

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: September 22–25, 2015

Agenda Item 6

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 6.1 Issues Paper, *Public Sector Combinations*

Agenda Item 6.2 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 6.1, and to **provide input and direction** on the way forward.

Public Sector Combinations

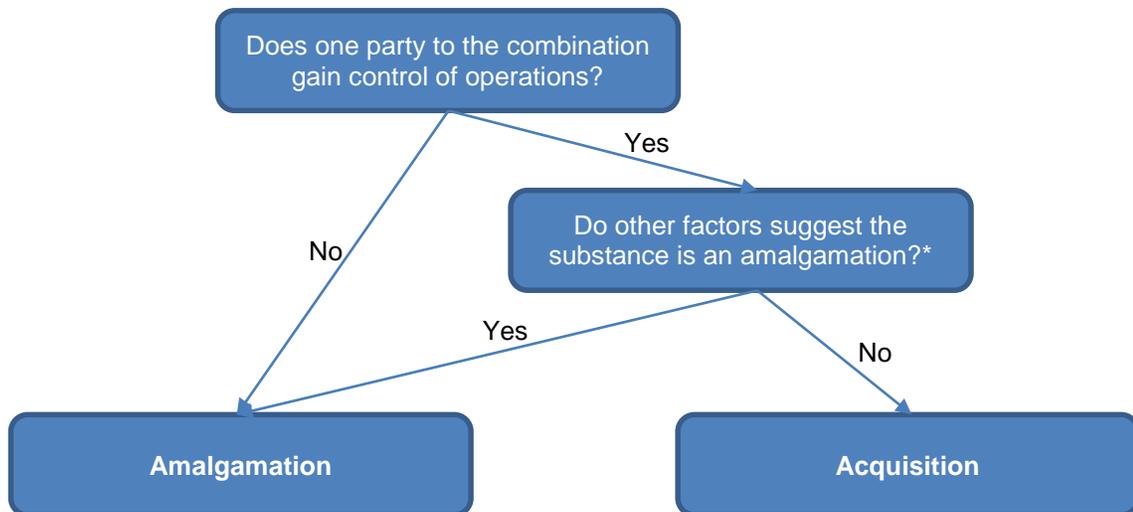
Introduction

1. At its June 2015 meeting, the IPSASB:
 - (a) Agreed in principle an approach to classifying public sector combinations that considers multiple factors to determine that classification; and
 - (b) Directed staff to undertake further work to clarify how the factors identified by the IPSASB should be taken into account in classifying public sector combinations.
2. Staff has identified different options for describing the interaction of the factors identified by the IPSASB, and this Issues Paper discusses these options.
3. Following the decision about the high level approach to classification taken at the IPSASB's June 2015 meeting, staff has also further developed sections of the Exposure Draft (ED) (included as Agenda Item 6.2), and this Issues Paper raises a limited number of issues regarding the ED.

Classification of public sector combinations

Background

4. At its June 2015 meeting, the IPSASB agreed in principle that public sector combinations should be classified using an approach that considers multiple factors. Under this approach, the gaining of control of operations by a party to the combination was seen as an essential element of an acquisition, but not sufficient in itself to determine that a combination was an acquisition. Conversely, if no party to the combination gains control of operations, then the combination should be classified as an amalgamation.
5. This approach can be summarized as follows:



* Wording of this question to be determined

6. The IPSASB directed staff to undertake further analysis of how the factors interact (summarized in the diagram above as “Do other factors suggest the substance is an amalgamation?”).
7. In directing staff to undertake this further analysis, the IPSASB identified the following factors that should be taken in to account:
 - **Consideration.** The IPSASB agreed that significant consideration is an indicator of an acquisition, whereas the absence of consideration is an indicator of an amalgamation. The presence of consideration that is not significant also needs to be taken into account. The IPSASB noted that in describing this factor, there should be no reference to fair value as this could result in some circularity. The IPSASB also noted that because this factor could point to both an acquisition and an amalgamation, the wording used to describe the factor would be important.
 - **Decision making.** The IPSASB agreed that this factor should take into account the mechanism(s) by which a combination is achieved. This factor includes the ability of the parties to the combination (especially the party that gains control of operations) to direct their own activities; this might not be present if the combination was imposed (perhaps through legislation) by a higher level of government. The IPSASB noted that compulsion might be exercised as either a regulatory power or a control power, and that this might have consequences for classifying public sector combinations. This factor also takes into account citizens’ decision making (for example, where combinations were subject to approval through a referendum), and the ability of a controlling entity to direct the activities of a controlled entity.
8. At its June 2015 meeting, the IPSASB also discussed whether accountability was a factor to be taken into account. Some members had concerns that this factor could be used to achieve a desired outcome. The IPSASB agreed that accountability was not a factor in its own right, but is referred to in assessing whether the overall decision is appropriate. In arriving at an overall classification decision, an entity should ensure that the classification produces information that is useful for accountability and decision making purposes.

Approaches to factors

9. Staff has identified two mutually exclusive approaches that could be applied in taking into account the factors identified by the IPSASB. Both approaches rely on preparers exercising professional judgment. The two approaches are:
 - **Rebuttable presumption approach.** Under this approach, when one party to the combination gains control of an operation, this creates a rebuttable presumption that the combination is an acquisition. This approach gives a strong weighting to the gaining of control, and the analysis of the factors is focused on whether there is sufficient evidence to rebut the presumption.
 - **Individual weighting approach.** Under this approach, the weighting given to the gaining of control, consideration and decision making is a matter for professional judgment based on the individual circumstances of the combination. Preparers would identify which (if any) factors indicate an acquisition and which (if any) factors indicate an amalgamation. Where indicators of both an acquisition and an amalgamation are present, the weighting given to the respective factors would determine the classification.

