

## Agenda item 6: Public Sector Combinations

João Fonseca, Technical Manager  
Paul Mason, Technical Manager

IPSASB Meeting  
September 22-25, 2015  
Toronto, Canada

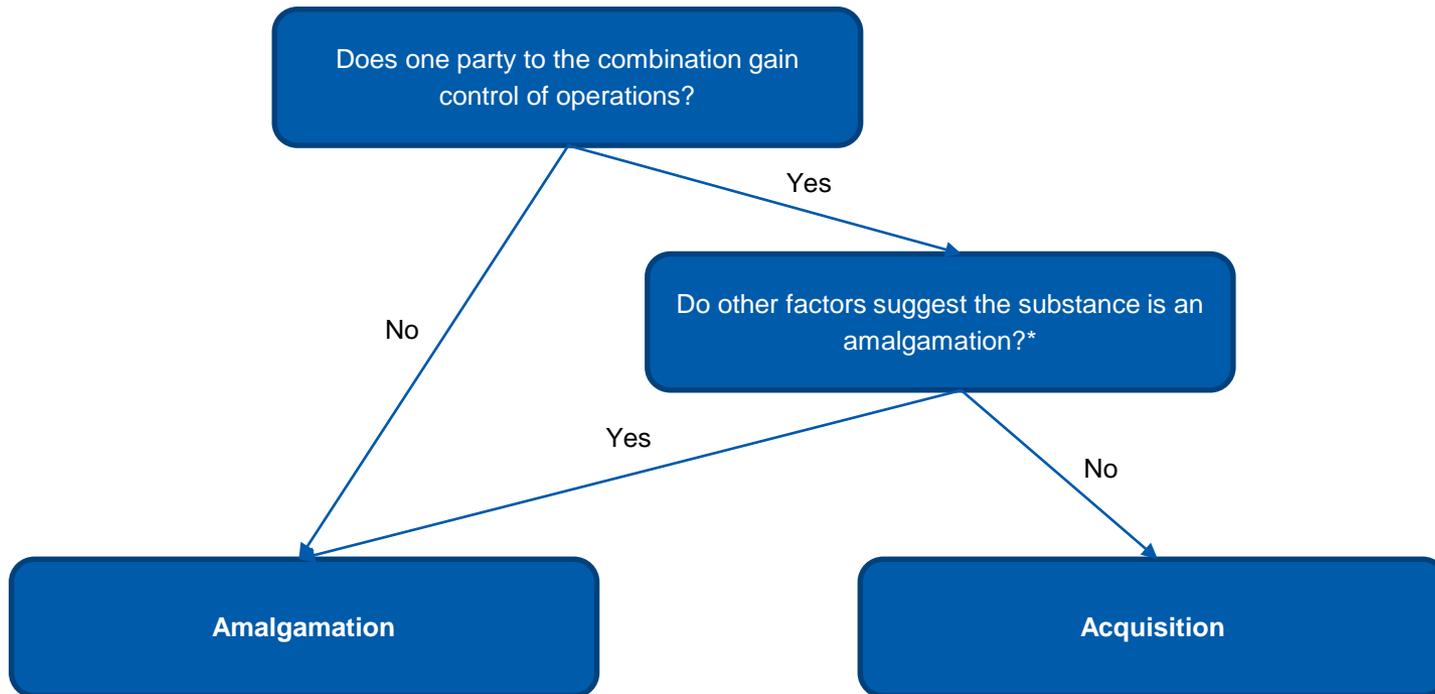
# Objective of Session

The objective of this session is to:

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

# Classification of public sector combinations (Issues Paper para 4-6)

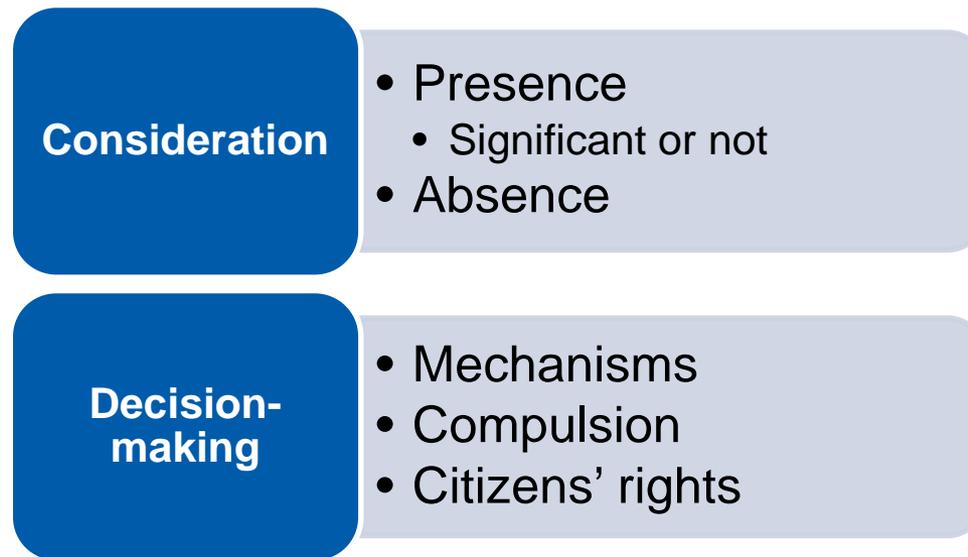
- June 2015 meeting – Decision Tree



\* Wording of this question to be determined

# Classification of public sector combinations (Issues Paper para 7-8)

- Factors to be considered in a PSC:



- Overall assessment of a PSC:
  - Should ensure that the classification produces information that is useful for **accountability** and **decision-making** purposes

# Classification of public sector combinations (Issues Paper para 9-27)

- Two mutually exclusive approaches:

## Rebuttable presumption approach

- **Acquisition** presumed where one party gains control
- Other factors could rebut the presumption of an acquisition

## Individual weighting approach

- Professional judgement based on individual circumstances of the combination

# Classification of public sector combinations (Issues Paper para 9-27)

- June 2015 meeting tentative decisions:



- Staff **did not identify a reason** on how the **factors, as described**, would provide a different classification according to the nature of the entity

