

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Santiago, Chile

Meeting Date: March 10–13, 2015

Agenda Item 9

For:

Approval

Discussion

Information

Public Sector Combinations

Objective of Agenda Item

1. The objective of this session is to **review** an Issues Paper and draft sections of an Exposure Draft (ED) on Public Sector Combinations; and to **provide directions** for further development.

Material(s) Presented

Agenda Item 9.1 Issues Paper, *Public Sector Combinations*

Agenda Item 9.2 Sections of draft Exposure Draft, *Public Sector Combinations*

2. The detailed analyses of the responses to the Preliminary Views and the Specific Matters for Comment were presented at the June 2014 meeting and are not duplicated in this agenda item. Members wishing to review the analyses are referred to the June 2014 meeting papers.

Action(s) Requested

3. The IPSASB is asked to **consider** the Matters for Comment presented in Agenda Item 9.1, and to **provide input and direction** on the way forward.

Issues Paper, *Public Sector Combinations***Introduction**

1. At its December 2014 meeting, the IPSASB:
 - (a) Agreed that the scope of the project should exclude the formation of joint ventures;
 - (b) Indicated that the receipt of donated operations should be excluded from the scope of the project;
 - (c) Provisionally agreed definitions of a reorganization, amalgamation and acquisition;
 - (d) Provisionally agreed the decision tree to be followed in classifying public sector combinations;
 - (e) Agreed that the acquisition method of accounting for acquisitions should include the recognition of goodwill encompassing both the generation of cash inflows and reduction in net cash outflows;
 - (f) Agreed to adopt the modified pooling of interests method of accounting for reorganizations and amalgamations;
 - (g) Decided to consider the provision of comparative information in respect of amalgamations and reorganizations at later meetings; and
 - (h) Decided to retain the terminology within the CP with the exception of replacing “recipient” with “acquirer”.
2. The IPSASB directed staff to:
 - Further develop the definitions and classification approach, building on the decisions taken at the December 2014 meeting; and
 - Develop an Exposure Draft (ED) that concentrates on the mainstream public sector combination transactions, with other types of public sector combinations being left to professional judgment.
3. This Issues Paper discusses the issues that staff has identified in developing the ED in line with the IPSASB’s directions, and asks the IPSASB to **provide input and direction** on the way forward.

Objective and Scope (ED paragraphs 1–7)**Objective**

4. The draft ED includes a paragraph that sets out the objective of the ED. Staff has based this paragraph on the equivalent paragraph in IFRS 3, *Business Combinations*, with additional text to reflect the wider scope of this draft ED and the fact that this draft ED includes reorganizations and amalgamations in addition to acquisitions.

Scope

5. The draft ED excludes the following transactions from the scope of the ED:
 - (a) The formation of a joint arrangement or joint venture in the financial statements of the joint arrangement or joint venture itself;
 - (b) The receipt of an asset or a group of assets that does not constitute an operation;
6. At its December 2014 meeting, the IPSASB indicated that the receipt of donated operations should also be outside the scope of the draft ED, and instead should be accounted for in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. Having considered this approach and the implications for the remaining provisions of the draft ED, staff and the Task Based Group (TBG) concluded that excluding donated operations from the scope of a future IPSAS would not produce the optimal approach.
7. In coming to this view, the TBG discussed whether the indication that the receipt of donated operations be excluded from the scope of the ED was a firm decision by the IPSASB. The TBG's view was that the indication had the nature of a direction that staff explore this option, rather than being a firm decision. Therefore, the TBG agreed that the draft ED need not exclude the receipt of donated operations from its scope.
8. The reasons for not excluding the receipt of donated operations from the scope of the ED are as follows:
 - (a) The TBG considered that the exclusion might produce arbitrary results; the receipt of operations transferred at no cost would be excluded from the scope of the ED but the receipt of operations transferred at nominal consideration (for example, \$1) would be within the scope of the ED. Staff and the TBG consider that these transactions have the same economic substance.
 - (b) The TBG considered that the definition of a donated operation may include transactions that the IPSASB had not intended to exclude from the scope of the ED, including:
 - (i) Uncompensated seizures of operations;
 - (ii) Some combinations that might otherwise meet the definition of reorganizations (for example, the transfer of operations from a controlling entity to a controlled entity without the exchange of consideration); and
 - (iii) Transactions in which an entity gains control without transferring consideration.
 - (c) Although accounting for the receipt of a donated operation in accordance with IPSAS 23 would produce similar accounting to that required by the acquisition method in the draft ED, there are specific requirements in the draft ED (for example, disclosures) that would not apply under IPSAS 23. Accounting for the receipt of donated operations under this draft ED will therefore result in more consistent financial reporting.
9. The IPSASB is asked to agree that the receipt of donated operations is retained within the scope of the draft ED.
10. The requirements of the draft ED do not apply to the acquisition by an investment entity (as defined in IPSAS 35, *Consolidated Financial Statements*) of an investment in a subsidiary that is required to

be measured at fair value through surplus or deficit. This is consistent with the equivalent requirements in IFRS 3.

11. The draft ED includes standard paragraphs explaining that Government Business Enterprises (GBEs) do not apply IPSASs. Staff notes that these paragraphs may need to be modified or deleted once the IPSASB has agreed how to proceed with its project on GBEs.

Matter(s) for Consideration

1. The IPSASB is asked **to indicate** whether it supports the staff proposals regarding the objective and scope of the ED, including the treatment of donated operations; or alternatively to provide directions on amending these sections.

Definitions (ED paragraph 8)

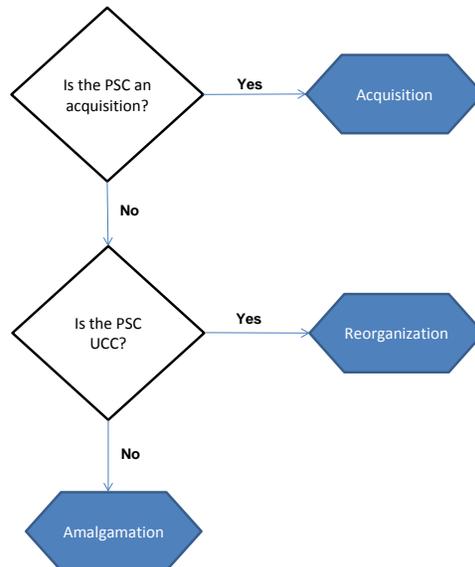
12. The CP had definitions for two types of public sector combinations (acquisitions and amalgamations). At the December 2014 meeting the IPSASB supported as a good starting point the following definitions:

An **acquisition** is a public sector combination not under common control in which an entity exchanges value to gain control of an operation;

A **reorganization** is a public sector combination under common control;

An **amalgamation** is a public sector combination not under common control that is not an acquisition.

13. At the December 2014 meeting the IPSASB agreed the following sequence of decisions as the basis for classifying PSCs:



14. Staff identified several issues that needs to be clarified related to the definitions and the decision tree.

Acquisition definition

15. The acquisition definition has the wording “not under common control”. As the decision tree starts asking “is the PSC an acquisition?”, it does not address the issue of being a PSC UCC or NUCC, as the IPSASB wanted to avoid to start the classification of PSC under the dichotomy of UCC/NUCC.
16. Therefore, staff recommends IPSASB to remove the wording “not under common control” in the acquisition definition.

