms “brand” and “brand name,” often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. IPSAS ~~XX (ED-41)~~ 32 does not preclude an entity from recognizing, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

Internet Domain Names

- IE7. An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name creates an association between that name and a designated computer on the Internet for the period of the registration. Those registrations are renewable. A registered domain name acquired in an entity combination from an exchange transaction meets the [contractual binding arrangement – legal binding](#) criterion.

Customer- or User-Related Intangible Assets

- IE8. Examples of customer-related intangible assets are:

Class	Basis
Customer lists	Non-contractual
Lists of users of a service	Non-contractual
Order or production backlog	Contractual
Customer contracts and related customer relationships	Contractual
Non-contractual user relationships	Non-contractual
Non-contractual customer relationships	Non-contractual

Customer Lists and User Lists

- IE9. A customer list or a list of users of services consists of information about customers or users, such as their names and contact information. A customer or user list also may be in the form of a database that includes other information about the customers, such as their order histories and demographic information. A customer or user list does not usually arise from contractual or other legal rights [but may arise from a binding arrangement](#). However, customer lists are often leased or exchanged and, in rare circumstances, a user

list may be exchanged. Therefore, a customer or user list acquired in an entity combination from an exchange transaction normally meets the separability criterion.

Order or Production Backlog

IE10. An order or production backlog arises from contracts such as purchase or sales orders. An order or production backlog acquired in an entity combination from an exchange transaction meets the [contractual binding arrangement](#) ~~legal binding~~ criterion even if the purchase or sales orders can be cancelled.

Customer Contracts and the Related Customer Relationships

IE11. If an entity establishes relationships with its customers through contracts, those customer relationships arise from contractual rights. Therefore, customer contracts and the related customer relationships acquired in an entity combination from an exchange transaction meet the [contractual binding arrangement](#) ~~legal binding~~ criterion, even if confidentiality or other contractual terms prohibit the sale or transfer of a contract separately from the acquiree.

IE12. A customer contract and the related customer relationship may represent two distinct intangible assets. Both the useful lives and the pattern in which the economic benefits of the two assets are consumed may differ.

IE13. A customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. Customer relationships meet the [contractual binding arrangement](#) ~~legal binding~~ criterion if an entity has a practice of establishing contracts with its customers, regardless of whether a contract exists at the acquisition date. Customer relationships may also arise through means other than contracts, such as through regular contact by sales or service representatives.

IE14. As noted in paragraph IE10, an order or a production backlog arises from contracts such as purchase or sales orders and is therefore considered a contractual right. Consequently, if an entity has relationships with its customers through these types of contracts, the customer relationships also arise from contractual rights and therefore meet the [contractual binding arrangement](#) ~~legal binding~~ criterion.

Examples

IE15. The following examples illustrate the recognition of customer contract and customer relationship intangible assets acquired in an entity combination from an exchange transaction.

- (a) Acquirer [Company-Entity \(AEC\)](#) acquires Target [Company-Entity \(TEC\)](#) in an entity combination from an exchange transaction on December 31, 20X5. [TEC](#) has a five-year agreement to supply goods to Customer. Both [TEC](#) and [AEC](#) believe that Customer will renew the agreement at the end of the current contract. The agreement is not separable.

The agreement, whether cancellable or not, meets the ~~contractual binding arrangement -legal-binding~~ criterion. Additionally, because TEC establishes its relationship with Customer through a contract, not only the agreement itself but also TEC's customer relationship with Customer meet the ~~contractual binding arrangement -legal-binding~~ criterion.

- (b) AEC acquires TEC in an entity combination from an exchange transaction on December 31, 20X5. TEC manufactures goods in two distinct lines of business: sporting goods and electronics. Customer purchases both sporting goods and electronics from TEC. TEC has a contract with Customer to be its exclusive provider of sporting goods but has no contract for the supply of electronics to Customer. Both TEC and AEC believe that only one overall customer relationship exists between TEC and Customer.

The contract to be Customer's exclusive supplier of sporting goods, whether cancellable or not, meets the ~~contractual binding arrangement -legal-binding~~ criterion. Additionally, because TEC establishes its relationship with Customer through a contract, the customer relationship with Customer meets the ~~contractual binding arrangement -legal-binding~~ criterion. Because TEC has only one customer relationship with Customer, the fair value of that relationship incorporates assumptions about TEC's relationship with Customer related to both sporting goods and electronics. However, if AEC determines that the customer relationships with Customer for sporting goods and for electronics are separate from each other, AEC would assess whether the customer relationship for electronics meets the separability criterion for identification as an intangible asset.

- (c) AEC acquires TEC in an entity combination from an exchange transaction on December 31, 20X5. TEC does business with its customers solely through purchase and sales orders. At December 31, 20X5, TEC has a backlog of customer purchase orders from 60 per cent of its customers, all of whom are recurring customers. The other 40 per cent of TEC's customers are also recurring customers. However, as of December 31, 20X5, TEC has no open purchase orders or other contracts with those customers.

Regardless of whether they are cancellable or not, the purchase orders from 60 per cent of TEC's customers meet the ~~contractual binding arrangement -legal-binding~~ criterion. Additionally, because TEC has established its relationship with 60 per cent of its customers through contracts, not only the purchase orders but also TEC's customer relationships meet the ~~contractual binding arrangement -legal-binding~~ criterion. Because TEC has a practice of establishing contracts with the remaining 40 per cent of its customers, its relationship with those customers also arises through contractual rights and therefore meets the ~~contractual binding arrangement -legal-binding~~ criterion even though TEC does not have contracts with those customers at December 31, 20X5.

- (d) AEE acquires TEC, an insurer, in an entity combination from an exchange transaction on December 31, 20X5. TEC has a portfolio of one-year motor insurance contracts that are cancellable by policyholders.

Because TEC establishes its relationships with policyholders through insurance contracts, the customer relationship with policyholders meets the ~~contractual-legal-binding-binding arrangement~~ criterion. IPSAS 26, “Impairment of Cash-Generating Assets” and IPSAS ~~XX (ED 40)~~ 31, “Intangible Assets” apply to the customer relationship intangible asset.

Non-Contractual Customer Relationships

- IE16. A customer relationship acquired in an entity combination from an exchange transaction that does not arise from a contract may nevertheless be identifiable because the relationship is separable. Exchange transactions for the same asset or a similar asset that indicate that other entities have sold or otherwise transferred a particular type of non-contractual customer relationship would provide evidence that the relationship is separable.

Artistic-Related Intangible Assets

- IE17. Examples of artistic-related intangible assets are:

<u>Class</u>	<u>Basis</u>
Plays, operas and ballets	Contractual
Books, magazines, newspapers and other literary works	Contractual
Musical works such as compositions, song lyrics and advertising jingles	Contractual
Pictures and photographs	Contractual
Video and audiovisual material, including motion pictures or films, music videos and television programs	Contractual

- IE18. Artistic-related assets acquired in an entity combination from an exchange transaction are identifiable if they arise from contractual or legal rights such as those provided by copyright. The holder can transfer a copyright, either in whole through an assignment or in part through a licensing agreement. An acquirer is not precluded from recognizing a copyright intangible asset and any related assignments or licence agreements as a single asset, provided they have similar useful lives.

Contract-Based Intangible Assets

- IE19. Contract-based intangible assets represent the value of rights that arise from contractual arrangements. Customer contracts are one type of contract-based intangible asset. If the terms of a contract give rise to a liability (for example, if the terms of an operating lease or customer contract are unfavorable relative to market terms), the acquirer recognizes it

as a liability assumed in the entity combination from an exchange transaction. Examples of contract-based intangible assets are:

Class	Basis
Licensing, royalty and standstill agreements	Contractual
Advertising, construction, management, service or supply contracts	Contractual
Lease agreements (whether the acquiree is the lessee or the lessor)	Contractual
Construction permits	Contractual
Franchise agreements	Contractual
Operating and broadcast rights	Contractual
Servicing contracts	Contractual
Employment contracts	Contractual
Use rights, such as drilling, water, air, timber cutting and route authorities	Contractual

Servicing Contracts

IE20. Contracts to service financial assets are one type of contract-based intangible asset. Although servicing is inherent in all financial assets, it becomes a distinct asset (or liability) by one of the following:

- (a) When contractually separated from the underlying financial asset by sale or securitisation of the assets with servicing retained;
- (b) Through the separate purchase and assumption of the servicing.

IE21. If mortgage loans, credit card receivables or other financial assets are acquired in an entity combination from an exchange transaction with servicing retained, the inherent servicing rights are not a separate intangible asset because the fair value of those servicing rights is included in the measurement of the fair value of the acquired financial asset.

Employment Contracts

IE22. Employment contracts that are beneficial contracts from the perspective of the employer because the pricing of those contracts is favorable relative to market terms are one type of contract-based intangible asset.

Use Rights

IE23. Use rights include rights for drilling, water, air, timber cutting and route authorities. Some use rights are contract-based intangible assets to be accounted for separately from

goodwill. Other use rights may have characteristics of tangible assets rather than of intangible assets. An acquirer should account for use rights on the basis of their nature.

Technology-Based Intangible Assets

IE24. Examples of technology-based intangible assets are:

Class	Basis
Patented technology	Contractual
Computer software and mask works	Contractual
Unpatented technology	Non-contractual
Databases, including title plants	Non-contractual
Trade secrets, such as secret formulas, processes and recipes	Contractual

Computer Software and Mask Works

IE25. Computer software and program formats acquired in an entity combination from an exchange transaction that are protected legally, such as by patent or copyright, meet the ~~contractual legal binding~~ binding arrangement criterion for identification as intangible assets.

IE26. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may have legal protection. Mask works with legal protection that are acquired in an entity combination from an exchange transaction meet the ~~contractual legal binding~~ binding arrangement criterion for identification as intangible assets.

Databases, Including Title Plants

IE27. Databases are collections of information, often stored in electronic form (such as on computer disks or files). A database that includes original works of authorship may be entitled to copyright protection. A database acquired in an entity combination from an exchange transaction and protected by copyright meets the ~~contractual legal binding~~ binding arrangement criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as customer or user lists, or specialized information, such as scientific data or credit information. Databases that are not protected by copyright can be, and often are, exchanged, licensed or leased to others in their entirety or in part. Therefore, even if the future economic benefits from a database do not arise from legal rights, a database acquired in an entity combination from an exchange transaction meets the separability criterion.

IE28. Title plants constitute a historical record of all matters affecting title to parcels of land in a particular geographical area. Title plant assets are bought and sold, either in whole or in part, in exchange transactions or are licensed. Therefore, title plant assets acquired in an entity combination from an exchange transaction meet the separability criterion.

Trade Secrets, such as Secret Formulas, Processes and Recipes

IE29. A trade secret is ‘information, including a formula, pattern, recipe, compilation, program, device, method, technique, or process that (a) derives independent economic value, actual or potential, from not being generally known and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.’* If the future economic benefits or service potential from a trade secret acquired in an entity combination from an exchange transaction are legally protected, that asset meets the binding arrangement contractual-legal-binding criterion. Otherwise, trade secrets acquired in an entity combination from an exchange transaction are identifiable only if the separability criterion is met, which is likely to be the case.

Gain on a Bargain Purchase

Illustrating the consequences of recognizing and measuring a gain from a bargain purchase by applying paragraphs ~~41–46~~^{38–42} of IPSAS ~~XX (ED 41)~~ 32.

- IE30. The following example illustrates the accounting for an entity combination from an exchange transaction in which a gain on a bargain purchase is recognized.
- IE31. On January 1, 20X5 AEC acquires 80 per cent of the equity interests of TEC, a private entity, in exchange for cash of CU150. Because the former owners of TEC needed to dispose of their investments in TEC by a specified date, they did not have sufficient time to market TC to multiple potential buyers. The management of AEC initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of IPSAS ~~XX (ED 41)~~ 32. The identifiable assets are measured at CU250 and the liabilities assumed are measured at CU50. AEC engages an independent consultant, who determines that the fair value of the 20 per cent non-controlling interest in TEC is CU42.
- IE32. The amount of TEC’s identifiable net assets (CU200, calculated as CU250 – CU50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TEC. Therefore, AEC reviews the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in TEC and the consideration transferred. After that review, AEC decides that the procedures and resulting measures were appropriate. AEC measures the gain on its purchase of the 80 per cent interest as follows:

* Melvin Simensky and Lanning Bryer, *The New Role of Intellectual Property in Commercial Transactions* (New York: John Wiley & Sons, 1998), page 293.