10. Under both approaches, preparers would consider whether the classification produces information that is useful for accountability and decision-making purposes in arriving at an overall classification decision.
11. The different nature of the two approaches means that the factors will need to be described differently in each approach.

Rebuttable presumption approach

12. The following example provides indicative text for the ED should the IPSASB decide to adopt the rebuttable presumption approach.

Classification of public sector combinations

- A1. **If no party to the combination gains control of operations as a result of the combination, the combination shall be classified as an amalgamation.**
- A2. **If one party to the combination gains control of operations as a result of the combination, there is a rebuttable presumption that the combination shall be classified as an acquisition. An entity shall classify the combination as an acquisition unless the presumption is rebutted, in which case the entity shall classify the combination as an amalgamation.**
- A3. In assessing whether the presumption is rebutted, an entity considers the indicators in paragraphs A4–A10.

Indicators that the presumption that the combination shall be classified as an acquisition may be rebutted

- A4. The presumption that the combination shall be classified as an acquisition is rebutted when there is evidence that the economic substance of the combination is that of an amalgamation. The following indicators, individually or collectively, may provide evidence that the economic substance of the combination is that of an amalgamation and that the presumption could be rebutted. A combination does not need to satisfy all of these indicators to be classified as an amalgamation.

Indicators relating to consideration

- A5. The absence of consideration in a combination may provide evidence that the presumption could be rebutted. Consideration is present in most acquisitions, so the absence of consideration may indicate that the economic substance of the combination is that of an amalgamation. However, consideration need not be present for a combination to be classified as an acquisition.
- A6. The presence of consideration that does not reflect the best price available to the seller in their specific circumstances may provide evidence that the presumption could be rebutted. In an acquisition, the seller normally seeks the best price available in their specific circumstances (which may include, for example, an economic necessity for the sale). Where the consideration transferred does not reflect this price, this may suggest that the economic substance of the combination is that of an amalgamation. However, acquisitions may occur at prices that do not reflect the best price available to the seller in their specific circumstances.

Indicators relating to decision making

- A7. Where a combination is imposed by a third party without any party to the combination being involved in the decision-making process, this may provide evidence that the presumption could be rebutted. An acquisition usually requires the voluntary participation of the party to the combination that gains control of the operations. However, where the parties to the combination are directed to combine by a regulator, but are free to determine the terms of the combination, this may not provide evidence that the presumption could be rebutted.
- A8. Where a combination is subject to approval by each parties' citizens through referenda, this may provide evidence that the presumption could be rebutted. In such circumstances, the ultimate decision as to whether the combination takes place is taken by third parties.
- A9. Where a combination takes place between two parties that are under common control, this may provide evidence that the presumption could be rebutted. In such circumstances, the ultimate decision as to whether the combination takes place is subject to the approval of the controlling entity, whether this approval is given explicitly or not.

Information that is useful for accountability and decision-making purposes

- A10. In arriving at a view as to whether the presumption should be rebutted, based on the indicators in paragraphs A4–A9, an entity considers whether the resulting classification would provide information that is useful for accountability and decision-making purposes.

13. This indicative text would be supplemented by Application Guidance and Illustrative Examples to assist preparers with the application of the approach.
14. Should the IPSASB decide to adopt the rebuttable presumption approach, the following descriptions could be included in the ED:

An **acquisition** is a public sector combination in which one party to the combination gains control of operations, and in which the presumption that such a combination is an acquisition is not rebutted.

An **amalgamation** is either:

- (a) A public sector combination in which no party to the combination gains control of operations;
or
- (b) A public sector combination in which one party to the combination gains control of operations, and in which the presumption that such a combination is an acquisition is rebutted.

Individual weighting approach

15. The following example provides indicative text for the ED should the IPSASB decide to adopt the individual weighting approach.

Classification of public sector combinations

- B1. If no party to the combination gains control of operations as a result of the combination, the combination shall be classified as an amalgamation.**

B2. If one party to the combination gains control of operations as a result of the combination, an entity classifies the combination as either an acquisition or an amalgamation according to the economic substance of the combination.

B3. In assessing the economic substance of the combination, an entity considers the indicators in paragraphs B4–B14. The indicators in paragraphs B4–B14 are not always conclusive. In such circumstances, an entity shall attach greater importance to those indicators that have the most significant impact on the economic substance of the combination.

Indicators to be considered in assessing the economic substance of a public sector combination

B4. The following indicators, individually or collectively, provide evidence of the economic substance of the combination.

Indicators relating to control

B5. The gaining of control by one party to the combination always provides evidence that the economic substance of the combination is that of an acquisition.

Indicators relating to consideration

B6. The presence of consideration that reflects the best price available to the seller in their specific circumstances provides evidence that the economic substance of the combination is that of an acquisition. In an acquisition, the seller normally seeks the best price available in the circumstances (which may include, for example, an economic necessity for the sale), and evidence that the combination is at the best price available to the seller provides evidence of an acquisition.

B7. The absence of consideration in a combination provides evidence that the economic substance of the combination is that of an amalgamation. Consideration is present in most acquisitions, so the absence of consideration may indicate that the economic substance of the combination is that of an amalgamation. However, consideration need not be present for a combination to be classified as an acquisition.

B8. The presence of consideration that does not reflect the best price available to the seller in their specific circumstances may provide evidence that the economic substance of the combination is that of an amalgamation. In an acquisition, the seller normally seeks the best price available in the circumstances (which may include, for example, an economic necessity for the sale). Where the consideration transferred does not reflect this price, this may suggest that the economic substance of the combination is that of an amalgamation. However, acquisitions may occur at prices that do not reflect the best price available to the seller in their specific circumstances.

Indicators relating to decision making

B9. Where the party to the combination that gains control of operations in the combination is able to impose its will on the other parties to the combination, this provides evidence that the economic substance of the combination is that of an acquisition. An entity may be able to impose its will on the other parties to the combination through legislative powers or by its economic capacity, for example by purchasing a controlling interest in another party.