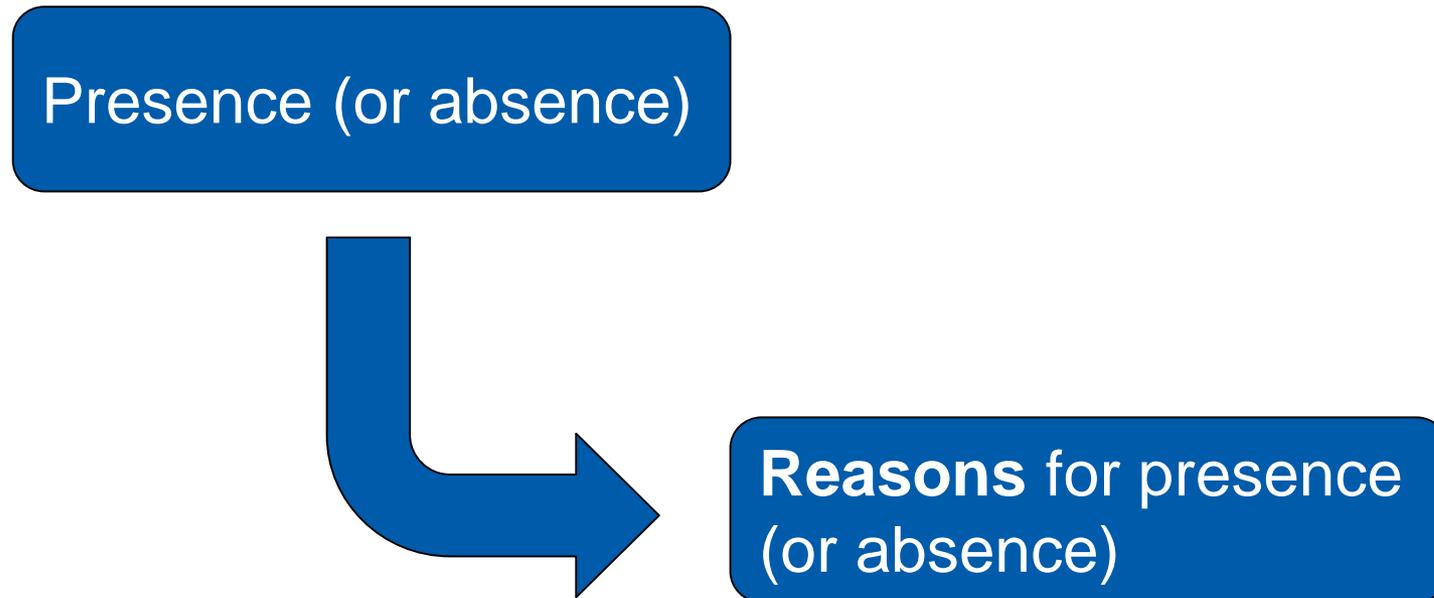
# Matter for Consideration 1

**To indicate** whether it considers that:

- (a) Combinations involving private not-for-profit entities may require a different classification to combinations involving private for-profit entities;
- (b) Transfers of operations from one level of government to another existing level of government should be classified as acquisitions; and,
- (c) All combinations of two municipalities to form a new municipality should be classified as amalgamations.

# Classification of public sector combinations (Issues Paper para 28-36)

- **Consideration factor assessment**



# Classification of public sector combinations (Issues Paper para 28-36)

- **Consideration factor assessment**

**Reasons** for presence (or absence):

- Exchange between two parties (transferor and recipient);  
and,
- Compensation for the loss of entitlement over the net  
assets.

# Classification of public sector combinations (Issues Paper para 28-36)

- Consideration factor assessment

Cons.	Reason	Indicator of	Example
<b>(i) Paid</b>	As compensation for the loss of entitlement over net assets	Acquisition	Purchase of an operation
<b>(ii) Paid</b>	For other reason	Classification based on reasons and decision making (likely an acquisition)	Donated operation (not a whole entity) in which the transferor is reimbursed costs incurred
<b>(iii) Not paid</b>	Entitlement over the net assets	Classification based on reasons and decision making	Donated operation (not a whole entity) Nationalization
<b>(iv) Not paid</b>	No-one with an entitlement to the net assets	Amalgamation	Two municipalities where one municipality gains control of operations (whole entity). Transfer of not-for-profit entities

## Matter for Consideration 2

- **To indicate** whether it agrees with the analysis provided by staff; and, if not, to provide an alternative analysis.

# Classification of public sector combinations (Issues Paper para 37-38)

- Two mutually exclusive approaches (revised):

## Rebuttable presumption approach

- **Acquisition** presumed where one party gains control
- **Should** be rebutted where there is no-one with an entitlement over the net assets
- **Could** be rebutted in other cases

## Individual weighting approach

- Consideration paid as compensation – **acquisition**
- There is no-one with an entitlement over the net assets – **amalgamation**
- Remaining cases – **professional judgement**

## Matters for Consideration 3–6

3. **Indicate** whether it agrees that the revised indicators provided above should be used in the two approaches.
4. If the IPSASB does not agree with the classifications outlined in MfC 1, the IPSASB is asked to **indicate** whether it supports the original consideration indicators.
5. **Decide** whether the rebuttable presumption approach or the individual weighting approach should form the basis of the ED.
6. **Provide** staff with any suggested amendments to the approaches.

# Matters for Consideration 7–12

## (Issues Paper paragraphs 39–54)

Section	Application Guidance	Implementation Guidance	Illustrative Examples
Identifying a PSC	AG1–AG8	N/A	To follow if required
Classification of PSCs	To follow	IG1–IG2	To follow
Accounting for Acquisitions	AG10–AG50	N/A	IE3–IE64
Accounting for Amalgamations	AG51–AG54	N/A	IE65–IE89

- Any additional guidance/examples required?
- Any guidance/examples to be removed?
- Any Application Guidance to be moved to Core ED?

# Transition Arrangements (Issues Paper paragraphs 55–56)

- Prospective application from date to be agreed
- Assets and liabilities from previous combinations not adjusted
- Matter for Consideration 13:
  - Any additional transitional arrangements required?



[www.ipsasb.org](http://www.ipsasb.org)

---

## Alternative Wording for Indicator A6 (revised)

- The absence of consideration paid to ~~those with an entitlement to the net assets~~ the former owners of the transferred operations, or the presence of consideration that is not intended to compensate ~~those with an entitlement to the net assets~~ the former owners of the transferred operation for giving up that ~~entitlement~~ ownership may provide evidence that the presumption could be rebutted. The presumption may be rebutted where the reasons for the absence of consideration that is intended to compensate ~~those with an entitlement to the net assets~~ the former owners of the transferred operation for giving up that ~~entitlement~~ ownership demonstrate that the economic substance of the combination is an amalgamation.