

Public Sector Combinations

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Objective of Session

The objective of this session is to:

- a) **Review** an Issues Paper on Public Sector Combinations (PSCs); and,
- b) **Provide directions** for further development.

Relationship between control and other factors (Issues Paper para 8-11)

Consultation Paper - Preliminary View 3

The **sole definitive criterion** for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations.

Two Mutually Exclusive Approaches to Classification on PSCs – (Issues Paper para 2-7)

Control as single criterion

- Supplemented by other factors to assist in assessing control

Other factors in addition to control

Factors to Classify PSCs (Issues Paper para 12-33)

Factors	Control (single criterion)	Other factors in addition to control
Change of sectors (from private to public)	Strong indicator of acquisition	Fair value
Consideration - Nominal or significant - None	- Strong indicator of acquisition - Not conclusive	- Fair value - Not conclusive
Compulsion	Unlikely to be relevant	Fair value or carrying amounts
Accountability	Unlikely to be relevant	Fair value or carrying amounts

Factors to Classify PSCs (Issues Paper para 12-33)

Factors	Control (single criterion)	Other factors in addition to control
Decision making	Unlikely to be relevant	Fair value or carrying amounts
Citizens' rights	Unlikely to be relevant	Fair value or carrying amounts
Quantifiable Ownership Interests - Existence of - None	- Indicator of acquisition - Not relevant	- Fair value - Carrying amounts
Common Control	Acquisition or Reorganization	Fair value or carrying amounts

Approaches to PSCs – Main features

(Issues Paper para 34-49)

	Control (single criterion)	Other factors in addition to control
Consistency with CP	Not consistent, but retains control as single criterion	No
Definitions as CP	Yes	No
Descriptions of PSCs	Only in application guidance	Throughout the standard
IPSAS 35 control indicators	Assessed against parties to the PSC plus other factors, where necessary	Assessed against parties to the PSC, but not the dominant factor
Professional Judgement	Acquisition or amalgamation (gaining of control?)	Accounting treatment to each PSC, according to factors and weightings

Analysis of Combination Scenarios (Issues Paper para 63-65)

- (a) Combinations at fair value
- (b) Bargain Purchases
- (c) Donated Operations
- (d) Nationalizations
- (e) Combinations of operations wholly within the public sector but not under common control (NUCC):
 - (i) Transfer of operations from one level of government to another existing level of government;
 - (ii) Territorial boundaries being rearranged to create three municipalities out of two original municipalities; and
 - (iii) Two municipalities combining to form a single municipality.
- (f) PSCs under common control (UCC)

Combinations at Fair Value (Issues Paper para 66-74)

Description:

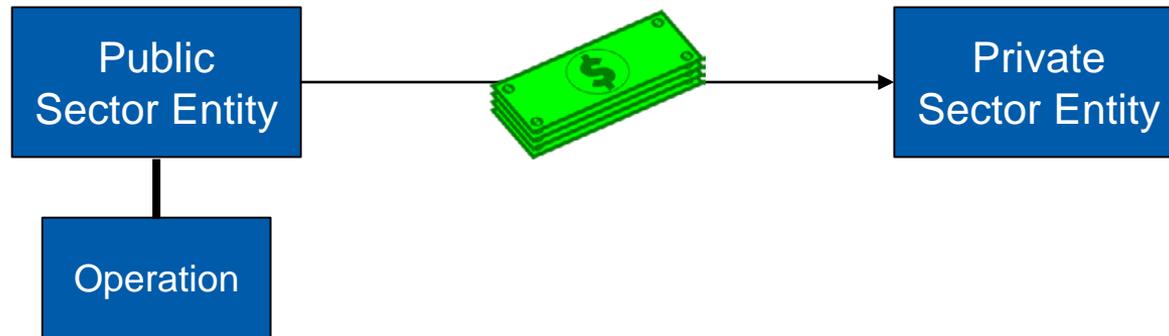
An entity gains control of an operation or entity, and in exchange transfers consideration approximately equal to the fair value of the net assets acquired to the previous owners.



Combinations at Fair Value (Issues Paper para 66-74)

Description:

An entity gains control of an operation or entity, and in exchange transfers consideration approximately equal to the fair value of the net assets acquired to the previous owners.