- B10. Where a combination is imposed by a third party without any party to the combination being involved in the decision-making process, this provides evidence that the economic substance of the combination is that of an amalgamation. An acquisition usually requires the voluntary participation of the party to the combination that gains control of the operations. However, where the parties to the combination are directed to combine by a regulator, but are free to determine the terms of the combination, this does not in itself provide evidence that the economic substance of the combination is that of an amalgamation.
- B11. Where all parties to the combination are acting without restriction, no inference as to the economic substance of the combination can be drawn.
- B12. Where a combination is subject to approval by each parties' citizens through referenda, this may provide evidence that the economic substance of the combination is that of an amalgamation. In such circumstances, the ultimate decision as to whether the combination takes place is taken by third parties.
- B13. Where a combination takes place between two parties that are under common control, this may provide evidence that the economic substance of the combination is that of an amalgamation. In such circumstances, the ultimate decision as to whether the combination takes place is subject to the approval of the controlling entity, whether this approval is given explicitly or not.

Information that is useful for accountability and decision-making purposes

- B14. In arriving at a view as to whether the economic substance of the combination is that of an acquisition or an amalgamation, based on the indicators in paragraphs B4–B13, an entity considers whether the resulting classification would provide information that is useful for accountability and decision-making purposes.

16. This indicative text would be supplemented by Application Guidance and Illustrative Examples to assist preparers with the application of the approach.
17. Should the IPSASB decide to adopt the individual weighting approach, the following descriptions could be included in the ED:

An **acquisition** is a public sector combination in which one party to the combination gains control of operations, and which has the economic substance of an acquisition. A public sector combination that has the economic substance of an acquisition often has the following features:

- (a) The party to the combination that gains control of operations gives consideration that reflects the best price available to the seller.
- (b) The party to the combination that gains control of operations is able to act without restriction; and in some acquisitions is able to impose its will on the other parties.

An **amalgamation** is either:

- (a) A public sector combination in which no party to the combination gains control of operations;
or
- (b) A public sector combination in which one party to the combination gains control of operations, and which has the economic substance of an amalgamation. A public sector combination that has the economic substance of an acquisition often has some of the following features:

- (i) The party to the combination that gains control of operations gives no consideration or consideration that does not reflect the best price available to the seller.
- (ii) The combination is imposed by a third party or subject to approval by a third party.
- (iii) The combination is entered into by all parties on a voluntary basis.

Scenarios

- 18. At its June 2015 meeting, the IPSASB considered the classification of public sector combinations in a number of different scenarios. Appendix A illustrates the process of classifying combinations in these scenarios under both the rebuttable presumption approach and the individual weighting approach. Staff does not propose to discuss the scenarios in detail, but has taken the view that they may be helpful to some members. The scenarios have also enabled staff to identify the following cases where the classification under one or both approaches may be inconsistent with the views expressed by IPSASB members at the June 2015 meeting.
- 19. Once the IPSASB has agreed the way forward, the scenarios in Appendix A will be used as the basis for Illustrative Examples in the ED.

Possible inconsistencies with views expressed at the June 2015 meeting

- 20. At the June 2015 meeting, some members expressed the view that the classification of combinations in the bargain purchase and donated operations scenarios may vary depending on whether the other party to the combination was a private for-profit entity or a private not-for-profit entity.
- 21. Staff has been unable to identify how the indicators described above would provide support for this view. In this context, staff notes that individual assets transferred from other entities in a non-exchange transaction would be measured at fair value irrespective of the nature of the transferor, and the indicators described above do not provide a rationale for departing from that approach.
- 22. This is particularly true under the rebuttable presumption approach, which gives a strong weighting to the gaining of control. Under the individual weighting approach, the indicators that have the most significant impact on the economic substance of the combination may vary depending on whether the other party to the combination was a private for-profit entity or a private not-for-profit entity. This may or may not be sufficient to achieve a different classification for private not-for-profit entities and private for-profit entities should the IPSASB conclude that this is appropriate.
- 23. At the June 2015 meeting, IPSASB members also considered that all transfers of operations from one level of government to another existing level of government should be classified as acquisitions, and that all combinations of two municipalities to form a new municipality should be classified as amalgamations.
- 24. Under the rebuttable presumption approach, there may be occasions where a transfer or operations from one level of government to another existing level of government could be classified as an amalgamation, as the presumption that a combination in which one party gains control of operations may be rebutted. This may occur, for example, where the transfer is imposed by a third party, and hence the decision-making indicators point to an amalgamation.
- 25. Under the rebuttable presumption approach, it is also possible that a combination of two municipalities to form a new municipality may be classified as an acquisition. This could arise

where one municipality gains control of operations and the combination is voluntary, and hence the decision making indicators do not suggest that the presumption should be rebutted.

26. In both these cases, under the individual weighting approach, the classification of the combination would depend on the entity's assessment as to the most significant indicators. It cannot be guaranteed that the entity would conclude that a transfer of operations from one level of government to another should be classified as an acquisition, or that it would conclude that a combination of two municipalities to form a new municipality (and in which one municipality gains control of operations) should be classified as an amalgamation.
27. In light of the above analysis, staff is asking the IPSASB to confirm that its views on these combinations remain unchanged. Based on the assumption that this will be the case, staff has considered whether there are any additional factors that could be used to bring greater clarity to the classification of these combinations.