	CU
Amount of the identifiable net assets acquired (CU250 – CU50)	200
Less: Fair value of the consideration transferred for AEE’s 80 per cent interest in TEE; plus	150
Fair value of non-controlling interest in TEE	42
	192
Gain on bargain purchase of 80 per cent interest	8

IE33. AEE would record its acquisition of TEE in its consolidated financial statements as follows:

	CU	CU
Dr Identifiable assets acquired	250	
Cr Cash		150
Cr Liabilities assumed		50
Cr Gain on the bargain purchase		8
Cr Equity—non-controlling interest in TEE		42

IE34. If the acquirer chose to measure the non-controlling interest in TEE on the basis of its proportionate interest in the identifiable net assets of the acquiree, the recognized amount of the non-controlling interest would be CU40 (CU200 x 0.20). The gain on the bargain purchase then would be CU10 (CU200 – (CU150 + CU40)).

Measurement Period

Illustrating the consequences of applying paragraphs ~~54–59~~^{50–55} of IPSAS ~~XX (ED 41)~~ 32.

IE35. If the initial accounting for an entity combination from an exchange transaction is not complete at the end of the financial reporting period in which the combination occurs, paragraph ~~54~~⁵⁰ of IPSAS ~~XX (ED 41)~~ 32 requires the acquirer to recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph ~~58~~⁵⁴ of IPSAS ~~XX (ED 41)~~ 32 requires the acquirer to recognize such adjustments as if the accounting for the entity combination from an exchange transaction had been completed at the acquisition date. Measurement period adjustments are not included in surplus or deficit.

IE36. Suppose that AEE acquires TEE on September 30, 20X7. AEE seeks an independent valuation for an item of property, plant and equipment acquired in the combination, and

the valuation was not complete by the time AEC authorized for issue its financial statements for the year ended December 31, 20X7. In its 20X7 annual financial statements, AEC recognized a provisional fair value for the asset of CU30,000. At the acquisition date, the item of property, plant and equipment had a remaining useful life of five years. Five months after the acquisition date, AEC received the independent valuation, which estimated the asset's acquisition-date fair value as CU40,000.

IE37. In its financial statements for the year ended December 31, 20X8, AEC retrospectively adjusts the 20X7 prior year information as follows:

- (a) The carrying amount of property, plant and equipment as of December 31, 20X7 is increased by CU9,500. That adjustment is measured as the fair value adjustment at the acquisition date of CU10,000 less the additional depreciation that would have been recognized if the asset's fair value at the acquisition date had been recognized from that date (CU500 for three months' depreciation).
- (b) The carrying amount of goodwill as of December 31, 20X7 is decreased by CU10,000.
- (c) Depreciation expense for 20X7 is increased by CU500.

IE38. In accordance with paragraph AG6256 of IPSAS-XX (ED-41) 32, AEC discloses:

- (a) In its 20X7 financial statements, that the initial accounting for the entity combination from an exchange transaction has not been completed because the valuation of property, plant and equipment has not yet been received.
- (b) In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, AEC discloses that the 20X7 comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by CU9,500, offset by a decrease to goodwill of CU10,000 and an increase in depreciation expense of CU500.

Determining What is Part of the Entity Combination from an Exchange Transaction

Settlement of a Pre-Existing Relationship

Illustrating the consequences of applying paragraphs 6056, 6157 and AG4546-AG4849 of IPSAS-XX (ED-41) 32.

IE39. AEC purchases electronic components from TEC under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than the rates at which AEC could purchase similar electronic components from another supplier. The supply contract allows AEC to terminate the contract before the end of the initial five-year term but only by paying a CU6 million penalty. With three years remaining under the supply contract, AEC pays CU50 million to acquire TEC, which is the fair value of TEC based on what other market participants would be willing to pay.

IE40. Included in the total fair value of TEC is CU8 million related to the fair value of the supply contract with AEC. The CU8 million represents a CU3 million component that is

‘at market’ because the pricing is comparable to pricing for current market transactions for the same or similar items (selling effort, customer relationships and so on) and a CU5 million component for pricing that is unfavorable to AEE because it exceeds the price of current market transactions for similar items. TEC has no other identifiable assets or liabilities related to the supply contract, and AEE has not recognized any assets or liabilities related to the supply contract before the entity combination from an exchange transaction.

- IE41. In this example, AEE calculates a loss of CU5 million (the lesser of the CU6 million stated settlement amount and the amount by which the contract is unfavorable to the acquirer) separately from the entity combination from an exchange transaction. The CU3 million ‘at-market’ component of the contract is part of goodwill.
- IE42. Whether AEE had recognized previously an amount in its financial statements related to a pre-existing relationship will affect the amount recognized as a gain or loss for the effective settlement of the relationship. Suppose that IPSASs had required AEE to recognize a CU6 million liability for the supply contract before the entity combination from an exchange transaction. In that situation, AEE recognizes a CU1 million settlement gain on the contract in surplus or deficit at the acquisition date (the CU5 million measured loss on the contract less the CU6 million loss previously recognized). In other words, AEE has in effect settled a recognized liability of CU6 million for CU5 million, resulting in a gain of CU1 million.

Contingent Payments to Employees

Illustrating the consequences of applying paragraphs [6056](#), [6157](#), [AG4546](#), [AG4950](#) and [AG5051](#) of IPSAS-XX(ED-41) 32.

- IE43. TEC appointed a candidate as its new CEO under a ten-year contract. The contract required TEC to pay the candidate CU5 million if TEC is acquired before the contract expires. AEE acquires TEC eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.
- IE44. In this example, TEC entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of CEO. Thus, there is no evidence that the agreement was arranged primarily to provide benefits to AEE or the combined entity. Therefore, the liability to pay CU5 million is included in the application of the acquisition method.
- IE45. In other circumstances, TEC might enter into a similar agreement with CEO at the suggestion of AEE during the negotiations for the entity combination from an exchange transaction. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AEE or the combined entity rather than TEC or its former owners. In that situation, AEE accounts for the liability to pay CEO in its post-combination financial statements separately from application of the acquisition method.

Disclosure Requirements

Illustrating the consequences of applying the disclosure requirements in paragraphs ~~68–72~~~~64–68~~ and AG~~59~~~~53~~–AG~~62~~~~56~~ of IPSAS ~~XX (ED 41)~~ 32.

IE46. The following example illustrates some of the disclosure requirements of IPSAS ~~XX (ED 41)~~ 32; it is not based on an actual transaction. The example assumes that TEC is an unlisted entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Footnote X: Acquisitions

Paragraph reference

AG593.(a–d) On June 30, 20X0 AEE acquired 15 per cent of the outstanding ordinary shares of TEC. On June 30, 20X2 AEE acquired 60 per cent of the outstanding ordinary shares of TEC and obtained control of TEC. TEC is a provider of data networking products and services in Canada and Mexico. As a result of the acquisition, AEE is expected to be the leading provider of data networking products and services in those markets. It also expects to reduce costs through economies of scale.

AG593.(e) The goodwill of CU2,500 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of AEE and TEC.

AG593.(l) None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for TEC and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in TEC.

At June 30, 20X2

	Consideration	CU
AG593.(f)(i)	Cash	5,000
AG593.(f)(iv)	Equity instruments (100,000 ordinary shares of AEE)	4,000
AG593.(f)(iii); AG593.(h)(i)	Contingent consideration arrangement	1,000
AG593.(f)	Total consideration transferred	10,000
AG593.(q)(i)	Fair value of AEE's equity interest in TEC held before the entity combination	2,000
		12,000
AG593.(n)	Acquisition-related costs (included in selling, general and administrative expenses in AEE's statement of financial performance for the year ended December 31, 20X2)	1,250
AG593.(j)	Recognized amounts of identifiable assets acquired and liabilities assumed	

	Financial assets	3,500
	Inventory	1,000
	Property, plant and equipment	10,000
	Identifiable intangible assets	3,300
	Financial liabilities	-4,000
	Contingent liability	-1,000
	Total identifiable net assets	12,800
AG593.(p)(i)	Non-controlling interest in TC	-3,300
	Goodwill	2,500
		12,000
AG593.(f)(iv)	The fair value of the 100,000 ordinary shares issued as part of the consideration paid for TEC (CU4,000) was determined on the basis of the closing market price of AEC 's ordinary shares on the acquisition date.	
AG593.(f)(iii)	The contingent consideration arrangement requires AEC to pay the former owners of TC 5 per cent of the revenues of XC, an unconsolidated equity investment owned by TEC , in excess of CU7,500 for 20X3, up to a maximum amount of CU2,500 (undiscounted).	
AG593.(h)	The potential undiscounted amount of all future payments that AEC could be required to make under the contingent consideration arrangement is between CU0 and CU2,500.	
AG6256.(b)	The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying the income approach. The fair value estimates are based on an assumed discount rate range of 20–25 per cent and assumed probability-adjusted revenues in XC of CU10,000–20,000.	
	As of December 31, 20X2, neither the amount recognized for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.	
AG593.(i)	The fair value of the financial assets acquired includes receivables under finance leases of data networking equipment with a fair value of CU2,375. The gross amount due under the contracts is CU3,100, of which CU450 is expected to be uncollectible.	
AG6256.(a)	The fair value of the acquired identifiable intangible assets of CU3,300 is provisional pending receipt of the final valuations for those assets.	
AG593.(k)	A contingent liability of CU1,000 has been recognized for expected warranty claims on products sold by TC during the last three years. We expect that the majority of this expenditure will be incurred in 20X3 and that all will be	
AG6256.(c)		

IPSAS 19.97, 98 incurred by the end of 20X4. The potential undiscounted amount of all future payments that AC could be required to make under the warranty arrangements is estimated to be between CU500 and CU1,500. As of December 31, 20X2, there has been no change since June 30, 20X2 in the amount recognized for the liability or any change in the range of outcomes or assumptions used to develop the estimates.

AG593.(p) The fair value of the non-controlling interest in TEE, an unlisted company, was estimated by applying a market approach and an income approach. The fair value estimates are based on:

- (a) an assumed discount rate range of 20–25 per cent;
- (b) an assumed terminal value based on a range of terminal EBITDA multiples between 3 and 5 times (or, if appropriate, based on long term sustainable growth rates ranging from 3 to 6 per cent);
- (c) assumed financial multiples of companies deemed to be similar to TEE; and
- (d) assumed adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in TEE.

AG593.(q)(ii) AC recognized a gain of CU500 as a result of measuring at fair value its 15 per cent equity interest in TC held before the entity combination. The gain is included in other income in AEE's statement of financial performance for the year ending December 31, 20X2.

AG593.(r)(i) The revenue included in the consolidated statement of financial performance since June 30, 20X2 contributed by TEE was CU4,090. TC also contributed surplus of CU1,710 over the same period.

AG593.(r)(ii) Had TEE been consolidated from January 1, 20X2 the consolidated statement of financial performance would have included revenue of CU27,670 and surplus of CU12,870.