Combinations at Fair Value (Issues Paper para 66-74)

Control	Other factors in addition to control		
In all PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Consideration; • (absence of) compulsion; • Accountability; • Decision making; • (existence of) quantifiable ownership interests 		<ul style="list-style-type: none"> • Citizen's rights • Common control



Acquisition



Fair Value



Carrying
Amounts



Neutral or
not Relevant

Combinations at Fair Value (Issues Paper para 66-74)

Control	Other factors in addition to control		
In all PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Consideration; • (absence of) compulsion; • Accountability; • Decision making; • (existence of) quantifiable ownership interests 		<ul style="list-style-type: none"> • Citizen's rights • Common control



Acquisition **Fair Value**



Majority Support from Respondents

Combinations at Fair Value (Issues Paper para 66-74)

Matters for Consideration 1 and 2

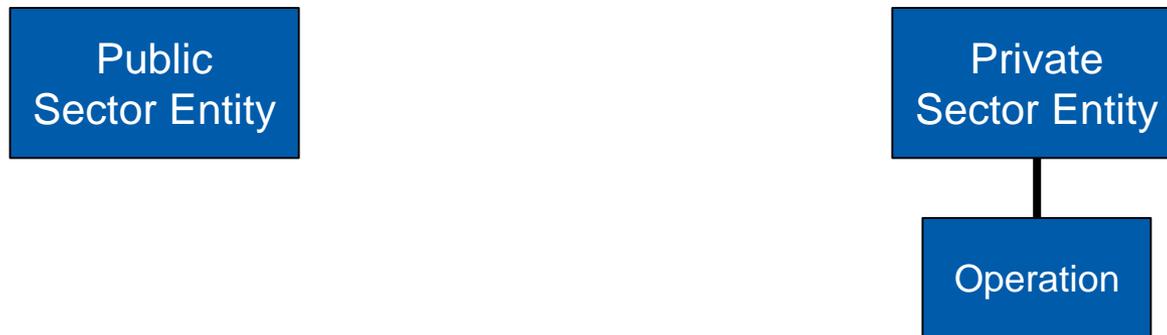
Indicate whether it supports staff view that:

Scenario	Control (single criterion)	Other factors in addition to control
Combinations at fair value	Acquisition	Fair value

Bargain Purchases (Issues Paper para 75-83)

Description:

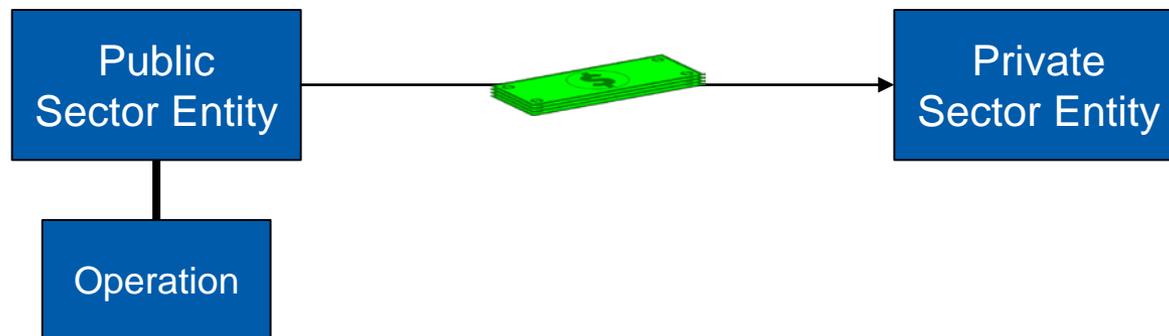
Bargain purchases occur when an entity gains control of an operation or entity, but where the consideration transferred to the previous owners is less than the fair value of the net assets acquired.



Bargain Purchases (Issues Paper para 75-83)

Description:

Bargain purchases occur when an entity gains control of an operation or entity, but where the consideration transferred to the previous owners is less than the fair value of the net assets acquired.