Matter(s) for Consideration

1. The IPSASB is asked **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.

More detailed analysis of the consideration factor

28. While staff has not identified any additional factors, staff has identified that a more detailed analysis of the consideration factor, taking into account not just the presence (or absence) of consideration, but the reasons for the presence (or absence) of consideration, may provide additional clarity.
29. Acquisitions as understood in IFRS 3, *Business Combinations* generally involve the payment of consideration to compensate those with an entitlement to the net assets of the acquired operation for giving up that entitlement. This applies whether the acquisition takes place at fair value or in a bargain purchase. Even if the acquisition takes place without any consideration, those with an entitlement to the net assets of the acquired operation give up that entitlement.
30. IFRS 3 does not need to define an acquisition, as all combinations are accounted for using the acquisition method. However, IAS 22, *Business Combinations*, the predecessor of IFRS 3, defined an acquisition as:

“A business combination in which one of the enterprises, the acquirer, obtains control over the net assets and operations of another enterprise, the acquiree, in exchange for the transfer of assets, incurrence of a liability or issue of equity.”
31. This reinforces the view that acquisitions usually involve an exchange between those gaining control of the operations and those losing control of the operations (the transferor).
32. It follows that in a combination where there is consideration, and the purpose of that consideration is to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement, this is a strong (perhaps conclusive) indicator of an acquisition. In a

combination where the consideration is given for a different purpose, for example to compensate the entity for the costs it incurred in negotiating the combination, this does not necessarily provide evidence of an acquisition. The purpose for which the consideration is given will need to be taken into account, along with the decision-making indicators, in coming to a conclusion as to the economic substance of the combination.

33. Similarly, in a combination in which one entity gains control of the transferred operation and where no consideration is transferred, the reasons for this absence of consideration will be relevant. Staff has identified two categories of combinations where one party gains control of operations without the transfer of consideration:

- (a) Those with an entitlement to the net assets of the acquired operation (i.e., the transferor) give up that entitlement, either voluntarily or through compulsion.
- (b) There is no-one with an entitlement to the net assets of the acquired operation (i.e., there is no transferor). This scenario can only arise where a complete entity is being transferred; where individual operations are being transferred, the entity transferring the operation will always be entitled to the net assets of the operation. Staff considers that the absence of anyone with an entitlement to the net assets of the acquired operation distinguishes this type of combination from an acquisition. Acquisitions involve an exchange between those gaining control of the operations and those losing control of the operations. There is no such exchange in these circumstances because there is no transferor.

34. This analysis can be summarized as follows:

Consideration	Indicator of:	Example Scenario(s)
(i) Consideration is paid to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement.	Acquisition.	Purchase of an operation.
(ii) Consideration is paid for a reason other than to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement.	The reason(s) for the payment of the consideration, and the decision making indicators, are taken into account in coming to a conclusion as to the economic substance of the combination.	Donated operation (not a whole entity) in which the transferor is reimbursed costs incurred (staff considers this is likely to be an acquisition).
(iii) No consideration is paid to those with an entitlement to the net assets of the acquired operation.	The reason(s) for the absence of consideration, and the decision making indicators, are taken into account in coming to a conclusion as to the economic substance of the combination.	Donated operation. Nationalization.

(iv) There is no-one with an entitlement to the net assets of the acquired operation.	Amalgamation.	Combination of two municipalities where one municipality gains control of operations. Transfer of some not-for-profit entities.
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35. In the first and last examples, the classification of the combination is clear. This is not the case for the other examples, where professional judgment will need to be applied.
36. Staff notes that, using this analysis, no distinction between consideration that “reflects the best price available to the seller in their specific circumstances” and other consideration is required.

Matter(s) for Consideration

2. The IPSASB is asked **to indicate** whether it agrees with the analysis provided by staff; and if not, to provide an alternative analysis.
37. Assuming that the IPSASB supports this more detailed analysis of the consideration factor, the indicators relating to consideration in both the rebuttable presumption approach and the individual weighting approach will need to be amended. Staff suggests the following indicative text:

Rebuttable presumption approach

Indicators relating to consideration

- A5. The absence of consideration in a combination which arises because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity provides evidence that the presumption should be rebutted. The absence of anyone with an entitlement to the net assets of the transferred entity distinguishes the transaction from an acquisition. [Staff note: This relates to the final example in the above table.]
- A6. The absence of consideration paid to those with an entitlement to the net assets of the transferred operations, or the presence of consideration that is not intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement 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 of the transferred operation for giving up that entitlement demonstrate that the economic substance of the combination is an amalgamation. [Staff note: This relates to the second and third examples in the above table.]

Individual weighting approach

Indicators relating to consideration

- B6. The presence of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement provides evidence that the combination is an acquisition. [Staff note: This relates to the first example in the above table.]
- B7. The absence of consideration in a combination which arises because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity

provides evidence that the combination is an amalgamation. The absence of anyone with an entitlement to the net assets of the transferred entity distinguishes the transaction from an acquisition. [Staff note: This relates to the final example in the above table.]

B8. The absence of consideration paid to those with an entitlement to the net assets of the transferred operations, or the presence of consideration that is not intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement will require the entity to take into account the reasons for the absence of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement. [Staff note: This relates to the second and third examples in the above table.]

38. As noted above, the indicative text would be supplemented by Application Guidance and Illustrative Examples to assist preparers with the application of these indicators.

Matter(s) for Consideration

3. If the IPSASB agrees with the staff's analysis (see Matter for Consideration 2 above) the IPSASB is asked **to 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 Matter for Consideration 1 above, the IPSASB is asked **to indicate** whether it supports the original consideration indicators (see paragraphs 12 and 15).
5. The IPSASB is asked **to decide** whether the rebuttable presumption approach or the individual weighting approach should form the basis of the ED.
6. The IPSASB is asked **to provide staff** with any suggested amendments to the approach chosen in Matter for Consideration 5.