Comparison with IFRS 3

IPSAS ~~XX (ED 41) 32~~, “Entity Combinations from Exchange Transactions,” is drawn primarily from IFRS 3, “Business Combinations” (revised in 2008). The main differences between IPSAS ~~XX (ED 41) 32~~ and IFRS 3 are as follows:

- Commentary additional to that in IFRS 3 has been included in various paragraphs of IPSAS ~~XX (ED 41) 32~~ to clarify the applicability of the requirements to accounting by public sector entities.
- IPSAS ~~XX (ED 41) 32~~ has replaced the term “business” with “operation” so that an entity combination includes either cash-generating activities or non-cash-generating activities.
- IPSAS 32 excludes the recognition of a contingent liability arising from a social benefit obligation as an exception to the recognition principles in IFRS 3 as IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” contains a scope exclusion for social benefit obligations and the Board has yet to determine the appropriate treatment for social benefit obligations.
- IPSAS 32 requires any excess of the consideration transferred and net assets acquired for a non-cash-generating operation to be recognized in surplus or deficit on the acquisition date.
- IPSAS ~~XX (ED 41) 32~~ uses different terminology, in certain instances, from IFRS 3. The most significant examples are the use of the terms “Statement of Financial Position,” “Statement of Financial Performance,” “revenue,” “economic entity,” “controlling entity” and “controlled entities” in IPSAS ~~XX (ED 41) 32~~. The equivalent terms in IFRS 3 are “Balance Sheet,” “Income Statement,” “income,” “group,” “parent” and “subsidiaries.”
- ~~IPSAS XX (ED 41) does not include guidance on the measurement of share-based payment awards where the acquirer replaces the acquiree’s share-based payment award with another award.~~
- IPSAS ~~XX (ED 41) 32~~ does not include guidance on accounting for reverse acquisitions.

IPSAS 32 COMMENTS ON REVISED WORDING OF SCOPE SECTION

PURPOSE:

This paper presents Members and TAs comments on revised wording of scope section of IPSAS 32, “Entity Combinations from Exchange Transactions”.

LIST OF RESPONDENTS:

Response #	Respondent Name
1	Thomas Müller-Marqués Berger
2	David Bean
3	Erna Swart
4	Clark Anstis
5	Tadashi Sekikawa
6	Frans van Schaik
7	Stefan Berger

#	RESPONDENT NAME	SUPPORTIVE/NO COMMENTS	PROPOSED IPSASB RESPONSE
6	Frans van Schaik	No comments.	Noted.
7	Stefan Berger	<p>...For me it is perfectly clear as to which entity combinations are within the Standard's scope.</p> <p>Item 6 of your memo: The IPSASB agreed that entity combinations from exchange transactions, while rare, do occur. The example in paragraph 3(b) is one possible aspect of this rare situation and therefore, it makes it even more rare. Together with the several aspects in paragraph AG1 and the "professional judgment" in paragraph 3 (new) the question about scope inclusion or exclusion is solved.</p>	Noted.

#	RESPONDENT NAME	PARAGRAPH 1	PROPOSED IPSASB RESPONSE
2	David Bean	<p>1. Paragraph 1. The reference to a "bargain purchase" should be eliminated. If it is a bargain purchase, it may call into question whether it is an exchange transaction.</p>	<p>This wording is taken directly from the underlying IFRS 3 and was exposed in ED 41. No respondents have commented on this paragraph except for Respondent 4 (see below). Therefore, no change is proposed.</p> <p>Note that the Respondent 4 comments on this issue from the perspective of disagreeing with the exchange/non-exchange split.</p>

#	RESPONDENT NAME	PARAGRAPH 2	PROPOSED IPSASB RESPONSE
1	Thomas Müller-Marqués Berger	<p>- Para. 2 (a), AG 3</p> <p>I am not convinced, whether the exclusion is described correctly by "local government reorganization". Transactions on local government level as explained in AG 3 might be one example for an transaction that is not an exchange transaction, but in my view this is not necessarily conclusive. The scope may be clear now, but it is too narrow: there might be transactions on higher level of administration, which are not exchange, too.</p> <p>So, my suggestion would be to say something along the lines of: "An entity combination arising from a transaction that is</p>	<p>The scope exclusion in paragraph 2(a) has been amended to "a reorganization involving entities or operations at regional or local government level", so that government reorganizations at a higher level than local are exempt from IPSAS 32.</p>

#	RESPONDENT NAME	PARAGRAPH 2	PROPOSED IPSASB RESPONSE
		not an exchange transaction in the definition of this standard (AG 1 following provides related guidance).”	
2	David Bean	<p>2. Paragraph 2. By eliminating “nonexchange” we have created a hole. As you know, they may be transactions that do not meet the definition of exchange (for example, the bargain purchases), but are not currently exempted in paragraph 2. I would suggest the following fix.</p> <p>a) An entity combination arising from a transaction that does not meet the definition of an exchange or a sub-national government reorganization</p>	A scope exclusion for “an entity combination arising from a transaction that does not meet the definition of an exchange transaction” has been included in paragraph 2(b) to address this issue. The scope exclusion for reorganizations is set out separately in paragraph 2(a).
2	David Bean	<p>3. Paragraph 2. Would suggest “subnational” versus “local.” Pooling could be employed by states in some transactions. In the States, local are not state governments.</p>	The scope exclusion in paragraph 2(a) has been amended to “a reorganization involving entities or operations at regional or local government level”, so that government reorganizations at a higher level than local are exempt from IPSAS 32.
3	Erna Swart	<ul style="list-style-type: none"> • Amended paragraph .02(a) has been changed to refer to an entity combination from a local government reorganization <ul style="list-style-type: none"> ○ I first question why the scope exclusion only applies to local government – surely this scope exclusion should equally apply to reorganisations on a departmental level (national and provincial) and surely it should also be applicable to other government entities (eg public entities). I therefore think that the scope exclusion should be expanded to also include other government entities that apply the ED and should not only be limited to mergers occurring at local government. ○ In addition, I think that the term “reorganization” should be explained – AG 3 explains what a reorganisation entails but this is an example only. The explanation should be clarified in the text of the ED or in the BFC. 	<p>The scope exclusion in paragraph 2(a) has been amended to “a reorganization involving entities or operations at regional or local government level”, so that government reorganizations at a higher level than local are exempt from IPSAS 32.</p> <p>At a national level the scope exclusion in paragraph 2(e) for entities under common control means that reorganizations at a national level are excluded from the scope of IPSAS 32.</p> <p>Paragraph 5 has been added to explain the term reorganization.</p>

#	RESPONDENT NAME	PARAGRAPH 2	PROPOSED IPSASB RESPONSE
3	Erna Swart	<ul style="list-style-type: none"> ○ My other concern is the fact that the ED does not now specifically scope out entity combinations from non-exchange transactions – I think the ED should clearly scope out non-exchange and provide some explanation in the BFC. 	A scope exclusion for “an entity combination arising from a transaction that does not meet the definition of an exchange transaction” has been included in paragraph 2(b) to address this issue.

#	RESPONDENT NAME	PARAGRAPH 4	PROPOSED IPSASB RESPONSE
2	David Bean	4. Paragraph 4. Would eliminate “and therefore within the scope of this Standard.” The view expressed in Toronto was that some combinations that were intended to be exempt could be view as exchange transactions. This reference would contradict this view and the exemption in paragraph 2.	The wording of this paragraph has been amended so that this sentence is no longer there.
3	Erna Swart	<ul style="list-style-type: none"> • Amended paragraph .04 <ul style="list-style-type: none"> ○ I agree with the inclusion of the explanation for exchange transactions but still think that that a scope exclusion for non-exchange transactions should be included – not as part of this paragraph but perhaps a different paragraph. 	The scope exclusion for non-exchange transactions has been included in paragraph 2(b).

#	RESPONDENT NAME	PARAGRAPH 5	PROPOSED IPSASB RESPONSE
3	Erna Swart	<ul style="list-style-type: none"> • Amended paragraph .05 <ul style="list-style-type: none"> ○ Following from my comment above – I think we need the first and last sentence if the scope exclusion for non-exchange transactions are to be re-instated. I agree that the reference to the hierarchy should be deleted. 	This is now paragraph 4. These sentences have been reinstated and the reference to the hierarchy has been deleted.

#	RESPONDENT NAME	PARAGRAPH AG1	PROPOSED IPSASB RESPONSE
3	Erna Swart	<ul style="list-style-type: none"> • Application guidance AG1 <ul style="list-style-type: none"> ○ The paragraph has been amended to clarify that an acquirer should always be identified. The IPSASB also agreed that the ED should clarify that there should be “owners” of the acquired entity – not sure where this clarification was provided in the amended scope or elsewhere in the ED? 	Paragraph AG1 has been amended as suggested.
3	Erna Swart	<ul style="list-style-type: none"> ○ Shouldn't the additional clarification included in AG1 also be included in AG2? 	Paragraph AG2 is in the same section as paragraph AG1 so this repetition does not seem to be necessary.
3	Erna Swart	<ul style="list-style-type: none"> ○ Why did the paragraph bring in the notion of “bargaining” – I think the reference to willing independent parties is sufficient. The ED should also include a reference to “arms length transaction” 	<p>The notion of “bargaining” was taken directly from paragraph BC44 of the Basis for Conclusions on IFRS 3 (March 2004).</p> <p>The wording has been amended to refer to “independent and willing parties”.</p>
4	Clark Anstis	<p><i>Application Guidance</i></p> <p>In paragraph AG1 – if the exchange / non-exchange distinction is to be retained – the sentence “Another aspect of this type of entity combination is that an acquirer will always be able to be identified.” should be reworded to avoid the implication that an acquirer might not be identifiable for non-exchange combinations. IFRS 3 assumes every combination will have an acquirer, even those for no consideration. Better to say “Another aspect of this type of entity combination is that an acquirer normally can be easily identified.” or similar.</p>	Amended to “other aspects...”.
4	Clark Anstis	The diagram in para AG1 shows “CU\$892 Million” – the dollar sign should be deleted. But why not use a rounded amount anyway, such as CU900 million? The diagram in para AG2 also includes a \$ sign.	Done.

#	RESPONDENT NAME	PARAGRAPH AG2	PROPOSED IPSASB RESPONSE
1	Thomas Müller-Marqués Berger	<p>- AG 1, AG 2</p> <p>I would add the following in AG 2, third sentence: “It is presumed that the consideration transferred will be approximately equal to the <i>fair value of the</i> net assets transferred in exchange.”</p> <p>Looking at the given examples, to make exactly clear that these are exchange transaction, in my view you need to give the information on the fair value of the acquired shareholding or net assets. Perhaps this information is given by using the term “directly in exchange” – in this case it is just a language issue.</p>	Done.

#	RESPONDENT NAME	PARAGRAPH AG3	PROPOSED IPSASB RESPONSE
2	David Bean	5. AG3. Would use the term “provincial” instead of “federal.” A federal government (versus central) may not be involved in this type of legislation.	Done.
3	Erna Swart	<ul style="list-style-type: none"> • Heading to AG3 <ul style="list-style-type: none"> ○ The heading to and text in AG3 has been amended to “local government” – as explained above, I think the scope exclusion should be expanded to also include other government entities that apply the IPSAS and should not only be limited to mergers occurring at local government. 	The heading and text have been amended following the change in the scope to “a reorganization involving entities or operations at regional or local level”.
3	Erna Swart	<ul style="list-style-type: none"> ○ The example itself brings in the fact that “no consideration” was paid – how is this relevant to explaining the scope exclusion for the local government reorganisation? 	Deleted.
4	Clark Anstis	In para AG3, it would be better to write “Local government reorganizations may involve be described as mergers, amalgamations or annexations ...” We shouldn’t suggest that true mergers might exist?!	Done.