Matter(s) for Consideration

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| <ol style="list-style-type: none">2. The IPSASB is asked to indicate whether it agrees with the staff recommendation to remove the wording “not under common control” from the acquisition definition. |
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17. Staff notes that paragraphs 79 and 80 of the draft ED incorporate requirements, based on IFRS 3, for acquisitions that occur without consideration. This is discussed in paragraph 34 of this Issues Paper.
18. In the December 2014 meeting, the IPSASB decided to begin the decision tree with acquisitions. In the second step of the decision-tree is asked if the PSC is UCC.
19. Staff is of the view that from a definitions point of view it is not clear what triggers to move to the second step (reorganizations) given that in PSC UCC can exist the possibility of one entity gaining control with exchange of value. From a definitions point of view there would be no distinction between an acquisition and a reorganization.

Matter(s) for Consideration

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| <ol style="list-style-type: none">3. The IPSASB is asked to clarify the circumstances that distinguish acquisitions from reorganizations. |
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20. At the December 2014 meeting, IPSASB decided to add “exchange of value” to the acquisition definition. Staff and the TBG have been unable to develop a reliable definition of “exchange of value” that would not be identical to consideration, although staff and the TBG acknowledge that exchange of value was intended to have a wider meaning than consideration. Staff and TBG are of the view that this additional terminology in the acquisition definition is unnecessary for the following reasons:
 - Staff and the TBG consider that “exchange of value” was included to enable acquisitions to be distinguished from reorganizations and amalgamations. Staff and the TBG consider that this could be achieved through the control concept alone with a minor amendment to the acquisition definition, limiting acquisitions to those combinations where an existing operation gains control.
 - There will be guidance in the Standard on exchange of consideration and this will cover combinations where the exchange of value would influence the classification of the combination.

21. Therefore, Staff and the TBG recommends IPSASB to delete the wording “exchange of value” from the acquisition definition.

Matter(s) for Consideration

4. The IPSASB is asked to indicate whether it agrees with the staff recommendation to amend the acquisition definition as follows:
“An acquisition is a public sector combination [not under common control] in which an **existing** entity ~~exchanges value to~~ **gains** control of an operation.”

Reorganizations and amalgamations

22. Staff notes that the only distinction between a reorganization and an amalgamation is whether it is a PSC (other than an acquisition) UCC or NUCC, respectively.
23. At the December 2014 meeting, the IPSASB initially decided no acquisitions UCC and so reorganizations were clearly needed as a separate category. However, there was some uncertainty about whether the IPSASB had subsequently revised that decision when preparing flow chart to reflect application of ED consistent with decisions as there was insufficient time to revisit that decision at the meeting itself.
24. In discussing this classification, TBG members noted a view that acquisitions may arise UCC and explored circumstances that might mean an acquisition would arise UCC and differ from a reorganization. The TBG also explored whether they would be different from circumstances for acquisition NUCC. After discussing the IPSASB’s direction for greater simplicity and how it impacted on this aspect of the draft ED the TBG and staff were of view that on balance the reorganization classification should be removed.
25. The consequence of this recommendation would be the existence of only acquisitions and amalgamations in the classification. If the PSC is not an acquisition, the common control criterion would be considered only if there was contributions/distributions from owners or not¹.

Matter(s) for Consideration

5. The IPSASB is asked to indicate whether it agrees with the staff recommendation to remove the reorganization definition or provide alternative direction.

Reorganization definition

26. If the IPSASB decides to retain the reorganization definition, staff notes actual definition might need revision. The reorganization definition states that “is a public sector combination under common control”. This wording might lead to the conclusion that all PSCs UCC are reorganizations.
27. At the September 2014 meeting the IPSASB acknowledged that acquisitions can also occur in combinations UCC. Staff is of the view that some might see an apparent contradiction between the reorganization definition and the decision tree.
28. Therefore, recommends the following definition of reorganization:

¹ Staff notes that the accounting treatment for difference arising in a PSC UCC would be treated as contribution/distribution from owner and in a PSC NUCC would be treated directly in net assets/equity.

A **reorganization** is a public sector combination under common control that is not an acquisition;

Matter(s) for Consideration

6. The IPSASB is asked **to indicate** whether it agrees with the staff recommendation about the reorganization definition:

A **reorganization** is a public sector combination under common control that is not an acquisition

Identifying a Public Sector Combination (ED paragraphs 9–18) and Classification of Public Sector Combinations (ED paragraphs 19–33)

29. Staff has drafted these sections of the ED to reflect decisions taken by the IPSASB in December 2014. Staff notes that if the IPSASB accepts some or all of staff's recommendations about the definitions, these sections will need to be redrafted. Staff also notes that some of the paragraphs currently included in the ED might be more appropriate for application guidance rather than the core ED. The IPSASB is asked to provide its views as to the appropriate balance between the core text and application guidance.

Matter(s) for Consideration

7. The IPSASB is asked **to provide** its views as to the appropriate balance between the core text and application guidance.

The Acquisition Method (ED paragraphs 34–99)

30. As agreed by the IPSASB at previous meetings, the section of the ED setting out the requirement for the acquisition method is based on the text of IFRS 3. In drafting this section of the ED, staff has followed the process set out in the IPSASB's *Process for Reviewing and Modifying IASB Documents*.
31. As a consequence of following the *Process*, the draft ED includes requirements that relate to transactions that will occur infrequently in the public sector entities. This makes the draft ED longer and more complex than would otherwise be the case. Staff considers that these disadvantages are more than offset by ensuring consistency with IFRS 3. For those jurisdictions where GBEs prepare their financial statements in accordance with IFRS, any differences between a future IPSAS and IFRS 3 will produce a risk that additional consolidation adjustments are required. This could be the case where a GBE, controlled by a public sector entity that prepares its financial statements in accordance with IPSAS, undertakes an acquisition. For this reason, staff recommends that departures from the substance of the text of IFRS 3 should only be made where there is a specific public sector issue that warrants such a departure. Staff has not identified any such issues.
32. In line with the *Process*, some changes to the terminology used in IFRS 3 have been made to reflect decisions made by the IPSASB:
- The ED uses the term "acquired operation" whereas IFRS 3 uses the term "acquiree".
 - The ED uses the term "acquisition" whereas IFRS 3 uses the term "business combination"; this reflects the fact that all business combinations within the scope of IFRS 3 are accounted for as acquisitions.

- The ED uses the term “operation” whereas IFRS 3 uses the term “business”.
 - The ED refers to gains or losses being recognized in net assets/equity whereas IFRS requires such gains or losses to be recognized in other comprehensive income.
33. Staff and the TGB have identified additional occasions where the terminology used in IFRS 3 could be amended for greater consistency with the IPSASB’s existing literature. The IPSASB is asked to indicate whether these changes to the wording of the draft ED should be implemented.
- The section of IFRS 3 (and hence the draft ED) that specifies the accounting arrangements for acquisitions is headed “The acquisition method”. An alternative heading could be “Accounting for acquisitions”. If this change is made, it would be consistent to refer to “Accounting for reorganizations and amalgamations” rather than “The modified pooling of interests method”.
 - IFRS 3 (and hence the draft ED) refers to “bargain purchases”. An alternative would be to refer to “non-exchange purchases”.
34. Staff considers that some of the requirements in IFRS 3 require more detailed consideration. The IPSASB is asked to provide direction to staff in finalizing this section of the ED as follows:
- Paragraph 53 of the draft ED requires an entity to recognize a contingent liability assumed in an acquisition even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. This requirement arises in IFRS 3 because the assumption of the contingent liability is a factor in determining the acquisition price. As goodwill is determined as a residual, this can only be reflected by recognizing that contingent liability. Staff notes that in the case of non-exchange transactions, goodwill is not recognized. The IPSASB is asked to consider whether contingent liabilities should be recognized in all acquisitions, or whether recognition should be limited to acquisitions which are exchange transactions involving the transfer of consideration.
 - A related issue is that paragraph 92 of the draft ED includes provisions relating to the accounting for a contingent liability recognized as part of an acquisition. The paragraph refers to the “amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with IPSAS 9, *Revenue from Exchange Transactions*.” The IPSASB is asked to consider whether the paragraph should also refer to IPSAS 23.
 - Paragraphs 54 and 55 of the draft ED include requirements, drawn from IFRS 3, in respect of income tax. These requirements refer to specific items such as deferred tax assets and liabilities. The IPSASB is asked to consider whether to retain the wording of these paragraphs, or whether to include more generic wording such as:

“The acquirer shall account for items taxation items included in or arising from an acquisition in accordance with the relevant international or national standard dealing with income taxes.”