Sections of Exposure Draft

39. The IPSASB first discussed the core text of the ED at its March 2015 meeting, and made a number of recommendations for improving the text. Staff has amended the ED to reflect these recommendations.
40. Staff has also made further revisions to the text to reflect the decisions on classification made at the IPSASB's June 2015 meeting. At this stage, the draft ED does not include any text regarding the classification of public sector combinations; this will be added once the IPSASB has finalized its deliberations on classification, based on the indicative wording provided above.
41. The major development in the ED since the March 2015 meeting has been the inclusion of Application Guidance, Implementation Guidance and Illustrative Examples for the relevant sections of the ED, with the exception of the classification of public sector combinations. The Basis for Conclusions and Amendments to Other IPSASs will be developed for a future meeting.

42. The following table summarizes the coverage of the sections of the ED included as Agenda Item 6.2:

Section	Core ED	Application Guidance	Amendments to other IPSASs	Basis for Conclusions	Implementation Guidance	Illustrative Examples
Objective	Included	N/A	To follow	To follow	N/A	N/A
Scope	Included	N/A			N/A	N/A
Definitions	Partially included	N/A			N/A	N/A
Identifying a PSC	Included	Included			N/A	To follow if required
Classification of PSCs	To follow	To follow			Included	To follow
Accounting for acquisitions	Included	Included			N/A	Included
Accounting for amalgamations	Included	Included			N/A	Included
Effective date and transition	Included	N/A			N/A	N/A

43. At this stage, **staff is not seeking detailed comments** on the wording of the ED, although staff would welcome detailed comments from members outside of the meeting. Instead, staff is seeking comments on whether the coverage of the Application Guidance, Implementation Guidance and Illustrative Examples sections of the ED is appropriate.
44. The following paragraphs describe the coverage of these sections of the ED, and members' views are sought.

Objective, scope and definitions

45. As noted in paragraphs 14 and 17 above, descriptions of an acquisition and an amalgamation will be added to the draft ED once the IPSASB has agreed the details of the approach to classification.
46. Staff does not consider that any guidance on these sections of the draft ED is required.

Identifying a public sector combination

47. Paragraphs AG1-AG8 provide Application Guidance on identifying a public sector combination. These paragraphs adapt similar guidance in IFRS 3 to the public sector. The key issue covered in the guidance is whether a transaction includes an operation or a collection of assets. The latter case would not meet the definition of a public sector combination, and would be accounted for using other IPSASs.
48. Staff notes that the IASB's post-implementation review of IFRS 3 identified the equivalent guidance in that standard as an area for further research. Preparers have experienced difficulties in

distinguishing between a business (the IFRS 3 equivalent of an operation in this ED) and a collection of assets. As a result, the IASB has added this issue to its research agenda.

49. In light of this experience, staff is seeking the IPSASB's views as to whether additional Application Guidance should be developed, whether Illustrative Examples should be developed, or whether the current guidance in the ED is sufficient.

Matter(s) for Consideration

7. The IPSASB is asked **to indicate**:
- (a) Whether it supports the inclusion of the Application Guidance on the identification of a public sector combination at paragraphs AG1–AG8 of the draft ED;
 - (b) Whether additional Application Guidance on the identification of a public sector combination should be developed; and
 - (c) Whether Illustrative Examples about the identification of a public sector combination should be developed.

Classification of public sector combinations

50. As noted in paragraph 40 above, the draft ED does not include any text regarding the classification of public sector combinations; this will be added once the IPSASB has finalized its deliberations on classification.
51. Staff has included the decision tree discussed by the IPSASB at its June 2015 meeting in Implementation Guidance.
52. Staff proposes developing Application Guidance and Illustrative Examples to supplement the core text in the ED.

Matter(s) for Consideration

8. The IPSASB is asked **to indicate**:
- (a) Whether it supports the inclusion of the decision tree in the ED; and
 - (b) If so, whether this is most appropriately located in Implementation Guidance.

Accounting for acquisitions

53. Although this project is not an IFRS convergence project, the IPSASB has previously agreed that IFRS 3 is an appropriate starting point for developing the acquisition method of accounting. This was considered to be important for those jurisdictions where public sector commercial entities apply IFRS. Consequently, staff has taken the Application Guidance and Illustrative Examples in IFRS 3 as the starting point for developing the equivalent guidance in this ED. The following tables summarize the Application Guidance and Illustrative Examples included in the ED and how these relate to the guidance in IFRS 3.

Application Guidance

Issue	Paragraphs in draft ED	Paragraphs in IFRS 3	Notes
Identifying the acquirer in an acquisition	AG10–AG14	B13–B18	As well as referring to the control indicators in IPSAS 35, the guidance refers to the additional factors identified by the IPSASB. This will be reviewed once the approach to the additional factors has been agreed. Guidance in IFRS 3 related to a combination effected primarily by exchanging equity interests has been omitted as staff considers this is not relevant to the public sector.
Reverse acquisitions	N/A	B19–B27	This guidance has been omitted as staff considers this is not relevant to the public sector.
Recognizing particular assets acquired and liabilities assumed in an acquisition	AG15–AG27	B28–B40	Paragraph AG27 includes a reference to paragraphs 39B and 39C of IPSAS 31, <i>Intangible Assets</i> . These paragraphs concern intangible assets acquired in an acquisition and will be developed as amendments to other IPSASs.
Forgiveness of amounts of tax due in an acquisition	AG28–AG30	N/A	This guidance is specific to the public sector. The IPSASB agreed that the ED should include provisions for tax forgiveness at its March 2015 meeting.
Measuring the fair value of particular identifiable assets and a non-controlling interest in an acquired operation in an acquisition	AG31–AG34	B41–B45	IFRS 3 refers to “a loss allowance for expected credit losses”; these words were added by IFRS 9, <i>Financial Instruments</i> and have been omitted from paragraph AG31 as IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i> does not refer to expected credit losses. This may need to be reviewed as part of the IPSASB’s financial instruments project. IFRS 3 includes guidance on transactions where an entity acquires assets (for example, research and development intangible assets) to prevent others from using it. This guidance has been omitted as staff considers this is unlikely to be relevant to the public sector.
Measuring goodwill or a gain from a bargain	AG35–AG36	B46–B49	Paragraph AG35 contains public sector specific guidance that goodwill must relate only to cash