#	RESPONDENT NAME	BASIS FOR CONCLUSIONS PARAGRAPHS	PROPOSED IPSASB RESPONSE
2	David Bean	6. BC 3. Agree with the continued use of “entity combination.”	Noted.
2	David Bean	7. BC4. Would eliminate the phrase “while rare.” The majority of these transactions are exempt, but the remaining would still be more than rare.	Done.
3	Erna Swart	<ul style="list-style-type: none"> • Basis for Conclusions BC5 <ul style="list-style-type: none"> ○ BC5 explains that an entity combination involve one entity receiving “entities or operations” – replace “entities with “an operation” to be consistent with the previous wording in the ED. 	Done. Although the “entities or operations” has been kept for the scope exclusion sub-paragraphs as it is consistent with the wording of the exclusion in paragraph 2(e) relating to entities under common control which has been taken directly from IFRS 3.
3	Erna Swart	<ul style="list-style-type: none"> ○ Reference should rather be made to “willing independent parties” and not to “bargaining’. 	Done.
3	Erna Swart	<ul style="list-style-type: none"> • Basis for Conclusions BC5 <ul style="list-style-type: none"> ○ Again I have a concern with the reference to “local government” only. What about other public sector reorganisations? 	This is now paragraph BC6 and it refers to “reorganizations involving entities or operations at regional or local government level”. It also states that national or central governments have an exemption from IPSAS 32 by virtue of being under common control.
4	Clark Anstis	<p>Basis for Conclusions</p> <p>In para BC4 – if the exchange / non-exchange distinction is to be retained – replace the words “public sector specific” with “not exchange transactions” in the second sentence, and with “non-exchange” in the last sentence. Also change “address these types of entity combinations” in the last sentence to “address that type of entity combination”. I don’t think the term “public sector specific entity combination” is particularly helpful.</p>	Done.

#	RESPONDENT NAME	EXCHANGE VERSUS NON-EXCHANGE COMBINATIONS	PROPOSED IPSASB RESPONSE
4	Clark Anstis	<p><i>Exchange versus Non-Exchange Combinations</i></p> <p>I continue to have significant concerns regarding trying to split entity combinations between exchange transactions and non-exchange transactions.</p>	Noted. This issue of the split between exchange and non-exchange transactions for entity

#	RESPONDENT NAME	EXCHANGE VERSUS NON-EXCHANGE COMBINATIONS	PROPOSED IPSASB RESPONSE
		<p>Such a distinction would be difficult to apply in practice when trying to distinguish between an amount paid in an exchange transaction that results in the recognition of goodwill and an amount transferred in a non-exchange transaction.</p> <p>In my view, the reference to “from an exchange transaction” should be deleted from paragraph 1 and elsewhere throughout the draft Standard, so that it addresses “entity combinations” generally, instead of “entity combinations from exchange transactions”.</p> <p>The proposed new paragraph BC5 states that “the Standard is based upon IFRS 3, and so, by its very nature, applies to exchange transactions.” I disagree with this statement. I do not consider that IFRS 3 applies only to exchange transactions. To justify this view, I note that IFRS 3 addresses the accounting for a gain on a bargain purchase. Such a gain must indicate that the business combination is not an exchange transaction at all, since the acquirer has made a gain on the transaction – i.e. the acquirer and acquiree cannot have exchanged approximately equal value.</p> <p>Furthermore, I suggest that IFRS 3 also deals with a non-exchange business combination wherein the acquirer pays more for the acquisition than the net assets acquired. IFRS 3 assumes that the excess consideration represents goodwill, i.e. other, unidentifiable assets acquired. However, the acquirer will, sooner or later, have to apply IAS 36 <i>Impairment of Assets</i> to determine whether the supposed goodwill is impaired. If the goodwill has to be written down, this may be due to either an impairment since acquisition or the excess consideration for the acquisition not actually representing unidentified assets. IFRS 3 and IAS 36 make no distinction in this regard.</p> <p>Therefore, I think it is incorrect to characterise IFRS 3 as dealing only with exchange transactions. Consequently, the premise for the IPSASB ED/Standard dealing only with exchange transactions falls away. As a result, I disagree with the proposed wording in the revised scope paragraphs in general that refers to an exchange / non-exchange distinction for entity combinations, including the explanation re the former paragraph 5 that there is no international or national guidance for non-exchange combinations.</p> <p><i>Scope Exclusions</i></p> <p>I agree with the wording of the scope exclusions proposed in the new paragraph 2, with the exclusion of the words “arising from an exchange transaction” at the end of the first sentence.</p>	<p>combinations has been discussed by the Board on several occasions. The Board agreed that this split would be retained for this Standard. This decision may be reviewed dependent upon the outcome of the public sector specific entity combinations project.</p>

#	RESPONDENT NAME	DO NOT SUPPORT THE EXCHANGE/NON-EXCHANGE DISTINCTION	PROPOSED IPSASB RESPONSE								
5	Tadashi Sekikawa	<p>I do not support the staff proposal indicated in the Memo dated October 2. My suggestion is that the final standard no more discuss whether an entity combination is exchange or non-exchange. My suggesting alternative wording is “acquisition of an entity” or “acquisition of business (operation)”. Since we develop this IPSAS based on IFRS 3, all transactions are considered as acquisition. The change from “combination” to “acquisition” would help avoiding misunderstanding that local government combination is in scope of the IPSAS.</p> <p>As I explained in Toronto, the reason for I do not support the exchange/non-exchange distinguish are as follows;</p> <ol style="list-style-type: none"> 1. Goodwill is measured as a result of the residual. In the acquisition of non-cash generating operation, such “goodwill” is immediately recognized as expenses. Such accounting treatment may raise a question whether the acquisition is really exchange transaction. 2. In some cases (e.g. acquisition of GM by US federal government), it is practically very difficult to determine whether the transaction is exchange or non-exchange. 3. If the transaction were purely non-exchange business acquisition, resultant accounting treatment would be almost the same as the exchange business acquisition. So we do not have much benefit by distinguishing exchange and non-exchange entity combinations. <p>The followings are illustrations of the reason 3 above.</p> <p><Example A> Acquired net assets 100 Consideration 50</p> <p>(1) If it is considered an exchange transaction, the accounting treatment would be as follows;</p> <table style="margin-left: 40px;"> <tr> <td>Net assets</td> <td>100 /</td> <td>Cash</td> <td>50</td> </tr> <tr> <td></td> <td></td> <td>Revenue</td> <td>50 (*)</td> </tr> </table> <p>* Negative goodwill shall be recognized as revenue.</p>	Net assets	100 /	Cash	50			Revenue	50 (*)	<p>Noted. The Board agreed, at its September 2009 meeting in Toronto, that the Standard developed from ED 41 would retain the same wording and, in addition, include a specific scope exclusion for local government reorganizations.</p>
Net assets	100 /	Cash	50								
		Revenue	50 (*)								

#	RESPONDENT NAME	DO NOT SUPPORT THE EXCHANGE/NON-EXCHANGE DISTINCTION	PROPOSED IPSASB RESPONSE																												
		<p>(2) If it is considered a non-exchange transaction, the accounting treatment would be as follows;</p> <table border="0" style="margin-left: 40px;"> <tr> <td>Net assets</td> <td>100 /</td> <td>Cash</td> <td>50</td> </tr> <tr> <td></td> <td></td> <td>Transfer revenue</td> <td>50 (*)</td> </tr> </table> <p>* Transfer would be recognized as revenue in the case that no conditions is involved</p> <p><Example B></p> <table border="0" style="margin-left: 40px;"> <tr> <td>Acquired net assets</td> <td>50</td> </tr> <tr> <td>Consideration</td> <td>100</td> </tr> </table> <p>(1) If it is considered an exchange transaction, the accounting treatment would be as follows;</p> <table border="0" style="margin-left: 40px;"> <tr> <td>Net assets</td> <td>50 /</td> <td>Cash</td> <td>100</td> </tr> <tr> <td>Goodwill</td> <td>50 (*)</td> <td></td> <td></td> </tr> </table> <p>* Goodwill shall be tested for impairment. In the case of acquisition of non-cash generating operation, the amount is to be immediately written-off.</p> <p>(2) If it is considered a non-exchange transaction, the accounting treatment would be as follows;</p> <table border="0" style="margin-left: 40px;"> <tr> <td>Net assets</td> <td>50 /</td> <td>Cash</td> <td>100</td> </tr> <tr> <td>Transfer expense</td> <td>50</td> <td></td> <td></td> </tr> </table> <p>As illustrated above, only difference would arise in the case;</p> <ol style="list-style-type: none"> a) Positive goodwill, and b) Acquisition of cash generating operation <p>Even in the case of the above, goodwill is strictly limited to the extent of future economic benefit as a result of impairment test under IPSAS 26. The potential difference would be minor.</p> <p>In other word, we do <u>NOT</u> determine how much expense is recorded at entrance (when the entity make a transaction) rather we <u>DO</u> determine at exit (result of evaluation of all distinguishable assets and liabilities and estimation of future cash flows of the acquired operation.</p>	Net assets	100 /	Cash	50			Transfer revenue	50 (*)	Acquired net assets	50	Consideration	100	Net assets	50 /	Cash	100	Goodwill	50 (*)			Net assets	50 /	Cash	100	Transfer expense	50			
Net assets	100 /	Cash	50																												
		Transfer revenue	50 (*)																												
Acquired net assets	50																														
Consideration	100																														
Net assets	50 /	Cash	100																												
Goodwill	50 (*)																														
Net assets	50 /	Cash	100																												
Transfer expense	50																														

ED 41 RESPONDENTS’ COMMENTS ON OTHER ISSUES (UPDATED TO NOVEMBER 12, 2009)

PURPOSE:

This paper presents staff’s analysis of the other comments received on ED 41, “Entity Combinations from Exchange Transactions”. This paper was originally circulated on October 14, 2009. Staff has updated it for items that were not complete at that time and for items where the response has changed due to new knowledge.

LIST OF RESPONDENTS:

Response #	Respondent Name	Function
1	Comité des Normes des Comptabilité Publique (France)	Standard Setter/Standards Advisory Body
2	Public Sector Accounting Board (Canada) – Staff Views	Standard Setter/Standards Advisory Body
3	Accounting Standards Board (UK)	Standard Setter/Standards Advisory Body
4	Japanese Institute of Certified Public Accountants (JICPA)	Member or Regional Body
5	Dr. Joseph Maresca	Academic
6	HoTARAC (Australia Heads of Treasuries Accounting and Reporting Advisory Committee)	Preparer
7	Australian Accounting Standards Board (AASB)	Standard Setter/Standards Advisory Body
8	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Standard Setter/Standards Advisory Body
9	Accounting Standards Board (South Africa)	Standard Setter/Standards Advisory Body
10	Audit Commission (UK)	Auditor
11	Chartered Institute of Public Finance &Accountancy (CIPFA) (UK)	Member or Regional Body
12	Comptroller General, Province of British Columbia (Canada)	Preparer
13	Joint Accounting Bodies (Australia)	Member or Regional Body
14	Financial Reporting Standards Board (New Zealand)	Standard Setter/Standards Advisory Body