If the IPSASB agrees to adopt the more generic wording, staff recommends that paragraphs 121 and 122, which include equivalent requirements for the modified pooling of interests method, are amended in a similar manner.
 - Paragraph 61 of the draft ED includes requirements, drawn from IFRS 3, in respect of non-current assets held for sale. Staff notes that the treatment of such assets in other IPSASs varies. For example, in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, the

comparison with IAS 36, Impairment of Assets, notes that non-current assets held for sale are excluded from the scope of IAS 36 but not IPSAS 21 because there is no IPSAS equivalent to IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations. By comparison, non-current assets held for sale are excluded from the scope of IPSAS 26, Impairment of Cash-Generating Assets and users are referred to the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations. Paragraph 61 of the draft ED reflects the latter approach.

- Paragraphs 63 and 64 have been added to the requirements in IFRS 3. These paragraphs address scenarios where goodwill either does not arise (non-exchange transactions) or is limited (for example, where the difference between the consideration paid and the net assets acquired does not relate to future cash flows). The IPSASB is asked to consider whether it supports the addition of these paragraphs, and whether any changes to the wording are required.
 - Paragraphs 73–76 have been added to the requirements in IFRS 3 to provide public sector specific guidance for preparers. The IPSASB is asked to consider whether it supports the addition of these paragraphs, and whether any changes to the wording are required.
 - In some cases, IFRS 3 refers to “equity interests” (for example, in paragraphs 77 and 78 of the draft ED referring to an acquisition achieved in stages). The IPSASB is asked whether the term should be retained in the ED or replaced by an alternative term such as “quantifiable ownership interests” (as used in IPSAS 36, *Investments in Associates and Joint Ventures*) where it is appropriate to do so. In some instances, such as the requirements relating to share-based payments, staff considers it appropriate to retain the term equity; and
 - Paragraphs 79 and 80 of the draft ED include provisions relating to acquisitions achieved without the transfer of consideration. Staff notes that these scenarios potentially fall outside the definition of an acquisition in the ED as any exchange of value that gives rise to a controlling interest is likely to occur in a separate (earlier) transaction rather than the acquisition. Staff proposes to develop guidance on this issue.
35. IFRS 3 provides application guidance to supplement the provisions in the core standard relating to the acquisition method. Staff proposes to include equivalent guidance in the draft ED as the ED is further developed. The draft ED includes indications of where such guidance will be provided.

Matter(s) for Consideration

8. The IPSASB is asked to:
- (a) **Confirm** that it is appropriate for staff to rely on the IPSASB's *Process for Reviewing and Modifying IASB Documents* when developing the acquisition method;
 - (b) **Indicate** whether it agrees with the terminology changes made by staff; or to suggest alternatives;
 - (c) **Indicate** whether it supports:
 - (i) Replacing the headings “acquisition method” and “modified pooling of interests method” with “accounting for acquisitions” and “accounting for reorganizations and amalgamations”; and
 - (ii) Replacing the term “bargain purchases” with the term “non-exchange purchases”.

- (d) **Decide** whether a contingent liability should be recognized in all acquisitions, or only where there is a transfer of consideration;
 - (e) **Indicate** whether the provisions relating to a contingent liability recognized as part of an acquisition should include a reference to IPSAS 23;
 - (f) **Decide** whether to replace the guidance on income tax with the more generic wording included in this Issues Paper;
 - (g) **Decide** on the approach to be taken in the draft ED regarding non-current assets held for sale;
 - (h) **Indicate** whether it supports the inclusion of the additional guidance on goodwill;
 - (i) **Indicate** whether it supports the inclusion of the public sector specific examples of acquisitions;
 - (j) **Decide** whether to replace the term “equity interest” with “quantifiable ownership interests” where the context would not automatically require a share-based approach in the public sector;
 - (k) **Indicate** whether it supports the staff proposal in respect of acquisitions achieved without the transfer of consideration; and
9. The IPSASB is asked to **review** the text in the Acquisition Method section of the draft ED and to **provide feedback** on any changes that are required to that text.

The Modified Pooling of Interests Method (ED paragraphs 100–139)

36. In developing the section of the draft ED that describes the requirements of the modified pooling of interests method, staff has adopted a similar structure to that used in describing the requirements of the acquisition method.
37. The draft ED describes four stages of the modified pooling of interests method:
- (a) Identifying the resulting entity;
 - (b) Determining the reorganization date or amalgamation date;
 - (c) Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the combining operations; and
 - (d) Recognizing and measuring any gain or loss from a reorganization or amalgamation.
38. In developing this section of the draft ED, staff has identified a number of issues on which the IPSASB’s input and direction is sought. These are discussed in the following paragraphs.

Appropriateness of the modified pooling of interests method

39. Staff considers that the modified pooling of interests method is not an appropriate basis of accounting for a reorganization or amalgamation where none of the combining operations have previously prepared their financial statements in accordance with accruals-basis IPSASs. The assets and liabilities of all combining operations are likely to require restatement to be compliant with IPSAS requirements. Instead, paragraph 102 refers the resulting entity in such a combination to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*.

40. Where at least one of the combining operations has previously prepared its financial statements in accordance with accruals-basis IPSASs, staff considers that IPSAS-compliant financial statements can be achieved by converging the accounting policies of the resulting entity with the accounting policies of that combining operation. Staff considers that the modified pooling of interests method will be appropriate in those circumstances, and has included requirements to this effect, for example in paragraphs 110–112.
41. The IPSASB is asked to consider whether:
 - (a) It supports the approach proposed by staff and reflected in the draft ED;
 - (b) The modified pooling of interests should be applied to all reorganizations and amalgamations, even where none of the combining entities have previously prepared financial statements in accordance with accrual-basis IPSASs; or
 - (c) The modified pooling of interests method should only be applied to reorganizations and amalgamations where all of the combining entities have previously prepared financial statements in accordance with accrual-basis IPSASs.

Terminology

42. The modified pooling of interests method is the basis of accounting for both reorganizations and amalgamations. This is reflected in the draft ED's definitions of a combining operation and a resulting entity, which apply to both reorganizations and amalgamations.
43. Where the text of the draft ED applies to either a reorganization or an amalgamation, the wording "reorganization or amalgamation" is used (see, for example, paragraph 100 of the draft ED). Similarly, where the draft ED refers to the date at which either a reorganization or an amalgamation takes place, the wording "reorganization date or amalgamation date" is used (see, for example, paragraph 101 (b) of the draft ED).
44. Staff considers that this wording is appropriate as it makes clear which types of combination are covered by the relevant paragraphs. However, as the section of the draft ED is dealing with the modified pooling of interests method, the wording could be simplified by referring to "combination" and "combination date". Staff is seeking the IPSASB's views on the wording to be used.