Issue	Paragraphs in draft ED	Paragraphs in IFRS 3	Notes
purchase in an acquisition			flows and not to other forms of service potential. The guidance in IFRS 3 regarding combinations of mutual entities has been omitted as staff considers will not arise in the public sector.
Determining what is part of the acquisition transaction	AG37–AG45	B50–B62B	IFRS 3 includes guidance on share-based payments that is dependent on IFRS 2, <i>Share-based Payment</i> . This has been replaced (in paragraphs AG43–AG45) by less specific guidance that refers preparers to the relevant international or national standard dealing with share-based payments.
Other IPSASs that provide guidance on subsequent measurement and accounting	AG46	B63	Unlike IFRS 3, paragraph AG46 does not refer to standards dealing with insurance contracts, deferred tax assets and share based payments as there is no IPSAS on these topics. Paragraph AG46 refers to IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i> and IPSAS 26, <i>Impairment of Cash-Generating Assets</i> as providing guidance on the impairment of goodwill. Staff notes that this guidance, which is expected to be significant, will need to be developed as amendments to other IPSASs.
Disclosures relating to acquisitions	AG47–AG50	B64–B67	Some guidance may only be relevant to public sector commercial entities (e.g., AG47(f)(iv) dealing with equity interests of the acquirer, and AG47(k) dealing with goodwill that is expected to be deductible for tax purposes). The IPSASB may decide to delete this guidance. Paragraph AG50(f) includes public sector specific guidance on the disclosures required where tax is forgiven.

Matter(s) for Consideration

9. The IPSASB is asked **to indicate**:
- (a) Whether any of the Application Guidance on accounting for acquisitions at paragraphs AG10–AG50 of the draft ED should be removed;
 - (b) Whether any of the Application Guidance on accounting for acquisitions at paragraphs AG10–AG50 of the draft ED should be relocated to the core standard; and
 - (c) Whether any additional Application Guidance on accounting for acquisitions is required.

Illustrative Examples

Issue	Paragraphs in draft ED	Paragraphs in IFRS 3	Notes
Reverse acquisitions	N/A	IE1–IE15	These examples have been omitted as staff considers they are not relevant to the public sector.
Identifiable intangible assets in an acquisition	IE3–IE31	IE16–IE44	The examples illustrate the types of intangible assets that may need to be recognized as a result of an acquisition. The IPSASB may consider that some of these assets are unlikely to arise in the public sector, and that the examples could be deleted. IPSAS 31 refers to “users of a service” rather than “customers”. The ED generally uses this term, but has retained the term “customers” where intangible assets arise from the ability to charge customers for goods or services in the future. These examples may have limited relevance to the public sector.
Measurement of non-controlling interest (NCI) in an acquisition	IE32–IE41	IE44A–IE44J	Staff has retained these examples as they may be relevant to nationalizations and bailouts. In describing share options, IFRS 3 uses the term “market-based measure”, which is derived from IFRS 2. The ED replaces that term with “fair value”; the IPSASB agreed to use fair value as the measurement basis in the acquisition method at its December 2014 meeting.
Forgiveness of amounts of tax due in an acquisition	IE42–IE47	N/A	The example is specific to the public sector. The IPSASB agreed that the ED should include provisions for tax forgiveness at its March 2015 meeting.

Issue	Paragraphs in draft ED	Paragraphs in IFRS 3	Notes
Gain on a bargain purchase in an acquisition	IE48–IE52	IE45–IE49	Staff considers the example is relevant to the public sector.
Measurement period in an acquisition	IE53–IE56	IE50–IE53	Staff considers the example is relevant to the public sector.
Determining what is part of the acquisition transaction	IE57–IE63	IE54–IE71	Staff has included guidance on the settlement of a pre-existing relationship and contingent payments to employees. Guidance on replacement awards has been omitted, as this guidance deals with share-based payments for which there is no IPSAS.
Disclosure requirements relating to acquisitions	IE64	IE72	Staff has amended the example in IFRS 3 as follows: The scenario has been changed to provide a public sector example; Additional acquisition criteria have been reflected; The issuance of equity instruments has been deleted; The acquisition takes place at a point in time, not in stages; The acquired entity made a listed company to avoid the need for valuation disclosures based on IFRS 13, <i>Fair Value Measurement</i> .

Matter(s) for Consideration

10. The IPSASB is asked **to indicate**:
- (a) Whether any of the Illustrative Examples on accounting for acquisitions at paragraphs IE3–IE64 of the draft ED should be removed; and
 - (b) Whether any additional Illustrative Examples on accounting for acquisitions are required.

Accounting for Amalgamations

54. Neither IFRS 3 nor its predecessor, IAS 22 included detailed guidance on accounting for amalgamations. In developing the Application Guidance and Illustrative Examples in this ED, staff has considered what guidance provided on accounting for acquisitions would also, suitably

modified, be relevant to accounting for amalgamations. Staff has also included Illustrative Examples that are specific to accounting for amalgamations.