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
2	Public Sector Accounting Board (Canada)	<p>Acquisition Related Cost</p> <p>ED 41 proposes recognition of acquisition related costs as expenses in the periods the costs are incurred and the services are received. PSA Handbook treats acquisition related costs as part of the purchase cost, consistent with the treatment of acquisition costs of tangible capital assets (similar to treatment of directly attributable costs in IPSAS 17, Property, Plant and Equipment).</p>	<p>ED 41’s proposed treatment of acquisition related costs are consistent with the underlying IFRS 3. The rationale for this treatment in IFRS 3 is contained in BC365-BC370.</p> <p>No change is proposed.</p>
2	Public Sector Accounting Board (Canada)	<p>PSAB staff found that ED 41 is unnecessarily cumbersome as its content is packed with private sector issues that are either irrelevant to or uncommon in most entity combination transactions in the public sector. For example:</p> <ul style="list-style-type: none"> • accounting issues related to entity combinations achieved in stages, contingent consideration, indirect acquisition, pre-existing relationship or arrangement before negotiations for the entity combinations; • references made to “individuals” and “a group of individuals” that control each of the combining entities; and • examples of franchise agreement and marketing-related intangible assets. • These transactions rarely happened in the public sector. <p>According to the GAAP hierarchy in IPSAS 3, public sector entity can go to IFRS for guidance in areas not addressed in IPSAS. ED 41 can be streamlined and simplified to focus on entity combination (from exchange transactions) issues that are common in the public sector. Doing so would not compromise the “Rules of the Road” for modifying IFRSs for application to public sector entities as stated in paragraph BC2 in the Basis for Conclusions, “<i>Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure</i>”, but would enhance the understandability and relevancy of the Standard to public sector entities.</p>	<p>The IPSASB has agreed that while entity combination arising from exchange transactions are rare, they do occur in practice, and therefore, guidance is required. The issues listed may be rare, but could occur and so have been kept in ED 41. Items that, by definition, could not occur have been deleted from ED 41.</p> <p>Further, keeping existing guidance in one place is less cumbersome than referring to the hierarchy. Particularly as relying on the hierarchy implies that a preparer need to be aware of the guidance included in IFRSs. IPSASs should be self-contained.</p> <p>No change is proposed.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
3	Accounting Standards Board (UK)	<p>... preparers may welcome further guidance:</p> <p>(i) On the distinction between the acquisition of an operation and the acquisition of a collection of assets. IPSASB may care to consider the guidance in the Statement of Recommended Practice (SORP): Accounting by Registered Social Landlords, 2008. This includes key indicators for social landlords to consider when determining whether the transfer of social housing stock represents a business combination or the acquisition of a series of assets (and liabilities).</p>	<p>The SORP: Accounting by Registered Social Landlords is being obtained so that Staff can determine whether or not further guidance should be included in ED 41.</p> <p>Update: The relevant guidance in this SORP is similar to the guidance in paragraphs AG11–AG16 on the definition of an operation. Paragraph 2(d), which scopes out the acquisition of an asset or a group of assets that does not constitute an operation, did not have a cross-reference to this guidance. This cross-reference has now been inserted.</p>
3	Accounting Standards Board (UK)	<p>We note the significant impact the proposed standard will have with regard to the need for amendments to extant IPSASs, in particular IPSAS 26 '<i>Impairment of Cash Generating Assets</i>'. We accept the need for these amendments and note the text being inserted into IPSAS 26 is largely text from IAS 36 '<i>Impairment of Assets</i>'. We also consider the additional Implementation Guidance for IPSAS 26, again taken straight from IAS 36, will be helpful.</p>	<p>Comment only, no action required.</p>
3	Accounting Standards Board (UK)	<p>The proposals will result in goodwill from entity combinations from exchange transactions falling within the scope of IPSAS 26, although goodwill from non-exchange transactions will continue to remain outside the scope of IPSAS 26. This change (to paragraph 2(i) of IPSAS 26) needs to be included in Appendix C of the proposed standard '<i>Amendments to other IPSASs</i>'.</p>	<p>Agree to make this change.</p>
5	Dr Joseph Maresca	<p>Summary: The purpose of the exposure draft is to specify the accounting treatment for entity combinations from exchange transactions. The standard deals with public sector exchanges <i>not under common control</i>. ED 41 is to be applied with examples B1, B2 accounting treatments adopted from IFRS 3. This entity combination occurs when the entity acquires an operation from another and gives directly in exchange an approximate amount equal to the value in cash or other consideration. Impliedly, public sector exchanges under common control will be the subject of</p>	<p>Comment only, no action required.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
		continuation in part exposure drafts which (when completed) will constitute the whole of the guidance.	
5	Dr Joseph Maresca	If this segmentation is intended, the exposure drafts should be labelled as "interim guidance" with a final exposure draft issued later encompassing "common control" and "not under common control" continuations in part. Significant intercompany elimination transactions may be required for entity combinations under common control.	<p>Labeling ED 41 as interim guidance could be confusing for two reasons:</p> <ul style="list-style-type: none"> (i) It is not interim guidance rather it is final guidance on a very limited area of entity combinations; and (ii) At this stage it is not possible to know exactly how the guidance on the rest of entity combinations will look, i.e., in a second standard or as an expansion of ED 41. <p>No change is proposed.</p>
5	Dr Joseph Maresca	<p>IN9.(b) indicates that contingent liabilities assumed in the entity combination be in the nature of present obligations both reliably measurable and recognizable. Generally speaking, an expert in the relevant financial instrument should be engaged together with the corporate legal counsel to set forth contractually the rights, duties, liabilities and potential recourse mix of the relevant transactions under consideration.</p> <p>.....</p> <p>Paragraph 45&46 discusses contingent consideration. Measurability is best determinable by consulting with management, the general counsel and relevant financial or compensation experts in the art of the transactions which generate the contingencies.</p> <p>There needs to be a rule structure for the determination of contingent consideration; namely, the agreement or contract should specify the following rule structure for contingency consideration:</p> <ul style="list-style-type: none"> (i) the contract should provide clarity and transparency on the uniform measurement , rights, duties, liabilities and recourse of the parties. (ii) the Court venue should be specified in the contract for dispute 	<p>A rule structure for the determination of contingent consideration is not appropriate for inclusion in an accounting standard. Professional judgment should be exercised.</p> <p>No change is proposed.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
		<p>resolution, articulation and measurement.</p> <p>(iii) the compensation mix should be set forth i.e. straight salary, bonus, stock option, deferred compensation, savings/investment, fringe benefits or the compensation supermarket.</p>	
5	Dr Joseph Maresca	<p>IN15. Disclosure to shareholders should include potential or foreseeable consequences of derivative transactions and the concept of reversibility of projected derivative transactions by the Courts. In derivative transactions, the most cautious approach is to “let the buyer beware”.</p>	<p>Comment only, no action required.</p>
5	Dr Joseph Maresca	<p>Paragraph 17. At acquisition date, the acquirer shall classify the identifiable assets acquired and liabilities assumed on terms of the contract or binding arrangement concurrent with economic conditions at the acquisition date. Again, the parties should write a contract that specifies the rights, duties, responsibilities and recourse for the transaction. In particular, recourse should be clarified for contingent liability transactions or reasonably foreseeable contingent liability transactions.</p> <p>A question arises as to whether or not embedded liabilities should be separated from the host. First, an expert opinion may be needed to opine on the rights, duties, liabilities and recourse for the transaction. If immaterial, embedded derivatives may be assumed by the host. If material, embedded derivatives could be problematic to accomplishing the combination.</p> <p>For example, baskets of large sub-prime mortgages could be problematic to separate in an entity combination due to valuation difficulties and the lack of a ready market. There are secondary sources of guidance for derivative transactions in the USA ; namely, the Comptroller of the Currency, Securities and Exchange Commission disclosure in the 10K, the National Association of Securities Dealers , as well as the industry experience and disclosure of comparable companies in the trade and business. Increasingly, better information is becoming available on TARP transactions.</p>	<p>Comments regarding the content of the contract for an entity combination are not appropriate for inclusion in an accounting standard.</p> <p>No change is proposed.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
		Readers should look to guidance of the foreign bourses on non-USA based derivatives and complex financial products. The relevant Court venue should be specified for dispute resolution of derivative transactions with transnational contingency implications.	
5	Dr Joseph Maresca	AG51(g) discusses consideration again. There needs to be a more inclusive mix of incentives to include guidance on bonus determination, below prime loans to executive management, stock options, non-cash compensation and compensation in business downturns.	Comment only, no action required.
6	HoTARAC (Australia)	<p>Paragraph AG 32 of ED 41</p> <p>The new sentence proposed to be added refers, amongst other things, to determining impairment of goodwill in accordance with IPSAS 21 <i>Impairment of Non-Cash Generating Assets</i>. However, as indicated by Paragraph IN12, IPSAS 21 does not appear to allow recognition of goodwill in connection with non-cash generating assets. Therefore, HoTARAC recommends that the reference to IPSAS 21 in Paragraph AG 32 be deleted or this issue clarified.</p>	<p>The IPSASB discussed whether or not paragraphs AG41 and AG42, which relate to the treatment of goodwill arising from the acquisition of a non-cash-generating operation should be in the Application Guidance.</p> <p>The Board agreed that these paragraphs should be in the text of the Standard and reviewed to ensure the wording is appropriate. Other references relating to the treatment of goodwill will be reviewed to ensure the wording is consistent.</p> <p>Update: New paragraph 42 has been inserted and paragraphs AG41 and AG42 have been deleted.</p>
6	HoTARAC (Australia)	<p>Appendix C - Amendments to Other IPSASs</p> <p><i>Proposed amendments to IPSAS 17 Property, Plant and Equipment.</i> HoTARAC strongly recommends that the proposed additional sentence in Paragraph 60 of IPSAS 17 be deleted for the following reasons:</p> <ul style="list-style-type: none"> • no justification is provided for the additional sentence; • there does not appear to be any corresponding IFRS requirement; • it is not necessary to support the other proposals re entity 	<p>The additional sentence in paragraph 60 of IPSAS 17 has been added as it is a consequential amendment to paragraph 44 of IAS 16 in the January 2008 revision of IFRS 3.</p> <p>No change is proposed.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
		<p>combinations;</p> <ul style="list-style-type: none"> • it appears to take the componentisation approach too far; and • it is unclear how such a requirement would be reliably applied in practice. 	
7	AASB (Australia)	<p>(b) the term ‘business’ should not be omitted and replaced with the term ‘operation’ because both terms are appropriate in a public sector context and the term ‘operation’ may have unintended consequences of including acquisitions of assets or groups of assets, notwithstanding scope paragraph 3(c). Therefore, the term should be ‘business/operation’, with an appropriate definition in Appendix A;</p>	<p>The word “business” was replaced with “operation” to reflect that a public sector entity may acquire an entity or operation which has a wider range of activities than the word “business” reflects.</p> <p>No change is proposed.</p>
9	ASB (South Africa)	<p>Illustrative Table</p> <p>1. While we found the table illustrating the types of entity combinations undertaken by public sector entities useful, we question why the acquirer needs to be a “controlling entity”. Controlling entity implies a parent-subsidiary relationship, but an entity combination does not always result in an entity acquiring control of another entity. For example, if an entity acquires an associate, it is also an entity combination but the acquirer does not become the controlled entity. And as the public sector entity can also be a non-controlling entity or an investor prior to the acquisition of the entity and only obtains control after the acquisition date, we propose the deletion of “controlling” in the first column headed “acquirer”.</p>	<p>Agree to make this change.</p> <p>Update: The Illustrative Table was included in the Objective and Request for Comments section of the Exposure Draft. This section is not replicated in the Standard and so this change has not been made to IPSAS 32. The change will be made if the table is used in future agenda papers.</p>
9	ASB (South Africa)	<p>2. Furthermore, the GBE section could be expanded by adding “exchange and non-exchange” in the column “type of transaction” and “not under common control” in the column “common control”.</p>	<p>GBEs are excluded from the scope of IPSASs. Paragraph 7 of ED 41 explains that GBEs apply IFRSs. Therefore, it is not necessary to expand upon this line item in the Illustrative Table.</p> <p>No change is proposed.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
9	ASB (South Africa)	<p>Objective</p> <p>3. The proposed IPSAS clarifies the difference between an exchange component and a bargain purchase. We propose that the difference between a non-exchange transaction and a bargain purchase should also be explained.</p>	<p>Additional wording to explain the difference between a non-exchange transaction and a bargain purchase will be unnecessary if the proposed amendments to the scope sector are accepted.</p>
9	ASB (South Africa)	<p>The Acquisition Method</p> <p><i>Determining the acquisition date</i></p> <p>6. Paragraph .14 currently includes an example of circumstances under which the acquirer obtains control on a date earlier than the closing date. We propose that a further example should be included, illustrating the circumstances under which the acquirer obtains control on a date after the closing date, as this is more likely to occur in the public sector.</p>	<p>Staff is checking whether or not a “real-life” example can be found to illustrate this point.</p> <p>Update: The following sentence has been inserted into paragraph 14 (now paragraph 15). “Further, where assets and liabilities are transferred to the acquirer before the acquirer obtains control of those assets, the acquisition date is the date on which the acquirer obtains control, not the date of the transfer.”</p>
9	ASB (South Africa)	<p><i>Exception to the recognition principles</i></p> <p>7. We question the exclusion of provisions and contingent liabilities from social benefits from the recognition principles as detailed in paragraph .30. If an entity has a social benefit obligation or contingent liability as defined in IPSAS 19, we are of the view that it should be taken into account in the recognition of identifiable liabilities of the acquiree at acquisition date. If these obligations are not accounted for, it will result in the overstatement of goodwill recognized. We therefore recommend that the exclusion of provisions and contingent liabilities from social benefits should be re-considered. The same principles as those explained in paragraph .33 should apply to social benefits.</p>	<p>Paragraph 30 has been inserted to exclude the recognition of a contingent liability arising from social benefits from non-exchange transactions.</p> <p>The Board, when it was discussing its social benefit obligations project, agreed that further work on this project would recommence once the Conceptual Framework project has progressed. Thus it would be inappropriate to require the recognition of a contingent liability relating to a social benefit obligation when the IPSASB has not determined the appropriate accounting for social benefit obligations. Thus, the recognition criteria should remain consistent with IPSAS 19.</p> <p>No change is proposed.</p>
9	ASB (South Africa)	<p><i>Exception to the measurement principles</i></p> <p>8. We recommend that explanatory guidance should be included to explain “binding arrangement” as included in paragraph .36.</p>	<p>The phrase “binding arrangement” is first used in paragraph 21. A new paragraph will be inserted below to describe a binding arrangement, as follows.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
			<p>“For the purposes of this Standard, a binding arrangement describes arrangements that are binding on the parties to the arrangement and confers similar rights and obligations on the parties to it as if it were in the form of a contract. For example, a government department may enter into a formal arrangement with a private sector entity, but the arrangement may not constitute a legal contract because in that jurisdiction government departments do not have the power to contract.”</p>
9	ASB (South Africa)	<p>9. Paragraph .36 should be clarified to explain whether the power to grant rights and the power to tax should be considered as part of reacquired rights.</p>	<p>The wording of paragraph 36 may be amended depending on the amendments made to paragraph 19 relating to the power to grant rights and the power to tax. See table “REFERENCES TO THE POWER TO GRANT RIGHTS AND THE POWER TO TAX” below regarding proposed changes to paragraph 19.</p> <p>Update: This paragraph is now number 38 and has not been amended because paragraph 19 (now paragraph 20) has been amended to make it clear that where an acquirer acquires the power to grant rights or the power to tax, IPSAS 32 prohibits their recognition, consistent with IPSAS 31.</p>
9	ASB (South Africa)	<p><i>An entity combination achieved by indirect acquisition</i></p> <p>13. When comparing paragraph .49 with the equivalent IFRS 3, only IFRS 3.43(a) was included in the proposed IPSAS. The reason for excluding the principles in IFRS 3.43(b) and (c) and IFRS 3.44 should be explained in the Basis for Conclusions and should be highlighted in the comparison with IFRS 3.</p> <p>14. In addition, the terminology difference between “indirect transfer” in the proposed IPSAS (paragraph .49) and “without transferring consideration” in the IFRS 3 (paragraph 43)</p>	<p>Agree to include an explanation in the Basis for Conclusions.</p> <p>Update: Paragraph BC10 has been inserted.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
		should also be explained in the Basis for Conclusions and could be highlighted in the comparison with IFRS 3.	
9	ASB (South Africa)	<p>Appendix A: Defined Terms</p> <p>15. We propose that the phrase “other owner interests” should be included as part of the definition for “equity interests” to expand the definition to other capital contributing entities. This amendment will then be similar to the amendment included in paragraph .43.</p>	Agree to make this change.
9	ASB (South Africa)	<p>16. We propose that the definition for “operation” be amended as follows: “An integrated set of activities and assets that is <u>capable of being</u> conducted and managed for the purpose of achieving an entity’s objectives, either by providing economic benefits or service potential”.</p>	Agree to make this change.
9	ASB (South Africa)	<p>Appendix B: Application Guidance</p> <p>17. AG26 has been amended to refer to a “contractual-legal-binding criterion”. However, binding arrangement encompasses contractual and legal rights (as per IPSAS XX on <i>Intangible Assets</i> (ED 40)). We therefore propose that the reference “contractual-legal” should be deleted throughout the paragraph.</p> <p>....</p> <p>Illustrative Examples</p> <p><i>Customer contracts and the related customer relationship</i></p> <p>33. This example (IE11 to IE14) has been amended to refer to a “contractual-legal-binding criterion”. However, binding arrangement encompasses contractual and legal rights (as per IPSAS XX on <i>Intangible Assets</i> (ED 40)). We therefore propose that the phrases “contractual-legal” should be deleted.</p>	Agree to make this change. The wording will be amended to “binding arrangement criterion”.
9	ASB (South Africa)	<p>16. The example of a franchise agreement in AG29 is not applicable to the public sector. We recommend that a more appropriate public sector example should be included to</p>	Agreed. Wording will be amended to refer to “an agreement”.