Structure of the draft ED

45. In developing the draft ED, staff considers it appropriate that the section on the acquisition method includes all requirements for the acquisition method, and, similarly the section on the modified pooling of interests method includes all the requirements for that method.
46. A consequence of this approach is that requirements that are common to both methods (for example, the treatment of income taxes) are included in both sections. Staff notes that in IAS 22, *Business Combinations*, common requirements were included in a separate section of the standard, after the specific requirements for each method had been specified. Staff is seeking the IPSASB's views on the approach to be adopted.
47. In developing the draft ED, staff has included the acquisition method before the modified pooling of interests method. This reflects the IPSASB's decision that the primary consideration in classifying public sector combinations is whether a combination is an acquisition or not. However, this order

could be reversed if the IPSASB consider that the modified pooling of interests method will be the most commonly used.

Guidance on issues that may not be common in reorganizations and amalgamations

48. Staff has included guidance on accounting for non-controlling interests (paragraph 118 of the draft ED) and share-based payments (paragraph 124 of the draft ED) in a reorganization or amalgamation. The IPSASB is asked whether it supports the inclusion of this guidance.

Recognizing a Gain or Loss

49. At its December meeting, the IPSASB agreed that any gain or loss arising on a reorganization or an amalgamation should be recognized:
- (a) For a reorganization, as a transaction with owners; and
 - (b) For an amalgamation, directly in net assets/equity.
50. Staff proposes that any gain or loss is calculated after any adjustments to conform accounting policies have been made. Staff also proposes that any gains or losses that relate to those adjustments are recognized directly in net assets/equity (see paragraphs 125–127 of the draft ED).
51. The IPSASB is asked whether it supports the staff proposals regarding the recognition of a gain or loss.

Measurement Period (ED paragraphs 128–132)

52. The acquisition method allows an acquirer a period of one year after an acquisition to finalize the accounting for the acquisition. Staff proposes that this be extended to reorganizations and amalgamations under the modified pooling of interests method. This would allow a resulting entity a reasonable time to obtain the information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations. This may be necessary where a combining entity has not previously prepared its financial statements in accordance with accruals-based IPSASs.
53. The IPSASB is asked whether it supports the staff proposals regarding the measurement period.

Matter(s) for Consideration

10. The IPSASB is asked to:
- (a) **Indicate** whether the modified pooling of interests method should be applied to:
 - (i) Reorganizations and amalgamations where at least one of the combining operations has previously prepared financial statements in accordance with accruals-basis IPSASs (the staff proposal);
 - (ii) All reorganizations and amalgamations; or
 - (iii) Reorganizations and amalgamations where all of the combining operations have previously prepared financial statements in accordance with accruals-basis IPSASs (the staff proposal).
 - (b) **Indicate** whether it supports the terminology used in the Modified Pooling of Interests section of the draft ED;
 - (c) **Indicate** whether requirements that are common to the acquisition method and modified pooling of interests method should be included in a separate section of the draft ED;
 - (d) **Indicate** whether the structure of the draft ED should be changed so that the modified pooling of interests method appears before the acquisition method;
 - (e) **Indicate** whether it supports staff proposals in respect of the inclusion of the guidance on issues that may not be common in reorganizations and amalgamations;
 - (f) **Indicate** whether it supports the staff proposals in respect of recognizing a gain or loss; and
 - (g) **Indicate** whether it supports the staff proposal in respect of the measurement period.
11. The IPSASB is asked to **review** the text in the Modified Pooling of Interests Method section of the draft ED and to **provide feedback** on any changes that are required to that text.

Agenda Item 9.2

Objective

1. The objective of this [draft] IPSAS is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a public sector combination and its effects. To accomplish that, this [draft] IPSAS establishes principles and requirements for how:
 - (a) A reporting entity determines whether a public sector combination is an acquisition, reorganization or amalgamation.
 - (b) An acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation.
 - (c) An acquirer recognizes and measures the goodwill acquired or the gain recognized in an acquisition.
 - (d) A resulting entity recognizes and measures in its financial statements the identifiable assets received and the liabilities assumed in a reorganization or amalgamation.
 - (e) A resulting entity recognizes and measures gains, losses and other adjustments recognized in a reorganization or amalgamation.
 - (f) A reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the public sector combination.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for public sector combinations.**
3. **This [draft] Standard applies to a transaction or other event that meets the definition of a public sector combination. This [draft] Standard does not apply to:**
 - (a) **The accounting for the formation of a joint arrangement or joint venture in the financial statements of the joint arrangement or joint venture itself.**
 - (b) **The receipt of an asset or a group of assets that does not constitute an operation. In such cases an entity 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 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.**
4. **The requirements of this [draft] Standard do not apply to the acquisition by an investment entity, as defined in IPSAS 35, *Consolidated Financial Statements*, of an investment in a subsidiary that is required to be measured at fair value through surplus or deficit.**

Government Business Enterprises

5. **This Standard applies to all public sector entities other than Government Business Enterprises.**

6. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.
7. **Although GBEs are not required to comply with this Standard in their own financial statements, the provisions of this Standard will apply where a public sector entity that is not a GBE gains control of one or more GBEs in a public sector combination. In these circumstances, this Standard shall be applied in accounting for the public sector combination.**

Definitions

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

An **acquirer** is the entity that exchanges value to gain control of one or more operations in an acquisition.

An **acquisition** is a public sector combination [not under common control] in which an entity exchanges value to gain control of an operation;

An **amalgamation** is a public sector combination not under common control that is not an acquisition.

A **combining operation** is an operation that combines with one or more other operations to form the resulting entity.

An **operation** is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.

A **public sector combination** is the bringing together of separate operations into one entity.

A **public sector combination under common control** is a public sector combination in which all of the entities or operations involved are controlled by the same entity both before and after the public sector combination.

A **public sector combination not under common control** is a public sector combination in which all of the entities or operations involved are not controlled by the same entity both before and after the public sector combination.

A **reorganization** is a public sector combination under common control.

A **resulting entity** is the entity that is the result of two or more operations combining in a reorganization or an amalgamation.

A **transferor** is the entity that exchanges value to lose control of one or more of its operations to the acquirer.

Identifying a public sector combination

9. A public sector reporting entity shall determine whether a transaction or other event is a public sector combination by applying the definition in this [draft] Standard, which requires that the assets and liabilities constitute an operation. If the assets do not constitute an operation, the public sector reporting entity shall account for the transaction or other event

as required by other IPSASs. Paragraphs 10-18 provide guidance on identifying a public sector combination and the definition of an operation.