Application Guidance

Issue	Paragraphs in draft ED	Notes
Forgiveness of amounts of tax due in an amalgamation	AG51–AG52	The IPSASB agreed that the ED should include provisions for tax forgiveness at its March 2015 meeting.
Disclosures relating to amalgamations	AG53–AG54	<p>The ED includes the disclosure requirements that staff consider relevant for amalgamations. Two disclosure requirements have been included as a result of the IPSASB’s discussions at its March 2015 meeting:</p> <p>Paragraph AG53(g) includes guidance on the disclosures required where the last reporting date of the combining operations does not immediately precede the amalgamation date.</p> <p>Paragraph AG54(b) includes guidance on the disclosures required where tax is forgiven.</p>

Matter(s) for Consideration

11. The IPSASB is asked **to indicate**:
- (a) Whether any of the Application Guidance on accounting for amalgamations at paragraphs AG51–AG54 of the draft ED should be removed;
 - (b) Whether any of the Application Guidance on accounting for amalgamations at paragraphs AG51–AG54 of the draft ED should be relocated to the core standard; and
 - (c) Whether any additional Application Guidance on accounting for amalgamations is required.

Illustrative Examples

Issue	Paragraphs in draft ED	Notes
Adjusting the carrying amounts of the identifiable assets and liabilities of the combining entities to conform to the resulting entity's accounting policies in an amalgamation	IE65–IE71	This issue is specific to accounting for amalgamations, and staff considers that an example will assist preparers.
Forgiveness of amounts of tax due	IE72–IE76	The IPSASB agreed that the ED should include provisions for tax forgiveness at its

Issue	Paragraphs in draft ED	Notes
in an amalgamation		March 2015 meeting.
Recognizing and measuring a residual amount arising as a result of an amalgamation	IE77–IE84	This issue is specific to accounting for amalgamations, and staff considers that an example will assist preparers. Paragraph IE84 addresses the accounting by entities that are not part of the combination; guidance on transferor accounting was requested by some respondents. The IPSASB will need to decide whether it wishes to include such guidance.
Measurement period in an amalgamation	IE85–IE88	Staff considers that it is appropriate to provide an example illustrating the accounting for the measurement period for amalgamations as well as acquisitions.
Disclosure requirements relating to amalgamations	IE89	The example illustrates some of the requirements of AG53–54.

Matter(s) for Consideration

12. The IPSASB is asked **to indicate**:
- (a) Whether any of the Illustrative Examples on accounting for amalgamations at paragraphs IE65–IE89 of the draft ED should be removed; and
 - (b) Whether any additional Illustrative Examples on accounting for amalgamations are required.

Effective date and transition

55. The ED proposes that the standard would be applied prospectively from a date to be determined.
56. The ED includes a transitional requirement that assets and liabilities arising from combinations preceding the application of the standard are not adjusted. IFRS 3 includes additional transitional arrangements relating to contingent consideration. These arrangements have been omitted from the ED as staff does not consider they are likely to affect public sector entities. These arrangements could be included if the IPSASB considers them to be relevant.

Matter(s) for Consideration

13. The IPSASB is asked **to indicate** whether any additional transitional arrangements should be included in the ED.

Appendix A

Application of the rebuttable presumption approach and the individual weighting approach to the scenarios discussed in the June 2015 meeting

This appendix illustrates the process of classifying combinations in these scenarios under both the rebuttable presumption approach and the individual weighting approach by considering the scenarios discussed in the June 2015 meeting. This appendix only considers the initial indicators of consideration (see paragraphs 12 and 15), not the revised indicators following the more detailed analysis.

(a) – Combinations at market value

Description and examples of combination

Combinations at market value occur when an entity gains control of an operation or entity, and in exchange transfers consideration approximately equal to the market value of the net assets acquired to the previous owners. This type of combination occurs frequently in the private sector, and is described in IFRS 3 as an acquisition.

Such acquisitions are exchange transactions, and often carried out by mutual agreement.

Rebuttable presumption approach

Ref.	Indicator that presumption should be rebutted	Met?
A5	The absence of consideration in a combination	Not met
A6	Consideration that does not reflect the best price available to the seller	Not met
A7	The combination is imposed by a third party	Not met
A8	The combination is subject to approval by citizens through referenda	Not met
A9	The combination takes place between two parties that are under common control	Not met

There are no indicators that the presumption (that a combination in which one party gains control of operations is an acquisition) should be rebutted. The combination will be classified as an acquisition. This is consistent with the IPSASB's views at the June 2015 meeting.

Individual weighting approach

Ref.	Indicator	Acquisition	Amalgamation
B5	Gaining of control by one party to the combination	Met	
B6	Consideration that reflects the best price available to the seller	Met	
B7	Absence of consideration in a combination		Not Met
B8	Consideration does not reflect best price available to the seller		Not Met
B9	Party gaining control can impose its will on other parties	Sometimes	
B10	Combination is imposed by a third party		Not met

Ref.	Indicator	Acquisition	Amalgamation
B12	Combination is subject to approval through referenda		Not met
B13	Combination takes place under common control		Not met

All the indicators that are met point to the combination being an acquisition. The combination would be classified as an acquisition. This is consistent with the IPSASB's views at the June 2015 meeting.

(b) – Bargain Purchases

Description and examples of combination

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. This type of combination also occurs in the private sector, and is addressed in IFRS 3.

Bargain purchases usually occur when the seller needs cash immediately and there is only one buyer willing to pay cash for those operations.

Rebuttable presumption approach

Ref.	Indicator that presumption should be rebutted	Met?
A5	The absence of consideration in a combination	Not met
A6	Consideration that does not reflect the best price available to the seller	Sometimes
A7	The combination is imposed by a third party	Not met
A8	The combination is subject to approval by citizens through referenda	Not met
A9	The combination takes place between two parties that are under common control	Not met

There is only one indicator that might suggest that the presumption (that a combination in which one party gains control of operations is an acquisition) should be rebutted. This indicator will not be met in all cases, but only those where the seller accepts a lower price than it could achieve given its specific circumstances.

It is likely that the combination will be classified as an acquisition. This is consistent with the IPSASB's views at the June 2015 meeting with respect to combinations involving private for-profit entities. Some members suggested that it might be appropriate to classify a bargain purchase involving a private not-for-profit entity as an amalgamation. Staff notes that the assessment of the indicators remains the same whatever the nature of the other party.