Bargain Purchases (Issues Paper para 75-83)

Control	Other factors in addition to control		
<p>In all PSCs:</p> <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Consideration; • (absence of legal compulsion); • Accountability; • Decision making; • (existence of) Quantifiable ownership interests 	<ul style="list-style-type: none"> • Consideration (not based on fair value). 	<ul style="list-style-type: none"> • Citizen's rights • Common control



Acquisition



Fair Value



Carrying
Amounts



Neutral or
not Relevant

Bargain Purchases (Issues Paper para 75-83)

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Acquisition **Fair Value**



Majority Support from Respondents

Bargain Purchases (Issues Paper para 75-83)

Matters for Consideration 3 and 4

Indicate whether it supports staff view that:

Scenario	Control (single criterion)	Other factors in addition to control
Bargain purchases	Acquisition	Fair value

Donated Operations (Issues Paper para 84-93)

Description:

An entity may gain control of an operation without transferring any consideration. Individuals or other legal entities (usually not-for-profit organizations) may transfer operations to a public sector entity at no cost where they share the same objectives.



Donated Operations (Issues Paper para 84-93)

Description:

An entity may gain control of an operation without transferring any consideration. Individuals or other legal entities (usually not-for-profit organizations) may transfer operations to a public sector entity at no cost where they share the same objectives.



Donated Operations (Issues Paper para 84-93)

Control	Other factors in addition to control		
<p>In all PSCs:</p> <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Consideration; • (absence of legal) compulsion; • Accountability; • Decision making; • (existence of) quantifiable ownership interests 	<ul style="list-style-type: none"> • (Absence of) consideration; • Non-quantifiable ownership interests. 	<ul style="list-style-type: none"> • Citizen's rights • Common control



Acquisition



Fair Value



Carrying
Amounts



Neutral or
not Relevant

Donated Operations (Issues Paper para 84-93)

Control	Other factors in addition to control		
In all PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Consideration; • (absence of legal compulsion); • Accountability; • Decision making; • (existence of) quantifiable ownership interests 	<ul style="list-style-type: none"> • (Absence of) consideration; • Non-quantifiable ownership interests. 	<ul style="list-style-type: none"> • Citizen’s rights • Common control



Acquisition **Fair Value**



Majority Support from Respondents

Donated Operations (Issues Paper para 84-93)

Matters for Consideration 5 and 6

Indicate whether it supports the staff view that:

Scenario	Control (single criterion)	Other factors in addition to control
Donated Operations	Acquisition	Fair value

Nationalizations (Issues Paper para 94-114)

Description:

Nationalizations occur when governments take (usually private sector) operations or entities into public legal ownership and/or public control.

- (a) Purchase of operations or entities – market price, mutual agreement
- (b) Uncompensated seizures – no consideration, compulsion
- (c) Bailouts – assumption of net liabilities, with or without compulsion

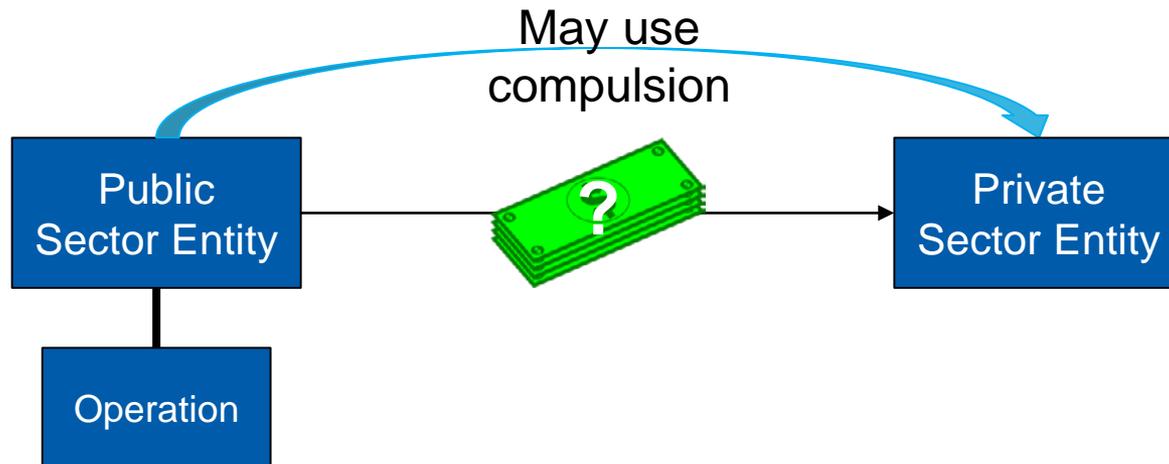


Nationalizations (Issues Paper para 94-114)