10. This [draft] Standard defines a public sector combination as the bringing together of separate operations into one entity. A public sector combination might occur in a variety (one or more) of ways:
 - (a) By mutual agreement;
 - (b) By compulsion (for example by legislation);
 - (c) One entity gains control of the operations:
 - (i) By exchanging value (consideration or other) to gain control;
 - (ii) Without transferring consideration to gain control;
 - (iii) No entity gains control of the operations of the other entity;
11. A public sector combination may be structured in a variety of ways for legal or other reasons, which include but are not limited to:
 - (a) Acquisition
 - (i) One or more operations become subsidiaries of an acquirer or the net assets of one or more operations are legally merged into the acquirer;
 - (ii) One combining entity transfers its net assets, or its owners transfer their equity interests, to another combining entity or its owners;
 - (iii) 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
 - (iv) A group of former owners of one of the combining entities obtains control of the combined entity.
 - (b) Reorganization
 - (i) One or more controlled entities or one or more operations of are legally merged into the controlling entity;
 - (ii) One or more controlled entities or one or more operations of a controlled entity or controlled entities are transferred to another controlled entity.
 - (c) Amalgamation
 - (i) The net assets of two public sector entities are legally merged into a new public sector entity without any of the combining entities gaining control and exchanging value;
 - (ii) One or more operations of one or more public sector entities are legally merged into a new public sector entity without any of the combining entities gaining control and exchanging value.
12. 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.
 - (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.
 - (c) **Output:** The result of inputs and processes applied to those inputs that provide or have the ability to provide goods and/or services.
13. 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 transferor used in operating that operation if the entity that receives the operations is capable of continuing to produce outputs, for example, by integrating the operation with their own inputs and processes.
14. The nature of the elements of an operation varies by industry and by the structure of an entity's operations (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). Nearly all operations also have liabilities, but an operation need not have liabilities.
15. An integrated set of activities and assets in the development stage might not have outputs. If not, the entity that receives the operation 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 service recipients that will receive the outputs.
16. 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.
17. 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 another entity. Thus, in evaluating whether a particular set is an operation, it is not relevant whether a transferor operated the set as an operation or whether the acquirer intends to operate the set as an operations.
18. In the absence of evidence to the contrary, a particular set of assets and activities in which goodwill is present shall be presumed to be an operation. However, an operation need not have goodwill.

Classification of Public Sector Combinations

19. The classification of a public sector combination adopted in this [draft] Standard is based on whether an entity exchanges value to gain control of operations. Exchanging value includes any value that an entity exchanges to gain control of operations. An entity shall determine whether it has gained control by applying the relevant paragraphs about control in IPSAS 35, *Consolidated Financial Statements*.

20. When a public sector combination takes place an entity must first assess whether it is an acquisition.
21. Acquisitions can occur through different ways. An acquisition will occur when one party (the acquirer) pays consideration to the other party (the seller) in order to gain control of operations. Often the consideration paid equals to the fair value of the net assets transferred. In some cases the consideration paid is below the fair value of the net assets transferred or there is no consideration at all.
22. Acquisitions can occur on mutual agreement between the two parties on under some type of compulsion. In an acquisition on mutual agreement the consideration paid is usually the fair value of the net assets transferred. When the consideration paid is not equal to the net assets transferred there can, but need not, exist some type of compulsion.
23. Occasionally, an acquirer will make a bargain purchase, which is a public sector combination in which the fair value of the net assets transferred exceeds the consideration paid. A bargain purchase might happen, for example, in a forced sale in which the seller is acting under compulsion of economic necessity. A bargain purchase can also happen on a voluntary basis if the seller is willing to sell the net assets in order to achieve other economic goals.
24. Through their sovereign powers, governments can gain control of operations in transactions that are not the result of mutual agreement. This is the case with appropriation, confiscation or uncompensated seizure where there is no payment to the owners (or the compensation is not equal to the fair value of the net assets). Although they might not be considered as common acquisitions as described above, in substance government is gaining control of operations and there is an exchange of value between the two parties.
25. Depending of the specific circumstances of each public sector combination, acquisitions can also occur under common control. The existence of common control in a public sector combination is not conclusive that it is a reorganization.
26. If the public sector combination is not an acquisition, the second step is to assess if the public sector combination is under common control or not.
27. An economic entity comprises a controlling entity and one or more controlled entities. The economic entity may have several operations. The entities and operations can be seen as resources of those whom controls them.
28. Sometimes the existence of several entities inside of an economic entity instead of one entity having all operations as divisions can be for legal requirements rather than for economic reasons. The economic environment of these entities are similar to a division inside of an entity. The controlling entity has the power to direct the relevant activities in the controlled entities. An entity shall determine whether it has control by applying the relevant paragraphs about control in IPSAS 35, *Consolidated Financial Statements*.
29. Combinations under common control can be seen as reorganizations within the same economic entity. The economic environment of entities under common control, as described in paragraphs 27-28, can also be applied when there is a combination of controlled entities.
30. The top managers of the controlling entity can decide how the combinations of operations between different entities/divisions should be made. When these types of combinations occur, they may be seen as internal bookkeeping to reflect changes in intermediate responsibility for particular operations by entities within the same economic entity.

31. The controlled entities involved in a combination under common control do not act independently, rather they are directed by the controlling entity. This includes the form of the combination and the level of consideration transferred, if any. In this type of combination, the combined entities/operations will remain under the same control nature of the controlling entity after the combination.
32. If the public sector combination is not an acquisition or reorganization, then it is an amalgamation.
33. An amalgamation occurs between two or more public sector entities that are not under common control.

The acquisition method

34. **An acquirer shall account for each acquisition by applying the acquisition method.**
35. 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 acquired operation; and
 - (d) Recognizing and measuring goodwill, a gain or a loss from an acquisition.

Identifying the acquirer

36. **For each acquisition, one of the combining entities shall be identified as the acquirer.**
37. The guidance in IPSAS 35, *Consolidated Financial Statements* shall be used to identify the acquirer—the entity that obtains control of another operation, i.e., the acquired operation. If an acquisition has occurred but applying the guidance in IPSAS 35 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs [Application Guidance – to follow] shall be considered in making that determination.

Determining the acquisition date

38. **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquired operation.**
39. The date on which the acquirer obtains control of the acquired operation is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquired operation—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 acquired operation on a date before the closing date. 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 acquired operation

Recognition principle

40. **As of the acquisition date, the acquirer shall recognize, separately from any goodwill recognized, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 41 and 42.**

Recognition conditions

41. 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 the *Conceptual Framework for General Purpose Financial Reporting by Public-sector Entities* 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 acquired operation or to terminate the employment of or relocate an acquired operation'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.
42. 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 acquired operation (or its former owners) exchanged in the acquisition transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs 87–89 to determine which assets acquired or liabilities assumed are part of the exchange for the acquired operation and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable IPSASs.
43. The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquired operation 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 a customer relationship, that the acquired operation did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.
44. Paragraphs [Application Guidance – to follow] provide guidance on recognizing operating leases and intangible assets. Paragraphs 52–58 specify the types of identifiable assets and liabilities that include items for which this [draft] IPSAS provides limited exceptions to the recognition principle and conditions.

Classifying or designating identifiable assets acquired and liabilities assumed in an acquisition

45. **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 contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.**
46. 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 measured at fair value or at amortized cost, in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*,
- (b) Designation of a derivative instrument as a hedging instrument in accordance with IPSAS 29; and
- (c) Assessment of whether an embedded derivative should be separated from a host contract in accordance with IPSAS 29 (which is a matter of 'classification' as this [draft] IPSAS uses that term).

47. This [draft] IPSAS provides two exceptions to the principle in paragraph 45:

- (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 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

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

49. For each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

- (a) Fair value; or
- (b) The present ownership instruments' proportionate share in the recognized amounts of the acquired operation's identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IPSASs.

50. Paragraphs 54–61 specify the types of identifiable assets and liabilities that include items for which this [draft] IPSAS provides limited exceptions to the measurement principle.