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
		explain the principle of a reacquired right.	
9	ASB (South Africa)	21. AG51 inconsistently refers to “surplus”, “earnings”, “profit-sharing arrangement”. We recommend that “earnings” should be used throughout the paragraph.	Agree to make these changes.
9	ASB (South Africa)	22. We question the deletion of the reference to IAS 12 in B63 in the equivalent IFRS 3. We propose that the reference to IAS 12, that prescribes the subsequent accounting for deferred tax assets and liabilities should be included as paragraph AG52(c), as income taxes are dealt with in paragraphs .31 and .32 of the proposed IPSAS.	Paragraph AG52 lists examples of other IPSASs which provide guidance on the subsequent measurement and accounting for assets acquired or liabilities assumed in an entity combination. Therefore, it is not appropriate to refer an international or national standard on income taxes in this paragraph. No change is proposed.
9	ASB (South Africa)	23. AG53(g) refers to “goodwill” whereas AG41 refers to a “resulting expense”. We recommend that consistent terminology should be used to describe the unallocated difference from the acquisition of a non-cash-generating operation. ... Editorial: AG51(g). Amend “...is determined in the basis of a multiple of surplus...” to “...is determined in the basis of a multiple of the entity’s surplus...”.	The IPSASB, at its September 2009 meeting, agreed that paragraphs AG41 and AG42 should be in the text of the Standard and reviewed to ensure the wording is appropriate. References relating to the treatment of goodwill will be reviewed to ensure the wording is consistent. Update: Paragraphs AG16, AG33 and AG58 have been amended.
9	ASB (South Africa)	<i>IPSAS 6</i> 24. When the IASB issued the revised IFRS 3 in 2008, amendments were also made to IAS 27 <i>Consolidated and Separate Financial Statements</i> . These amendments specifically relate to the accounting for non-controlling interests and the loss of control of a subsidiary. These amendments are however not incorporated as part of the consequential amendments to IPSAS 6, and we therefore recommend the inclusion of such principles as part of the amendments to IPSAS 6.	The IPSASB, at its September 2009 meeting, discussed this issue. The amendments to IAS 27 provide additional guidance which is not currently reflected in IPSASs. The Board agreed that the amendments to IAS 27 need to be considered, and that this should be a separate project to ED 41. No change to ED 41 is proposed. However, this issue will be included in the list of projects to be considered in conjunction with the development of the IPSASB’s 2010-2012 Strategic Plan.

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
9	ASB (South Africa)	<p><i>IPSAS 7</i></p> <p>25. The consequential amendments to paragraphs .29 and .39 should also be clarified to consider circumstances where the public sector entity acquires a non-cash-generating associate, specifically with regards to the impairment of goodwill in such an acquisition.</p>	<p>Agree to amend these paragraphs as appropriate.</p> <p>Update: Paragraph 29(a) of IPSAS 7 is amended as follows: “Goodwill relating to a <u>cash-generating associate</u> is included in the carrying amount of the investment. Amortization of that goodwill is not permitted. <u>Goodwill relating to a non-cash-generating associate is recognized as a loss in surplus or deficit on the acquisition date.</u>”</p> <p>Paragraph 39 of IPSAS 7 is amended as follows: “<u>For cash-generating associates, goodwill that forms part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IPSAS 26...</u>”</p>
9	ASB (South Africa)	<p><i>IPSAS 21</i></p> <p>26. We recommend that the example in the last sentence should be clarified as the purpose thereof is not clear.</p>	<p>This proposed addition to IPSAS 21 is not necessary because the Board agreed at its September 2009 meeting to move the guidance relating to goodwill arising on the acquisition of a non-cash-generating operation from the Application Guidance to the standard paragraphs. The consequential amendment to IPSAS 21 will be removed.</p>
9	ASB (South Africa)	<p><i>IPSAS 26</i></p> <p>27. Paragraph .90A(b) refers to an “operating segment” whereas IPSAS 18 distinguishes between “service and geographical” segments. The term “operating segment” should be aligned with the terminology in IPSAS 18.</p>	<p>Agree to amend this paragraph as appropriate.</p>
9	ASB (South Africa)	<p>28. The reference to “service potential” should be deleted in the example in paragraph .90B, as cash-generating assets are held for a commercial return and not for service delivery purposes.</p>	<p>Agree to make this change.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
9	ASB (South Africa)	29. The following bullet in the comparison with IAS 36 should be deleted: “Goodwill is outside the scope of IPSAS 26. IAS 36 includes extensive requirements and guidance on the impairment of goodwill, the allocation of goodwill to cash-generating units and testing cash-generating units with goodwill for impairment.”	Agreed. This deletion will be added to the consequential amendments relating to IPSAS 26.
9	ASB (South Africa)	Implementation Guidance 30. The example of the multifunctional manufacturing firm as included in IG51 (example 10) should be replaced with a more appropriate public sector example.	Agree to make this change.
9	ASB (South Africa)	Basis for Conclusions 31. The Basis for Conclusions as currently drafted does not in all instances sufficiently explain the IPSASB’s views and reasoning behind the inclusion or exclusion of certain principles when compared to the equivalent IFRS 3. For example, BC6 explains the reason for the departure from the equivalent IFRS as being “for clarity”. We recommend that the Basis for Conclusions should in all instances clearly explain the reasoning and other public sector considerations that was taken into account in drafting the proposed IPSAS.	BC6 is amended, as follows. “IFRS 3 requires recognition of any contingent liabilities of the acquiree where it is a present obligation that arises from past events and its fair value can be measured reliably. The scope of IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” excludes provisions and contingent liabilities arising from social benefits from non-exchange transactions <u>because the Board has not determined the appropriate accounting for social benefit obligations. For the sake of clarity, the Board considered that it was important to include the same scope exemption in IPSAS 19 in this Standard, as well. This issue will be reconsidered in the project on social benefit obligations.</u> ”
9	ASB (South Africa)	32. In addition, we also recommend that the Basis for Conclusions should explain the IPSASB’s conclusions reached with regards to the exception of the power to grant rights and the power to tax.	The wording of the Basis for Conclusions relating to the power to grant rights and the power to tax will be included in conjunction with the amendments to ED 40 on this issue. Update: A new paragraph BC8 has been inserted.