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Nationalizations: Purchase of operations or entities (Issues Paper para 94-114)

Control	Other factors in addition to control		
<p>In all PSCs:</p> <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Consideration; • (absence of legal) Compulsion; • Accountability; • Decision making; • (existence of) Quantifiable ownership interests 	<ul style="list-style-type: none"> • Compulsion 	<ul style="list-style-type: none"> • Citizen's rights • Common control
 Acquisition	 Fair Value	 Carrying Amounts	 Neutral or not Relevant

Nationalizations: Purchase of operations or entities (Issues Paper para 94-114)

Control	Other factors in addition to control		
In all PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Consideration; • (absence of legal) Compulsion; • Accountability; • Decision making; • (existence of) Quantifiable ownership interests 	<ul style="list-style-type: none"> • Compulsion 	<ul style="list-style-type: none"> • Citizen's rights • Common control



Acquisition **Fair Value**



Majority Support from Respondents

Nationalizations: Uncompensated Seizures (Issues Paper para 94-114)

Control	Other factors in addition to control		
In all PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Accountability; • Decision making; • (existence of) Quantifiable ownership interests 	<ul style="list-style-type: none"> • (absence of) Consideration • (presence of) Compulsion 	<ul style="list-style-type: none"> • Citizen’s rights • Common control



Acquisition



Fair Value



Carrying
Amounts



Neutral or
not Relevant

Nationalizations: Uncompensated Seizures (Issues Paper para 94-114)

Control	Other factors in addition to control		
In all PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Accountability; • Decision making; • (existence of) Quantifiable ownership interests 	<ul style="list-style-type: none"> • (absence of) Consideration • (presence of) Compulsion 	<ul style="list-style-type: none"> • Citizen’s rights • Common control



Acquisition **Fair Value**



Majority Support from Respondents

Nationalizations: Bailouts (Issues Paper para 94-114)

Control	Other factors in addition to control		
In all PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Accountability; • Decision making; • (existence of) Quantifiable ownership interests 	<ul style="list-style-type: none"> • (absence of) Consideration • (presence of) Compulsion 	<ul style="list-style-type: none"> • Citizen’s rights • Common control
 Acquisition	 Fair Value	 Carrying Amounts	 Neutral or not Relevant

Nationalizations: Uncompensated Seizures (Issues Paper para 94-114)

Control	Other factors in addition to control		
In all PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • Change of sectors; • Accountability; • Decision making; • (existence of) Quantifiable ownership interests 	<ul style="list-style-type: none"> • (absence of) Consideration • (presence of) Compulsion 	<ul style="list-style-type: none"> • Citizen’s rights • Common control



Acquisition **Fair Value**



Majority Support from Respondents

Nationalizations

(Issues Paper para 94-114)

Matters for Consideration 7 and 8

Indicate whether it supports staff view that:

Scenario	Control (single criterion)	Other factors in addition to control
Nationalizations	Acquisition	Fair value

PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

Types of PSC not under common control:

- (a) Transfer of operations from one level of government to another existing level of government
- (b) Territorial boundaries being rearranged to create three municipalities out of two original municipalities
- (c) Two municipalities combining to form a single municipality

PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

Types of PSC not under common control:

- (a) Transfer of operations from one level of government to another existing level of government



PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

Types of PSC not under common control:

- (a) Transfer of operations from one level of government to another existing level of government



PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

Types of PSC not under common control :

- b) Territorial boundaries being rearranged to create three municipalities out of two original municipalities

Municipality A

Municipality B

PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

Types of PSC not under common control :

- b) Territorial boundaries being rearranged to create three municipalities out of two original municipalities

Municipality A

Municipality B

Municipality C

PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

Types of PSC not under common control :

(c) Two municipalities combining to form a single municipality

Municipality A

Municipality B

PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

Types of PSC not under common control :

(c) Two municipalities combining to form a single municipality



Municipality C

PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

(a) Transfer of operations from one level of government to another existing level of government