Exceptions to the recognition or measurement principles

51. This [draft] IPSAS provides limited exceptions to its recognition and measurement principles. Paragraphs 52–61 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 52–61, which will result in some items being:

- (a) Recognized either by applying recognition conditions in addition to those in paragraphs 41 and 42 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

52. 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.
53. 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 acquisition 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 acquisition at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph 92 provides guidance on the subsequent accounting for contingent liabilities.

Exceptions to both the recognition and measurement principles

Income taxes

54. The acquirer shall recognize and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in an acquisition in accordance with the relevant international or national standard dealing with income taxes.
55. The acquirer shall account for the potential tax effects of temporary differences and carry-forwards of an acquired operation that exist at the acquisition date or arise as a result of the acquisition in accordance with the relevant international or national standard dealing with income taxes.

Employee benefits

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

Indemnification assets

57. The seller in an acquisition 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 [Application Guidance – to follow] provides related application guidance).

58. 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 contractual limitations on the indemnified amount. Paragraph 93 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the measurement principle

Reacquired rights

59. The acquirer shall measure the value of a reacquired right recognized as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals when measuring its fair value. Paragraphs [Application Guidance – to follow] provide related application guidance.

Share-based payment transactions

60. The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquired operation or the replacement of an acquired operation's share-based payment transactions with share-based payment transactions of the acquirer in accordance with the relevant international or national standard dealing with share-based payments.

Non-current assets held for sale

61. 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 standard dealing with non-current assets held for sale and discontinued operations.

Recognizing and measuring goodwill or a gain from a bargain purchase

62. **The acquirer shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below, subject to the requirements of paragraphs 63–64:**

- (a) **The aggregate of:**
 - (i) **The consideration transferred measured in accordance with this [draft] IPSAS, which generally requires acquisition-date fair value (see paragraph 69);**
 - (ii) **The amount of any non-controlling interest in the acquired operation measured in accordance with this [draft] IPSAS; and**
 - (iii) **In an acquisition achieved in stages (see paragraphs 77 and 78), the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.**
 - (b) **The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this [draft] IPSAS.**
63. **The acquirer shall recognize goodwill only to the extent that the acquisition will result in:**
- (a) **The generation of cash inflows (such as the acquisition of a cash-generating operation);**
or
 - (b) **A reduction in the net cash outflows of the acquirer.**

An acquirer shall recognize any further excess of (a) over (b) in paragraph 62 above as a loss in the surplus or deficit. Paragraphs [Application Guidance – to follow] provide related application guidance.

64. **The acquirer shall not recognize goodwill where no consideration was transferred. The acquirer shall treat an excess of (a) over (b) in paragraph 62 above as a loss in surplus or deficit. An excess of (b) over (a) in paragraph 62 shall be treated as a bargain purchase in accordance with paragraphs 66–68 below.**
65. In an acquisition in which the acquirer and the acquired operation (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquired operation'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 acquired operation's equity interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in an acquisition in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquired operation in place of the acquisition-date fair value of the consideration transferred (paragraph 62(a)(i)). Paragraphs [Application Guidance – to follow] provide related application guidance.

Bargain purchases

66. Occasionally, an acquirer will make a bargain purchase, which is an acquisition in which the amount in paragraph 62(b) exceeds the aggregate of the amounts specified in paragraph 62(a). If that excess remains after applying the requirements in paragraph 68, the acquirer shall recognize the resulting gain in surplus or deficit on the acquisition date. The gain shall be attributed to the acquirer.
67. A bargain purchase might happen, for example, in an acquisition 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 52–61 may also result in recognizing a gain (or change the amount of a recognized gain) on a bargain purchase.

68. 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 [draft] IPSAS 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 acquired operation, if any;
 - (c) For an acquisition achieved in stages, the acquirer's previously held equity interest in the acquired operation; 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

69. The consideration transferred in an acquisition 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 acquired operation 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 acquired operation's employees that is included in consideration transferred in the acquisition shall be measured in accordance with paragraph 60 rather than at fair value.) Examples of potential forms of consideration include cash, other assets, an operation or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.
70. 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 acquisition (for example, because the assets or liabilities were transferred to the acquired operation 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 acquisition.

Contingent consideration

71. The consideration the acquirer transfers in exchange for the acquired operation includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 69). The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquired operation.
72. The acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 9 of IPSAS 28, *Financial Instruments: Presentation*.

The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 94 provides guidance on the subsequent accounting for contingent consideration.

Additional guidance for applying the acquisition method to particular types of acquisitions

A non-exchange acquisition without the transfer of consideration

73. In the public sector, an acquirer sometimes obtains control of an acquired operation in a non-exchange transaction in which it transfers no consideration. Such circumstances include, but are not limited to:

- (a) Uncompensated seizures of operations or entities (also known as forced nationalizations).
- (b) The transfer of an operation to the acquirer by a donor for no consideration. Such transfers may take the form of a bequest.

And

- (c) The transfer of an operation to the acquirer where the acquired operation has net liabilities. The acquirer may accept the transfer of net liabilities to prevent the cessation of the operation. Such transactions are sometimes known as “bailouts”.

74. The acquirer that obtains control of an acquired operation in a non-exchange transaction in which it transfers no consideration does not recognize goodwill. The acquirer recognizes a gain or a loss in surplus or deficit in accordance with paragraph 64.

A non-exchange acquisition with the transfer of consideration

75. In the public sector, an acquirer sometimes obtains control of an acquired operation in a non-exchange transaction in which it transfers consideration that is not approximately equal to the fair value of the acquired operation. Such circumstances include, but are not limited to:

- (a) Compensated seizures of operations or entities; and
- (b) The transfer of an operation to the acquirer by a donor for nominal consideration.

76. Such non-exchange acquisitions are treated as bargain purchases and accounted for in accordance with paragraphs 66–68.

An acquisition achieved in stages

77. An acquirer sometimes obtains control of an acquired operation in which it held an equity interest immediately before the acquisition date. For example, on 31 December 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 [draft] IPSAS refers to such a transaction as an acquisition achieved in stages, sometimes also referred to as a step acquisition.

78. In an acquisition achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquired operation at its acquisition-date fair value and recognize the resulting gain or loss, if any, in surplus or deficit or in net assets/equity, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquired operation in net assets/equity. If so, the amount that was recognized 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 acquisition achieved without the transfer of consideration

79. An acquirer sometimes obtains control of an acquired operation without transferring consideration. The acquisition method of accounting for an acquisition applies to those combinations. Such circumstances include:
- (a) The acquired operation repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.
 - (b) Minority veto rights lapse that previously kept the acquirer from controlling an acquired operation in which the acquirer held the majority voting rights.
 - (c) The acquirer and acquired operation agree to combine their operations by contract alone. The acquirer transfers no consideration in exchange for control of an acquired operation and holds no equity interests in the acquired operation, either on the acquisition date or previously. Examples of acquisitions achieved by contract alone include bringing two operations together in a stapling arrangement or forming a dual listed corporation.
80. In an acquisition achieved by contract alone, the acquirer shall attribute to the owners of the acquired operation the amount of the acquired operation's net assets recognized in accordance with this [draft] IPSAS. In other words, the equity interests in the acquired operation held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the equity interests in the acquired operation are attributed to the non-controlling interest.