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
9	ASB (South Africa)	<p>Comparison</p> <p>34. The following differences between the proposed IPSAS and IFRS 3 should also be highlighted in the comparison:</p> <ul style="list-style-type: none"> • Inclusion of additional commentary on the treatment of an entity combination that consists of an exchange and non-exchange component; • The exclusion of a contingent liability arising from social benefits from non-exchange transactions as an exception to the recognition principles of contingent liabilities; and • The treatment of the aggregate amount in the acquisition of a non-cash-generating operation. 	<p>Bullet point 1: additional wording on the treatment of an entity combination that consists of an exchange and non-exchange component will not be necessary if the proposed amendments to the scope section of ED 41 are accepted, because the wording relating to components has been deleted.</p> <p>Agree to include additional text in the Comparison for bullet points 2 and 3.</p>
9	ASB (South Africa)	<p>Other Matters</p> <p>35. The public sector terminology amendment from “equity” to “equity/net assets” has not been made consistently throughout the proposed IPSAS, for example paragraph IN10, and the definition of non-controlling interest in Appendix A. To ensure consistency with other IPSASs, “equity” should be changed to “equity/net assets” throughout the proposed IPSAS.</p>	<p>IPSAS 1 defines net assets/equity as “the residual interest in the assets of the entity after deducting all its liabilities.” The reference to equity in paragraph IN10 refers to the previously held equity interest in the acquiree, and not to the reporting entity’s “net assets/equity”, and therefore, this change should not be made. However, to be consistent with the earlier comment regarding the addition of the words “other owner interests” to the definition of equity interests, these words will be added to paragraph IN10 and the definition of non-controlling interest.</p>
10	Audit Commission (UK)	<p>It is noted that the new standard will have significant impact on existing IPSASs, particularly IPSAS 26 ‘<i>Impairment of Cash Generating Assets</i>’ and we welcome the approach of the Board in utilizing the text of, and implementation guidance of, the corresponding International Accounting Standard 36 “<i>Impairment of Assets</i>” wherever possible.</p>	<p>Comment only, no action required.</p>
12	Comptroller General, British Columbia (Canada)	<p>Given the objectives of government, I have several concerns regarding this Exposure Draft:</p> <ul style="list-style-type: none"> • <u>Valuation of the entity acquired should be based on cost.</u> The value of the assets acquired in an exchange transaction should be based on the government’s cost or the fair value of 	<p>The IPSASB, at its meeting in June 2008, agreed that it is appropriate to develop a standard based upon IFRS 3, and limited in scope to entity combinations from exchange transactions. Thus, the acquirer measures the net assets acquired at their</p>

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	consideration given. Only if this value is not readily determinable, should the valuation be based on the value of the net assets received.	acquisition date fair values. No change is proposed.
12 Comptroller General, British Columbia (Canada)	<ul style="list-style-type: none"> • <u>Intangible assets other than software should not be recognized by government.</u> We disagree that the future economic or service benefit to government of intangible assets, such as licenses and operating lease benefits, can be objectively valued, and contend that intangible assets should not be recognized in the financial statements of public sector entities. • <u>The value of intangible assets should not be increased in subsequent reporting periods.</u> We disagree with the revaluation of intangible assets except if the intangible asset has become impaired. Recognition of intangible assets and the option to periodically revalue them at fair market value would artificially inflate government's reported assets, gains and expenses over time when there has been no economic change to government's financial position. 	The IPSASB, also at its meeting in June 2008, agreed that it is appropriate to develop a standard based upon IAS 38. Thus, where an item that is an intangible asset meets the definition and recognition requirements in ED 40, that item is required to be recognized. Additionally, where an intangible asset meets the requirements in ED 40 relating to the revaluation model, that intangible asset can be revalued. No change is proposed.
14 Financial Reporting Standards Board (New Zealand)	<p>Scope</p> <p>1. The FRSB supports the scope exclusion relating to amalgamations of municipalities or a restructuring of activities, but only on the grounds that the IPSASB has not yet discussed the specific public sector issues that arise from these types of entity combinations and, therefore, the appropriate accounting treatment for these amalgamations.</p>	Comment only, no action required.
14 Financial Reporting Standards Board (New Zealand)	<p>3. The FRSB considers that the requirements of IFRS 3 may be appropriate for some non-exchange entity combinations, particularly those where the combination has been willingly entered into by the various entities. If two or more entities agree to combine because they consider there are benefits from doing so, then the recognition of a gain on acquisition may be appropriate. If an entity applying IPSASs acquired the assets and liabilities of another entity in a transaction which did not meet the definition of an entity combination, then it would recognise non-exchange revenue in accordance with</p>	The scope of ED 41 is limited to entity combinations from exchange transactions. The IPSASB has not yet considered the appropriate treatment for accounting for non-exchange entity combinations. The FRSB's comment will be considered at that time. No change is proposed.

# RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
	<p>IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers). The FRSB considers that the IPSASB should be able to justify any difference in the treatment of gains from asset acquisitions and gains from entity combinations.</p>	
<p>14 Financial Reporting Standards Board (New Zealand)</p>	<p>Clarify scope examples</p> <p>5. The FRSB recommends that the examples in paragraphs AG1 and AG2 (shown below) be clarified.</p> <p>AG1. This Standard applies to a transaction or other event that meets the definition of an entity combination arising from an exchange transaction. For example, a Federal government acquires an operation which is capable of being conducted and managed for the purpose of providing a return. The Federal government acquires an 82% shareholding directly in exchange for consideration transferred of CU892 million, as set out below.</p> <p>AG2. Another example of an entity combination arising from an exchange transaction is as follows: Province A acquires a charitable hospital which is owned and run by the Order of Grey Nuns, for providing hospital services to the disadvantaged in the community. Province A acquires all of the hospital's activities, assets and liabilities directly in exchange for consideration transferred of CU100 million, as set out below.</p> <p>6. The FRSB considers that paragraph AG1 should explicitly state that the consideration transferred by the Federal government is approximately equal to the value of the shareholding acquired. This is the reason why the transaction falls within the scope of the proposed Standard. The fact that the operation acquired is capable of being conducted and managed for the purpose of providing a return is not relevant to determining whether the transaction falls within the scope of the proposed Standard. This statement could therefore be omitted.</p> <p>7. The FRSB considers that paragraph AG2 should explicitly</p>	<p>Agree to make these changes.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
		<p>state that the consideration transferred by Province A is approximately equal to the value of the hospital acquired. The FRSB also considers that the example should state that the hospital's activities, assets and liabilities meet the definition of an operation in the proposed Standard.</p>	
14	<p>Financial Reporting Standards Board (New Zealand)</p>	<p>Title of forthcoming IPSAS</p> <p>8. It is unclear from the title of ED 41 that the proposed Standard applies to the acquisition of operations by an acquirer. Although the definition of 'entity combination' in Appendix A refers to the acquisition of one or more operations, an entity is required to read the definitions to determine that the proposed Standard applies to the acquisition of operations.</p> <p>9. The FRSB is of the view that entities should be able to identify from the title of the proposed Standard that it applies to the acquisition of operations as well as the acquisition of an entity. This could be achieved by naming the proposed Standard 'Combinations of Operations from Exchange Transactions'.</p>	<p>The IPSASB agreed on the title "entity combinations from exchange transactions" when it issued ED 41. Users of accounting standards should not rely on the title of a standard to determine that standard's scope. A title is an overall indication of the topic of a standard, it is the scope paragraphs in the standard itself which explain the contents of the standard.</p> <p>No change is proposed.</p>
14	<p>Financial Reporting Standards Board (New Zealand)</p>	<p>Share-based payment awards</p> <p>12. IFRS 3 includes guidance on the measurement of share-based payment awards where an acquirer replaces the acquiree's share-based payment award with another award. ED 41 does not include this guidance and states (in paragraph BC7) that public sector entities do not award share-based payments.</p> <p>13. The FRSB agrees that the replacement of an acquiree's share-based payment award with another award by an acquirer applying IPSASs would be uncommon, but considers that this could occur. For example, if a government acquired a commercial operation which had an existing share-based payment award. The FRSB therefore considers that the guidance on share-based payment awards should be retained in the proposed Standard as long as there is no conflict with other requirements in IPSASs.</p>	<p>Agree to reinstate the guidance on share-based payment awards because this issue could arise.</p>

#	RESPONDENT NAME	OTHER COMMENTS	PROPOSED IPSASB RESPONSE
14	Financial Reporting Standards Board (New Zealand)	<p>Definition of ‘entity combination’</p> <p>14. The definition of ‘business combination’ in IFRS 3 includes ‘true mergers’ and ‘mergers of equals’ so that such combinations fall within the scope of IFRS 3. The definition of ‘entity combination’ in Appendix A of ED 41 contains no reference to mergers.</p> <p>15. The FRSB suggests that the sentence from the definition of business combination regarding mergers be included in the forthcoming IPSAS so that such transactions fall within the scope of the Standard.</p>	<p>The sentence relating to the deletion of reference to “true mergers” and “mergers of equals” has been deleted as this issue will be addressed in the public sector specific project on entity combinations.</p> <p>No change is proposed.</p>

#	RESPONDENT NAME	COMMENTS ON PUBLIC SECTOR SPECIFIC ENTITY COMBINATIONS PROJECT	PROPOSED IPSASB RESPONSE
3	Accounting Standards Board (UK)	We also note the limited scope of the standard means that it will only deal with small percentage of the entity combinations that take place in the public sector. We therefore look forward to IPSASB’s further proposals on: non-exchange entity combinations, which we hope will consider fresh-start accounting; and transactions where the entities are under common control.	Comment only, no action required regarding ED 41.
6	HoTARAC (Australia)	HoTARAC looks forward to the IPSASB releasing for comment its proposed IPSAS for entity combinations from non-exchange transactions.	
6	HoTARAC (Australia)	HoTARAC considers the exclusion of common control from the scope to be consistent with IFRS 3. However, HoTARAC also considers that common control is still an issue that needs to be resolved. HoTARAC notes that common control is currently on the IASB's work plan.	
10	Audit Commission (UK)	We note that the scope of the ED includes only entity combinations arising from exchange transactions and where the entities are not under common control and that other types of public sector entity combinations, including those under non exchange transactions will be covered in future IPSASs. We would encourage the development of such standards in the near	

#	RESPONDENT NAME	COMMENTS ON PUBLIC SECTOR SPECIFIC ENTITY COMBINATIONS PROJECT	PROPOSED IPSASB RESPONSE
		future as we believe the excluded circumstances are more common than those under exchange transactions. For example, in the UK, there are numerous examples of acquisitions and mergers of organizations within the National Health Service.	
14	Financial Reporting Standards Board (New Zealand)	2. The FRSB notes that an amalgamation of municipalities or a restructure of activities are identified as non-exchange transactions and that the specific public sector issues which arise from these types of combinations have not yet been examined in detail. The FRSB encourages the IPSASB to progress the second component of its entity combinations project in order that requirements for amalgamations of municipalities can be developed.	

#	RESPONDENT NAME	ADDITIONAL GUIDANCE ON THE BOUNDARY BETWEEN EXCHANGE AND NON-EXCHANGE COMBINATIONS	PROPOSED IPSASB RESPONSE
3	Accounting Standards Board (UK)	(i) On the boundary between a non-exchange and an exchange transaction. There may be useful material in IPSAS 23 'Revenue from Non-Exchange Transactions (Taxes and Transfers)'	This issue will resolve itself if the proposed amendments to the scope section of ED 41 are accepted because the scope section has been clarified to make it explicit that local government reorganizations are excluded from its scope. Additionally, the Basis for Conclusions includes further explanation of the implicit assumption in IFRS 3 that combinations result from exchange transactions.
6	HoTARAC (Australia)	<p>Paragraph 5 of ED 41</p> <p>Paragraph 5 of ED 41 refers to distinguishing between exchange and non-exchange components of relevant entity combinations. It is questionable how this can be reliably done, especially as goodwill may be recognised in respect of an exchange component. Therefore, HoTARAC considers guidance on how you would separate exchange and non-exchange components and treat goodwill would be beneficial. A minority view held by a HoTARAC constituent is that it would be more practical that only one classification be given to an entity combination, as suggested by the final sentence of Paragraph 5.</p> <p>Further, HoTARAC believes that, especially with public sector entities, there may be elements of an entity combination that substantively represent contributions by owners/distributions to owners.</p>	

#	RESPONDENT NAME	ADDITIONAL GUIDANCE ON THE BOUNDARY BETWEEN EXCHANGE AND NON-EXCHANGE COMBINATIONS	PROPOSED IPSASB RESPONSE
9	ASB (South Africa)	<p>Scope</p> <p>4. Even though paragraph .05 includes commentary to distinguish between the exchange and non-exchange component of an entity combination, we are of the view that it will be difficult in practice to apply the principle in distinguishing between such components.</p>	
14	Financial Reporting Standards Board (New Zealand)	<p>4. The FRSB also considers that it may be difficult to clearly distinguish between exchange and non-exchange entity combinations. There may be situations in which it is difficult to identify whether any consideration has been provided as part of the transaction. For example, in a local authority restructuring, there may appear to be no consideration. However, if the ratepayers of each local authority being acquired by a new combined local authority become ratepayers of the new entity, it could be argued that they have received an ownership interest in the new entity as consideration for their ownership interest in the previous entities. The FRSB invites the IPSASB to consider these issues and whether it is possible to provide guidance on assessing the existence of consideration in such situations.</p>	