Control	Other factors in addition to control		
In all PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • Control; • (absence of) compulsion; • Decision making (if economic reasons); • (existence of) Quantifiable ownership interests 	<ul style="list-style-type: none"> • (absence of) Consideration • (presence of) Compulsion • Decision making (if other reasons) • Citizen's rights 	<ul style="list-style-type: none"> • Change of sectors • Accountability • Common control
 Acquisition	 Fair Value	 Carrying Amounts	 Neutral or not Relevant

PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

(b) Territorial boundaries being rearranged to create three municipalities out of two original municipalities

Control	Other factors in addition to control		
In no PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 		<ul style="list-style-type: none"> • Control • (absence of) Consideration • (presence of) Compulsion 	<ul style="list-style-type: none"> • Change of sectors • Accountability • Decision making • Citizens' rights • (absence of) Quantifiable ownership interests • Common control



Amalgamation



Fair Value



Carrying Amounts



Neutral or not Relevant

PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

(b) Territorial boundaries being rearranged to create three municipalities out of two original municipalities

Control	Other factors in addition to control		
In no PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 		<ul style="list-style-type: none"> • Control • (absence of) Consideration • (presence of) Compulsion 	<ul style="list-style-type: none"> • Change of sectors • Accountability • Decision making • Citizens' rights • (absence of) Quantifiable ownership interests • Common control



Majority Support from Respondents

PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

(c) Two municipalities combining to form a single municipality

Control	Other factors in addition to control		
In some PSCs: <ul style="list-style-type: none"> • Power • Variable benefits • Link between power and benefits 	<ul style="list-style-type: none"> • (presence of) Control • (absence of) compulsion • Decision making (if economic reasons) 	<ul style="list-style-type: none"> • (absence of) Control • (absence of) Consideration • (presence of) Compulsion • Decision making (if other reasons) • Citizens' rights 	<ul style="list-style-type: none"> • Change of sectors • Accountability • (absence of) Quantifiable ownership interests • Common control


Acquisition / Amalgamation


Fair Value


Carrying Amounts


Neutral or not Relevant

PSCs wholly within the public sector but NUCC (Issues Paper para 115-151)

Matter(s) for Consideration 9 and 10
Indicate whether it supports the staff view that:

Scenarios	Control	Other factors in addition to control
Transfer of operations from one level of government to another existing level of government	Acquisition	Fair value or carrying amount
Territorial boundaries being rearranged to create three municipalities out of two original municipalities	Amalgamation	Carrying amount
Two municipalities combine to form a single municipality: <ul style="list-style-type: none"> ✓ New municipality is created (no party gains control) ✓ An existing municipality receives the operations (one party gains control) 	<ul style="list-style-type: none"> • Amalgamation • Acquisition 	<ul style="list-style-type: none"> • Carrying amount • Fair value

PSCs Under Common Control (Issues Paper para 152-176)

Description:

“A public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.”

PSCs Under Common Control (Issues Paper para 152-176)

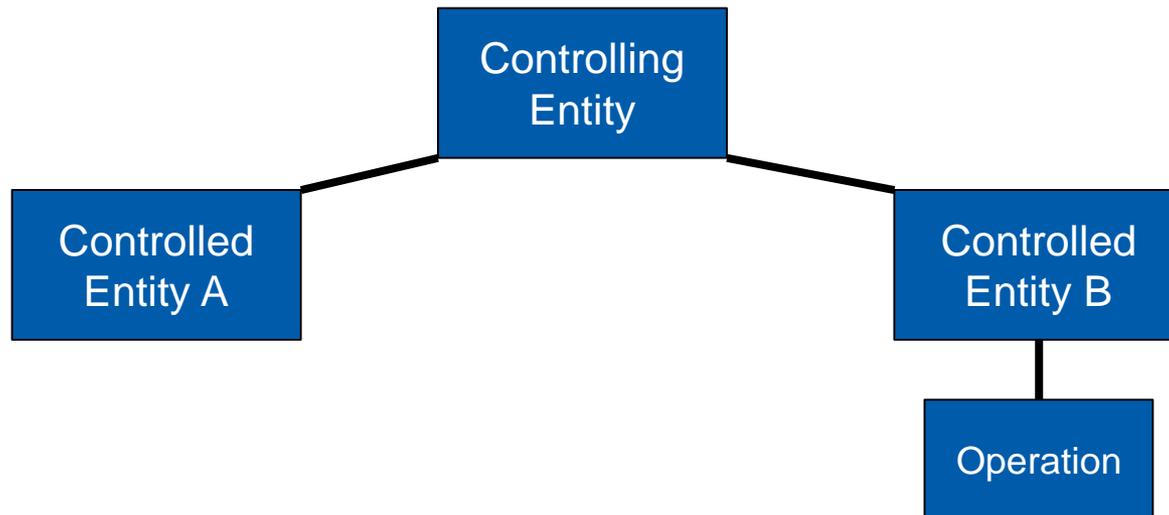
Types of PSCs under common control:

- (a) The transfer of operations between controlled entities
- (b) The transfer of operations from controlled entities to a newly formed controlled entity
- (c) A combination of controlled entities

PSCs Under Common Control (Issues Paper para 152-176)

Types of PSCs under common control:

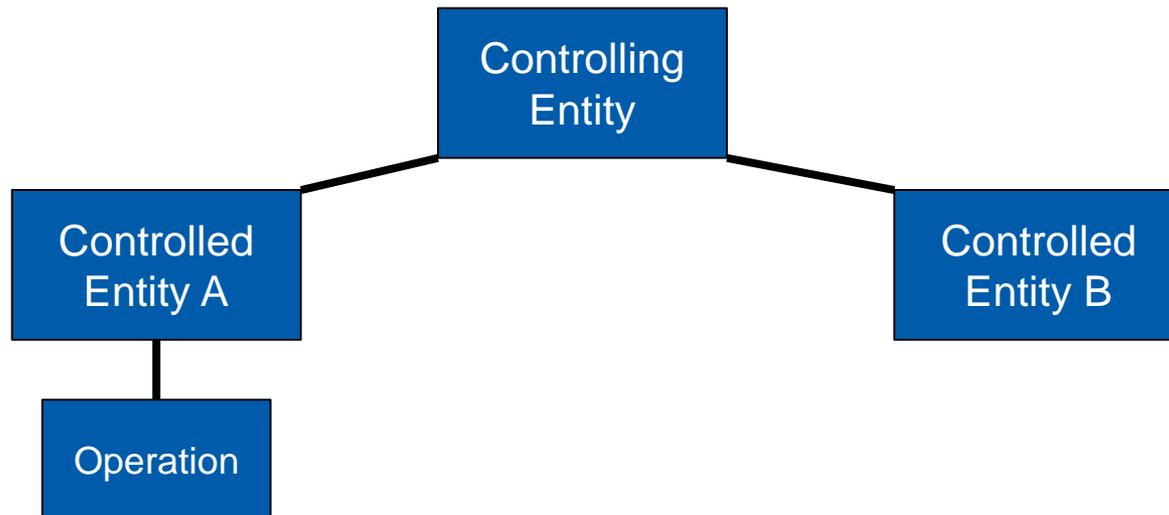
(a) The transfer of operations between controlled entities



PSCs Under Common Control (Issues Paper para 152-176)

Types of PSCs under common control:

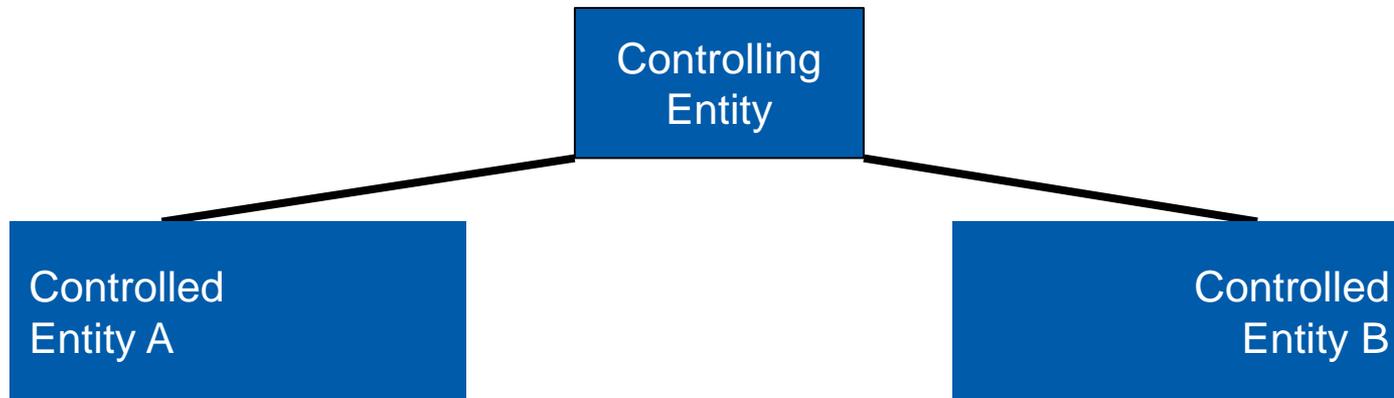
(a) The transfer of operations between controlled entities