Measurement period

81. **If the initial accounting for an acquisition 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.**
82. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for an acquisition. 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 [draft] IPSAS:
- (a) The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired operation;
 - (b) The consideration transferred for the acquired operation (or the other amount used in measuring goodwill);

- (c) In an acquisition achieved in stages, the equity interest in the acquired operation previously held by the acquirer; and
 - (d) The resulting goodwill or gain on a bargain purchase.
83. 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 measured at that date is likely to indicate an error in the provisional amount.
84. 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 acquired operation's facilities, part or all of which are covered by the acquired operation'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.
85. During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the acquisition 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 income effects recognized in completing the initial accounting.
86. After the measurement period ends, the acquirer shall revise the accounting for an acquisition only to correct an error in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Determining what is part of the acquisition transaction

87. **The acquirer and the acquired operation may have a pre-existing relationship or other arrangement before negotiations for the acquisition began, or they may enter into an arrangement during the negotiations that is separate from the acquisition. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition, i.e., amounts that are not part of the exchange for the acquired operation. The acquirer shall recognize as part of applying the acquisition method only the consideration transferred for the acquired operation and the assets acquired and liabilities assumed in the exchange for the acquired operation. Separate transactions shall be accounted for in accordance with the relevant IPSASs.**

88. 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 acquired operation (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 acquired operation;
 - (b) A transaction that remunerates employees or former owners of the acquired operation for future services; and
 - (c) A transaction that reimburses the acquired operation or its former owners for paying the acquirer's acquisition-related costs.

Paragraphs [Application Guidance – to follow] provide related application guidance.

Acquisition-related costs

89. Acquisition-related costs are costs the acquirer incurs to effect an acquisition. 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 28 and IPSAS 29.

Subsequent measurement and accounting

90. In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition in accordance with other applicable IPSASs for those items, depending on their nature. However, this [draft] IPSAS provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition:
- (a) Reacquired rights;
 - (b) Contingent liabilities recognized as of the acquisition date;
 - (c) Indemnification assets; and
 - (d) Contingent consideration.

Paragraph [Application Guidance – to follow] provides related application guidance.

Reacquired rights

91. A reacquired right recognized as an intangible asset shall be amortized over the remaining contractual period of the contract 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

92. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in an acquisition 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 29.

Indemnification assets

93. 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 contractual limitations 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

94. 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 81–85. 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 equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.
 - (b) Other contingent consideration that:
 - (i) Is within the scope of IPSAS 29 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in surplus or deficit in accordance with IPSAS 29.
 - (ii) Is not within the scope of IPSAS 29 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in surplus or deficit.

Disclosures

95. **The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition 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.**

96. To meet the objective in paragraph 95, the acquirer shall disclose the information specified in paragraphs [Application Guidance – to follow].
97. **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 acquisitions that occurred in the period or previous reporting periods.**
98. To meet the objective in paragraph 97, the acquirer shall disclose the information specified in paragraph [Application Guidance – to follow].
99. If the specific disclosures required by this and other IPSASs do not meet the objectives set out in paragraphs 95 and 97, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

The modified pooling of interests method

100. **A resulting entity shall account for each reorganization or amalgamation by applying the modified pooling of interests method.**
101. Applying the modified pooling of interests method requires:
 - (a) Identifying the resulting entity;
 - (b) Determining the reorganization date or amalgamation date;
 - (c) Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the combining operations, consistent with the requirements in IPSASs; and
 - (d) Recognizing and measuring any gain or loss from a reorganization or amalgamation.
102. **The modified pooling of interests method does not provide an appropriate basis of accounting for a reorganization or amalgamation where none of the combining operations have previously prepared financial statements in accordance with accrual-basis IPSASs. The resulting entity shall instead refer to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, when preparing its financial statements.**

Identifying the resulting entity

103. **For each reorganization or amalgamation, a resulting entity shall be identified.**
104. Paragraph 8 of this [draft] IPSAS defines a resulting entity as “the entity that is the result of two or more operations combining in an amalgamation.” The resulting entity shall be identified as the entity that obtains control of the assets and liabilities of the combining operations as a result of the reorganization or amalgamation.

Determining the reorganization date or amalgamation date

105. **The resulting entity shall identify the reorganization date (for a reorganization) or amalgamation date (for an amalgamation), which is the date on which it obtains control of the assets and liabilities of the combining operations.**

106. The date on which the resulting entity obtains control of the assets and liabilities of the combining operations is often the date on which the resulting entity legally acquires the assets and assumes the liabilities of the combining operations—the closing date. In a reorganization, it is possible that the resulting entity will not legally acquire the assets or assume the liabilities of the combining operations. In these circumstances, the resulting entity will often obtain control of the assets and liabilities of the combining operations on the date on which responsibility for the assets and liabilities is formally delegated to the resulting entity. However, the resulting entity might obtain control on a date that is either earlier or later than the closing date. For example, the reorganization date or amalgamation date precedes the closing date if legislation or a written agreement provides that the resulting entity obtains control of the assets and liabilities of the combining operations on a date before the closing date or formal delegation. A resulting entity shall consider all pertinent facts and circumstances in identifying the reorganization date or amalgamation date.

Recognizing and measuring the identifiable assets, liabilities assumed and any non-controlling interests in the combining operations

Recognition principle

107. **As of the reorganization date or amalgamation date, the resulting entity shall recognize the identifiable assets, liabilities and any non-controlling interests in the combining operations. Recognition of identifiable assets and liabilities received is subject to the conditions specified in paragraphs 108–111.**

Recognition conditions

108. **The resulting entity shall not recognize goodwill as a result of the reorganization or amalgamation. Any gain or loss arising as a result of the reorganization or amalgamation is recognized in accordance with paragraphs 125–127.**
109. **The effects of all transactions between the combining operations occurring after the reorganization date or amalgamation date are eliminated in preparing the financial statements of the resulting entity.**
110. To qualify for recognition as part of applying the modified pooling of interests method, the identifiable assets and liabilities must meet the definitions of assets and liabilities in the *Conceptual Framework for General Purpose Financial Reporting by Public-sector Entities* at the reorganization date or amalgamation date. For example, costs the resulting entity expects but is not obliged to incur in the future to effect its plan to exit an activity of a combining operation or to terminate the employment of or relocate a combining operation's employees are not liabilities at the reorganization date or amalgamation date. Therefore, the resulting entity does not recognize those costs as part of applying the modified pooling of interests method. Instead, the resulting entity recognizes those costs in its post-combination financial statements in accordance with other IPSASs.
111. The resulting entity's application of the recognition principle and conditions may result in recognizing some assets and liabilities that a combining operation had not previously recognized as assets and liabilities in its financial statements. For example, a combining operation that has not previously prepared its financial statements in accordance with IPSASs may not have recognized certain classes of asset or liability that meet the definition of an asset or liability in the *Conceptual Framework for General Purpose Financial Reporting by Public-sector Entities*. The resulting entity shall recognize as assets and liabilities those items that the combining entity would have, had it prepared its financial

statements in accordance with IPSASs, recognized as assets and liabilities. A resulting entity shall not recognize as assets and liabilities those items that the combining entity would not have, had it prepared its financial statements in accordance with IPSASs, recognized as assets and liabilities. For example, the resulting entity does not recognize the identifiable intangible assets, such as a brand name, a patent or a customer relationship, that the combining operation did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.