#	RESPONDENT NAME	REFERENCE TO IPSAS 3 IN PARAGRAPH 5	PROPOSED IPSASB RESPONSE
6	HoTARAC (Australia)	<p>HoTARAC views the scope of the proposed IPSAS to be limited for the Australian public sector as most entity combinations are non-exchange and this is excluded from the scope. HoTARAC considers Paragraph 5 of the proposed IPSAS to be disconcerting in that, in the absence of a specific IPSAS on non-exchange combinations, it refers preparers to IPSAS 3 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to determine an appropriate accounting treatment. Given the significance of public sector non-exchange entity combinations, HoTARAC is of the opinion that such an approach perpetuates the potential for inconsistent treatments of such combinations across jurisdictions.</p>	<p>The reference in paragraph 5 to IPSAS 3 was discussed at the September 2009 meeting. The Board agreed that this reference was inappropriate and therefore has been deleted.</p>

#	RESPONDENT NAME	REFERENCE TO IPSAS 3 IN PARAGRAPH 5	PROPOSED IPSASB RESPONSE
9	ASB (South Africa)	5. Paragraph .05 states that the hierarchy in IPSAS 3 should be applied to determine the appropriate accounting treatment for the non-exchange component of the entity combination. As this should also be addressed in the proposed IPSAS to be developed for entity combinations arising from non-exchange transactions as referred in paragraph .04, we recommend that the reference to the hierarchy should be deleted. This recommendation is further supported by the fact that currently, there is no guidance that entities can consider for such combinations.	

#	RESPONDENT NAME	DELETION OF GUIDANCE ON COMBINATIONS BY CONTRACT ALONE OR REVERSE ACQUISITIONS	PROPOSED IPSASB RESPONSE
7	AASB (Australia)	In addition, the AASB suggests that the IPSASB has regard to the following in finalising an IPSAS on entity combinations: (a) guidance that has been omitted from IFRS 3 on the basis that it would rarely apply to public sector entities. Guidance such as that on combinations by contract alone and the application guidance for reverse acquisitions should be reinstated. This is because there is no public sector specific reason to omit it, and some public sector entities may benefit from having the guidance available;	<p>Combinations by contract alone: Paragraph 43(c) contains the reference to “by contract alone”. The Board discussed this issue at its February 2009 meeting and agreed that this situation did not occur in the public sector and so paragraph 43(c) could be deleted.</p> <p>Reverse acquisitions: The public sector specific reason for deleting the guidance on reverse acquisitions is that the usual drivers for a reverse acquisition, such as back door listing, do not exist (rather than being rare) for public sector entities. This reasoning is included in BC8. No respondent has indicated that such a situation could occur in the public sector.</p> <p>No change is proposed.</p>
13	Joint Accounting Bodies (Australia)	<i>Application Guidance</i> The Application Guidance is an integral part of the [proposed] Standard. This is consistent with the approach in IFRS 3. The Joint Accounting Bodies note that guidance on reverse acquisitions and transitional provisions for business combinations by contract alone has been omitted from the Application Guidance to the [proposed] Standard. The Basis for Conclusions paragraph BC8 states the reason for the omission of the reverse acquisitions guidance is the absence of the usual drivers for a reverse acquisition in the public sector. We do not think this is sufficient public sector reason for the omissions.	

#	RESPONDENT NAME	DELETION OF GUIDANCE ON COMBINATIONS BY CONTRACT ALONE OR REVERSE ACQUISITIONS	PROPOSED IPSASB RESPONSE
14	Financial Reporting Standards Board (New Zealand)	<p>Reverse acquisitions</p> <p>10. IFRS 3 includes guidance on accounting for reverse acquisitions. ED 41 does not include this guidance and states (in paragraph BC8) that the usual drivers for a reverse acquisition, such as a back door listing, do not exist for public sector entities.</p> <p>11. The FRSB considers that the guidance from IFRS 3 on reverse acquisitions should be retained in the proposed Standard as long as there is no conflict with other requirements in IPSASs because there is no public sector-specific reason to omit it.</p>	

#	RESPONDENT NAME	REFERENCES TO THE POWER TO GRANT RIGHTS AND THE POWER TO TAX	PROPOSED IPSASB RESPONSE
7	AASB (Australia)	(c) consistent with the AASB's comment on IPSAS ED 40 <i>Intangible Assets</i> , it is premature for the IPSASB to make the comment in paragraph 19 that the power to grant rights and the power to tax do not satisfy the specified criteria for recognition as intangible assets, because the IPSASB has not yet deliberated on this issue in its Conceptual Framework project; and	<p>The IPSASB discussed the scope of ED 40 at its September 2009 meeting. The Board confirmed its earlier decision that the exclusion of the power to grant rights and the power to tax is appropriate and that this issue will be addressed in its Conceptual Framework project.</p> <p>The wording of paragraph 19 will be amended based on the Board's instructions from the September 2009 meeting relating to ED 40.</p> <p>The examples in paragraph 77 of ED 40 are also commented on in the comments table for ED 40. It is proposed that the examples will be deleted.</p>
9	ASB (South Africa)	<p><i>Recognition conditions</i></p> <p>12. Paragraph .19 that deals with the power to grant rights and the power to tax, is not included under the appropriate heading. We propose that the principle should rather be included as part of the section that deals with exceptions to the recognition and measurement principles (paragraphs .28 to .34).</p> <p>13. We support the principle in paragraph .19, but highlight the fact that this paragraph is inconsistent with paragraph .77 in ED 40 <i>Intangible Assets</i>. Paragraph .77 in ED 40 requires that the power to grant rights and the power to tax should form part of the amount recognized as goodwill at the acquisition date.</p>	<p>Update:</p> <p>The wording of paragraph 19 (now paragraph 20) has been amended to make it clear that where an acquirer acquires the power to grant rights or the power to tax, IPSAS 32 prohibits their recognition, consistent with IPSAS 31.</p> <p>The examples in paragraph 77 of IPSAS 31 have</p>

#	RESPONDENT NAME	REFERENCES TO THE POWER TO GRANT RIGHTS AND THE POWER TO TAX	PROPOSED IPSASB RESPONSE
13	Joint Accounting Bodies (Australia)	<p><i>Paragraph 19 of the [proposed] Standard</i></p> <p>Paragraph 19 of the [proposed] Standard states, “Where the acquirer acquires the power to grant rights or the power to tax, this power does not satisfy the specified criteria for recognition as an intangible asset. Accordingly, these powers are not recognised by the acquirer.” Our response to ED 40 <i>Intangible Assets</i> noted our support for the departure from IAS 38 <i>Intangible Assets</i>, and our disagreement with the reason articulated in the Basis for Conclusions to the [proposed] Standard <i>Intangible Assets</i> in the absence of the IPSASB’s final decisions on its conceptual framework. The Joint Accounting Bodies strongly suggest that the IPSASB remove these words from the [proposed] Standard <i>Entity Combinations from Exchange Transactions</i>.</p>	been deleted.

#	RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
6	HoTARAC (Australia)	<p>HoTARAC considers the issues in the following paragraphs need to be corrected:</p> <p>Paragraph 30 refers to requirements in Paragraph 28; however, there is confusion amongst some HoTARAC constituents as to whether this reference should instead be to the requirements in Paragraph 29. Therefore, HoTARAC would like the IPSASB, before issuing a Standard, to confirm if it refers to Paragraph 28 or Paragraph 29.</p>	Agree to make these changes.
6	HoTARAC (Australia)	<p><i>Appendix C — Amendments to Other IPSASs</i></p> <p>Within the proposed amendments to IPSAS 26 “Impairment of Cash-Generating Assets”, proposed new Paragraph 127A appears incomplete, based on the planned amendments to IPSAS 26 detailed earlier in Appendix C. HoTARAC is of the view that it should read:</p> <p>“IPSAS XX(ED 41) inserts paragraphs 90A—900, 111A, 111B, 122A, 125A, Appendix C, Appendix D and examples 7 and 8... IPSAS XX (ED 41) also amends Paragraphs 23, 76, 91, and 123, 124 and 125.</p>	<p>Agree to make this change, except that, Appendix C is not amended and so reference to it will be removed from paragraph 127A.</p> <p>Update: The Appendix to be inserted is Appendix C, so the reference to Appendix D is deleted. Also, this paragraph is now 127B as IPSAS 31 also has a consequential amendment to IPSAS 26.</p>

#	RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
6	HoTARAC (Australia)	Within new Paragraph 1G48, it is HoTARAC's view that Schedule 3 should really be Schedule 1 as it appears to be separate to the previous example.	The reference to "Schedule 3" is taken directly from the underlying IAS 36. No change is proposed.
7	AASB (Australia)	...the reference to 'paragraph 28' in paragraph 30, should be 'paragraph 29'.	Agree to make this change.
9	ASB (South Africa)	IN5. Amend "core principle" to "objective".	Agree to make this change.
9	ASB (South Africa)	Par 03. Amend "an entity that prepares..." to "an entity which prepares...". (as per other IPSASs)	The earlier Standards, such as IPSAS 8, use "that" and the later Standards, such as IPSAS 26, use "which". The review of the Handbook has identified this wording as a consistency issue within the Handbook. It has been decided that the correct word to use is "that" and the later Standards in the Handbook will be amended. No change is proposed.
9	ASB (South Africa)	Par 04. Amend ".....this issue in a separate Standard" to ".....these issues in a separate Standard".	This wording will not need to be changed if the proposed amendments to the scope section of ED 41 are accepted because it has been deleted.
9	ASB (South Africa)	AG 46(b). Amend "...entered into for the purpose of providing future economic benefits to the acquirer...." to "...entered into for the purpose of providing future economic benefits or service potential to the acquirer....".	Agree to make this change.
9	ASB (South Africa)	AG53(i)(ii). Amend "The gross contractual and non-contractual amounts receivable..." to "The gross contractual and non-contractual amounts receivable arising from binding arrangements...".	Agree to improve the wording of this disclosure requirement, as follows: "The gross contractual and non-contractual amounts receivable <u>from binding arrangements split between contractual and non-contractual amounts</u> ..."
9	ASB (South Africa)	AG53(l). Amend "The total amount of goodwill that is expected to be deductible for tax purposes..." to "The total amount of goodwill	Agree to make this change.

#	RESPONDENT NAME	EDITORIAL SUGGESTIONS	PROPOSED IPSASB RESPONSE
		that is expected to be deductible for tax purposes (where applicable)...”.	
9	ASB (South Africa)	AG56(d). Amend “.....(arising on the acquisition of cash-generating entities or operations....” to “.....(arising on the acquisition of cash-generating operations....”.	Agree to make this change.
9	ASB (South Africa)	Consequential amendments to IPSAS 7, Par 29. Amend “...of the investment and the investor’s share of hte net fair value...” to “...of the investment and the investor’s share of the net fair value...”.	Agree to make this change.
9	ASB (South Africa)	Appendix D Example: Allocating an impairment loss (D5 to D9). Subsidiary should be amended to controlled entity Parent should be amended to controlling entity Profit or loss should be amended to surplus or deficit	Agree to make these changes.
9	ASB (South Africa)	Implementation Guidance IG 34 to IG 37: “Controlling entity” should be amended to “controlling entity” “Controlled entity” should be amended to “controlled entity”	Agree to make these changes.
9	ASB (South Africa)	Illustrative examples IE 15(a). Amend “Acquirer Company (AC) and Target Company (TC) ” to “Acquirer entity and Target entity”.(alternatively “acquirer entity” could be replaced with “acquirer” and “target entity” could be replaced with “acquiree”)	Agree to make these changes.