PSCs Under Common Control (Issues Paper para 152-176)

Types of PSCs under common control:

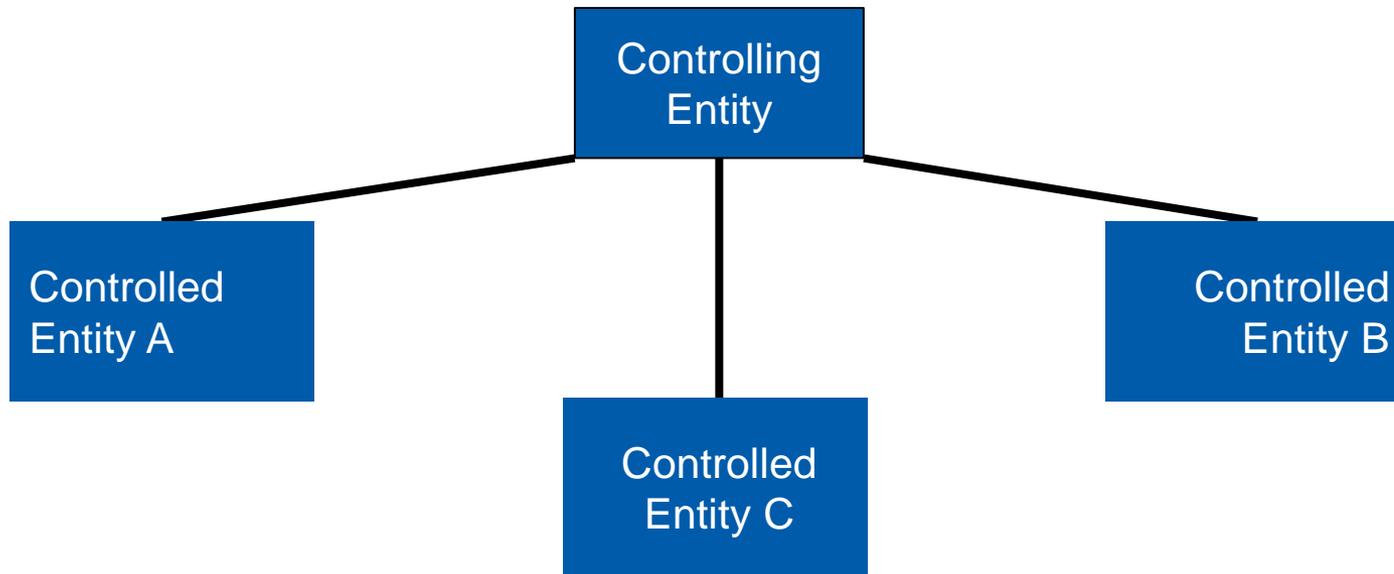
- (b) The transfer of operations from controlled entities to a newly formed controlled entity



PSCs Under Common Control (Issues Paper para 152-176)

Types of PSCs under common control:

- (b) The transfer of operations from controlled entities to a newly formed controlled entity



PSCs Under Common Control (Issues Paper para 152-176)

Types of PSCs under common control:

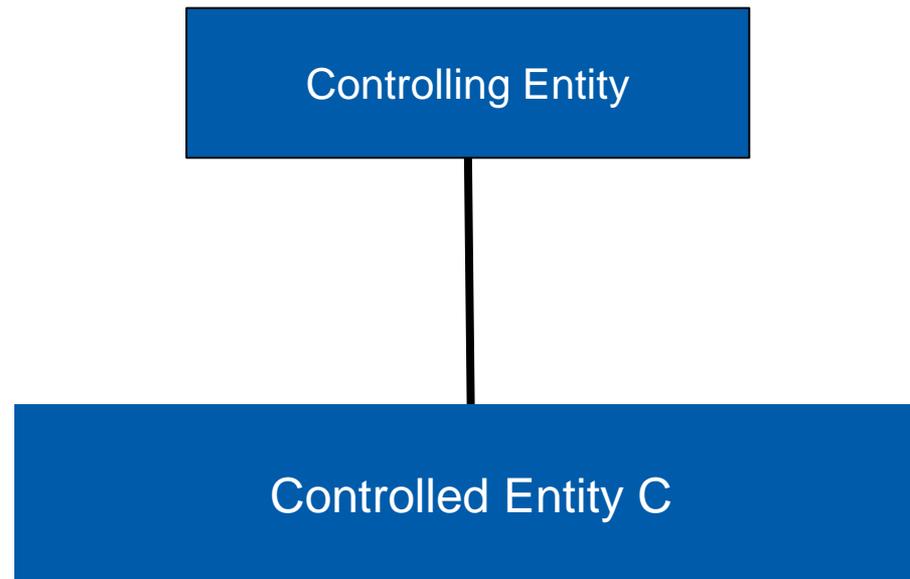
(c) A combination of controlled entities



PSCs Under Common Control (Issues Paper para 152-176)

Types of PSCs under common control:

(c) A combination of controlled entities



PSCs Under Common Control (Issues Paper para 152-176)

Control	Other factors in addition to control		
<ul style="list-style-type: none"> • Power (In some PSCs) • Variable benefits (In all PSCs) • Link between power and benefits (In some PSCs) 	<ul style="list-style-type: none"> • (presence of) Control • (presence of) Consideration • (absence of) Compulsion • Decision making (if economic reasons) 	<ul style="list-style-type: none"> • (absence of) Control • (absence of) Consideration • (presence of) Compulsion • Decision making (if other reasons) • Citizens' rights 	<ul style="list-style-type: none"> • Change of sectors • Accountability • Quantifiable ownership interests • Common control



**Acquisition /
Reorganization**



Fair Value



**Carrying
Amounts**



Neutral or
not Relevant

PSCs Under Common Control

(Issues Paper para 152-176)

Matters for Consideration 11 and 12

Indicate whether it supports staff view that:

Scenario	Control (single criterion)	Other factors in addition to control
PSCs UCC	Acquisition or reorganization (gaining of control?)	Fair value or carrying amount, based on factors and weightings

Summary of Approaches (Issues Paper para 177-185)

Scenarios	Control	Other factors in addition to control
Combinations at fair-value	Acquisition	Fair value
Bargain purchase	Acquisition	Fair value
Donated Operations	Acquisition	Fair value
Nationalizations	Acquisition	Fair value
PSCs Not Under Common Control	See next slide	See next slide
PSCs Under Common Control	Acquisition or reorganization	Fair value or carrying amounts

Summary of Approaches

(Issues Paper para 177-185)

Scenarios	Control	Other factors in addition to control
PSCs wholly in the public sector but NUCC		
Transfer of operations from one level of government to another existing level of government.	Acquisition	Fair value or carrying amounts
Territorial boundaries being rearranged to create three municipalities out of two original municipalities.	Amalgamation	Carrying amounts
<p>Two municipalities combining to form a single municipality:</p> <ul style="list-style-type: none"> ✓ New municipality is created (no party gains control) ✓ An existing municipality receives the operations (one party gains control) 	<p style="text-align: center;">Amalgamation</p> <p style="text-align: center;">Acquisition</p>	<p style="text-align: center;">Carrying amounts</p> <p style="text-align: center;">Fair value or carrying amounts</p>

Summary of Approaches (Issues Paper para 177-185)

Matter for Consideration 13

Decide whether the control approach or other factors in addition to control approach should be included in a future ED



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