Classifying or designating assets and liabilities in a reorganization or amalgamation

112. **At the reorganization date or amalgamation date, the resulting entity shall classify or designate the assets and liabilities received in a reorganization or amalgamation using the classifications or designations previously applied by the combining operations. Where a combining operation did not previously prepare its financial statements in accordance with IPSASs, the resulting entity shall make those classifications or designations, in a manner consistent with the requirements of other IPSASs, on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the reorganization date or amalgamation date.**
113. 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 resulting entity, in the absence of a previous classification or designation, 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 measured at fair value or at amortized cost, in accordance with IPSAS 29;
 - (b) Designation of a derivative instrument as a hedging instrument in accordance with IPSAS 29; and
 - (c) Assessment of whether an embedded derivative should be separated from a host contract in accordance with IPSAS 29 (which is a matter of 'classification' as this [draft] IPSAS uses that term).
114. This [draft] IPSAS provides two exceptions to the principle in paragraph 112:
- (a) Classification of a lease contract as either an operating lease or a finance lease in accordance with IPSAS 13; and
 - (b) Classification of a contract as an insurance contract in accordance with the relevant international or national standard dealing with insurance contracts.

The resulting entity shall, in the absence of a previous classification or designation, 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 recognition date or amalgamation date).

Measurement principle

115. **The resulting entity shall measure the identifiable assets and liabilities of the combining entities at their carrying amounts in the financial statements of the combining entities as at the reorganization date or amalgamation date, subject to the requirements of paragraph 116.**

116. **The resulting entity shall adjust the carrying amounts of the identifiable assets and liabilities of the combining entities where required to conform to the resulting entity's accounting policies.**
117. The modified pooling of interests method results in a single combined resulting entity. A single uniform set of accounting policies, consistent with the requirements of IPSASs, is adopted by that entity, and the carrying amounts of the identifiable assets and liabilities of the combining entities are adjusted, where required, to conform to those accounting policies.
118. For each reorganization or amalgamation, the resulting entity shall measure, at the reorganization date or amalgamation date, components of non-controlling interests in the combining operation that are present ownership interests and entitle their holders to a proportionate share of the resulting entity's net assets in the event of liquidation at the present ownership instruments' proportionate share in the recognized amounts of the combining operation's identifiable net assets.
119. Paragraphs 121–124 specify the types of identifiable assets and liabilities that include items for which this [draft] IPSAS provides limited exceptions to the measurement principle.

Exceptions to the recognition or measurement principles

120. This [draft] IPSAS provides limited exceptions to its recognition and measurement principles. Paragraphs 121–124 specify both the particular items for which exceptions are provided and the nature of those exceptions. The resulting entity shall account for those items by applying the requirements in paragraphs 121–124, which will result in some items being:
- (a) Recognized either by applying recognition conditions in addition to those in paragraphs 108–110 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 reorganization date or amalgamation date carrying amounts.

Exceptions to both the recognition and measurement principles

Income taxes

121. The resulting entity shall recognize and measure a deferred tax asset or liability arising from the assets and liabilities received in a reorganization or amalgamation in accordance with the relevant international or national standard dealing with income taxes.
122. The resulting entity shall account for the potential tax effects of temporary differences and carry-forwards of a combining operation that exist at the reorganization date or amalgamation date, or arise as a result of the reorganization or amalgamation, in accordance with the relevant international or national standard dealing with income taxes.

Employee benefits

123. The resulting entity shall recognize and measure a liability (or asset, if any) related to the combining operation's employee benefit arrangements in accordance with IPSAS 25.

Exception to the measurement principle

Share-based payment transactions

124. The resulting entity shall measure a liability or an equity instrument related to share-based payment transactions of the combining operation or the replacement of a combining operation's share-based payment transactions with share-based payment transactions of the resulting entity in accordance with the relevant international or national standard dealing with share-based payments.

Recognizing and measuring a gain or loss arising as a result of a reorganization or amalgamation

125. **The resulting entity shall recognize as a gain or loss the aggregate of:**
- (a) The carrying amounts of the combining operations' assets, after taking account of any adjustment required in accordance with paragraph 116;**
 - (b) The carrying amounts of the combining operations' liabilities, after taking account of any adjustment required in accordance with paragraph 116; and**
 - (c) The carrying amounts of the combining operations' net assets/equity, after taking account of any adjustment required in accordance with paragraph 116.**
126. **The gain or loss recognized in accordance with paragraph 125 shall be recognized:**
- (a) In the case of a reorganization, as an ownership contribution (gain) or ownership distribution (loss).**
 - (b) In the case of an amalgamation, directly in net assets/equity.**
127. **The resulting entity shall recognize any gain or loss arising from adjusting the carrying amount of an item in accordance with paragraph 116 directly in net assets/equity.**

Measurement period

128. **If the initial accounting for a reorganization or amalgamation is incomplete by the end of the reporting period in which the reorganization or amalgamation occurs, the resulting entity shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity shall retrospectively adjust the provisional amounts recognized at the reorganization date or amalgamation date to reflect new information obtained about facts and circumstances that existed as of the reorganization date or amalgamation date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the resulting entity shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the reorganization date or amalgamation 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 resulting entity receives the information it was seeking about facts and circumstances that existed as of the reorganization date or amalgamation date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the reorganization date or amalgamation date.**
129. The measurement period is the period after the reorganization date or amalgamation date during which the resulting entity may adjust the provisional amounts recognized for a reorganization or

amalgamation. The measurement period provides the resulting entity with a reasonable time to obtain the information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations as of the reorganization date or amalgamation date in accordance with the requirements of this [draft] IPSAS. The information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations will generally be available at the reorganization date or amalgamation date. However, this may not be the case where a combining entity has not previously prepared its financial statements in accordance with IPSASs.

130. The resulting entity recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by adjusting the gain or loss recognized in accordance with paragraphs 125–127. 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 resulting entity might have assumed a liability to pay damages related to an accident in one of the combining operation's facilities, part or all of which are covered by the combining operation's liability insurance policy. If the resulting entity obtains new information during the measurement period about the carrying amount of that liability, the adjustment to the gain or loss 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 the gain or loss resulting from a change to the provisional amount recognized for the claim receivable from the insurer.
131. During the measurement period, the resulting entity shall recognize adjustments to the provisional amounts as if the accounting for the reorganization or amalgamation had been completed at the reorganization date or amalgamation date. Thus, the resulting entity shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.
132. After the measurement period ends, the resulting entity shall revise the accounting for a reorganization or amalgamation only to correct an error in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Reorganization- or amalgamation-related costs

133. Reorganization- or amalgamation-related costs are costs the resulting entity or combining entities incur to effect a reorganization or amalgamation. Those costs include advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs; and any costs of registering and issuing debt and equity securities. The resulting entity and combining entities shall account for reorganization- or amalgamation-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 28 and IPSAS 29.

Subsequent measurement and accounting

134. A resulting entity shall subsequently measure and account for assets and liabilities received and equity instruments issued in a reorganization or amalgamation in accordance with other applicable IPSASs for those items, depending on their nature.

Disclosures

135. **The resulting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a reorganization or amalgamation**
136. To meet the objective in paragraph 135, the acquirer shall disclose the information specified in paragraphs [Application Guidance – to follow].
137. **The resulting entity 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 reorganizations or amalgamations that occurred in the period or previous reporting periods.**
138. To meet the objective in paragraph 137, the resulting entity shall disclose the information specified in paragraph [Application Guidance – to follow].
139. If the specific disclosures required by this and other IPSASs do not meet the objectives set out in paragraphs 135 and 137, the resulting entity shall disclose whatever additional information is necessary to meet those objectives.