Individual weighting approach

Ref.	Indicator	Acquisition	Amalgamation
B5	Gaining of control by one party to the combination	Met	
B6	Consideration that reflects the best price available to the seller	Sometimes	
B7	Absence of consideration in a combination		Not Met

Ref.	Indicator	Acquisition	Amalgamation
B8	Consideration does not reflect best price available to the seller		Sometimes
B9	Party gaining control can impose its will on other parties	Not Met	
B10	Combination is imposed by a third party		Not met
B12	Combination is subject to approval through referenda		Not met
B13	Combination takes place under common control		Not met

In a bargain purchase, the price paid may or may not reflect the best price available to the seller in their particular circumstances (which may, for example, require a forced sale due to economic compulsion).

Where the price paid reflects the best price available to the seller, all the indicators that are met point to the combination being an acquisition. The combination would be classified as an acquisition. This is consistent with the IPSASB's views at the June 2015 meeting with respect to combinations involving private for-profit entities. Some members suggested that it might be appropriate to classify a bargain purchase involving a private not-for-profit entity as an amalgamation. Staff notes that the assessment of the indicators remains the same whatever the nature of the other party.

Where the price paid does not reflect the best price available to the seller, this might point to an amalgamation; however the fact that one party gained control of operations points to an acquisition. The entity would need to assess which of the two indicators has the most significant impact on the economic substance of the combination. Staff considers that this would usually be the control indicator, and that the combination would be classified as an acquisition. This is consistent with the IPSASB's views at the June 2015 meeting with respect to combinations involving private for-profit entities. As noted above, some members suggested that it might be appropriate to classify a bargain purchase involving a private not-for-profit entity as an amalgamation. Staff notes that the assessment of the indicators remains the same whatever the nature of the other party.

(c) – Donated Operations

Description and examples of combination

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.

The transfer of a donated operation is made by mutual agreement (as the public sector entity could refuse to accept the donation) in a non-exchange transaction.

The receipt of donated operations is more likely to occur in the public sector than the private business sector, as entities' objectives are to deliver services rather than to generate profit. An individual or not-for-profit organization may be willing to surrender their rights over an operation if this will enable their objectives to be better met, despite the economic losses they would incur.

Rebuttable presumption approach

Ref.	Indicator that presumption should be rebutted	Met?
A5	The absence of consideration in a combination	Met
A6	Consideration that does not reflect the best price available to the seller	Not met
A7	The combination is imposed by a third party	Not met
A8	The combination is subject to approval by citizens through referenda	Not met
A9	The combination takes place between two parties that are under common control	Not met

There is one indicator that the presumption (that a combination in which one party gains control of operations is an acquisition) should be rebutted. This is that the combination takes place without consideration.

As acquisitions can occur without consideration, it is likely that the combination will be classified as an acquisition. This is consistent with the IPSASB's views at the June 2015 meeting with respect to combinations involving private for-profit entities. Some members suggested that it might be appropriate to classify a donated operation involving a private not-for-profit entity as an amalgamation. Staff notes that the assessment of the indicators remains the same whatever the nature of the other party, and has not identified any reason why the absence of consideration would rebut the presumption of an acquisition where the combination involves a private not-for-profit entity, but would not rebut the presumption where the combination involves a private for-profit entity.

Individual weighting approach

Ref.	Indicator	Acquisition	Amalgamation
B5	Gaining of control by one party to the combination	Met	
B6	Consideration that reflects the best price available to the seller	Not Met	
B7	Absence of consideration in a combination		Met
B8	Consideration does not reflect best price available to the seller		Not Met
B9	Party gaining control can impose its will on other parties	Not Met	
B10	Combination is imposed by a third party		Not met
B12	Combination is subject to approval through referenda		Not met
B13	Combination takes place under common control		Not met

With a donated operation, the absence of consideration might point to an amalgamation; however the fact that one party gained control of operations points to an acquisition. The entity would need to assess which of the two indicators has the most significant impact on the economic substance of the combination. Staff considers that this would usually be the control indicator, and that the combination would be classified as an acquisition. This is consistent with the IPSASB's views at the June 2015 meeting with respect to combinations involving private for-profit entities. As noted above, some members suggested that it might be appropriate to classify a donated operation involving a private not-for-profit

entity as an amalgamation. Staff notes that the assessment of the indicators remains the same whatever the nature of the other party and has not identified any reason why the absence of consideration should be weighted more highly where the combination involves a private not-for-profit entity than where the combination involves a private for-profit entity.

(d) – Nationalizations

Description and examples of combination

Nationalizations occur when governments take private sector operations or entities into public legal ownership or public control.

Nationalizations can occur through different ways:

- (a) Purchase of operations or entities. The government buys operations or entities, either at market price or at a price very close to market price. Normally the purchase is made by mutual agreement, but this might not always be case.
- (b) Uncompensated seizures. The government takes legal ownership of the operations or entities in a compulsory transaction. The transaction is not made by mutual agreement. There is no payment to the former owners of the operations or entities, or the compensation transferred is significantly below the fair value of the operations or entities. This is an exclusive right of governments due to their sovereign powers. For example, in Portugal, after the April 25th 1974 Revolution, the government nationalized, through legislation, hundreds of private corporations without paying any compensation to their former owners.
- (c) Bailouts. This term relates to the rescue of entities in financial distress by a public sector entity. The distinctive feature of a bailout is that a government entity, in gaining control of the entity that is being bailed out, assumes net liabilities. Bailouts can occur in different ways.

Rebuttable presumption approach

Ref.	Indicator that presumption should be rebutted	Met?
A5	The absence of consideration in a combination	Sometimes
A6	Consideration that does not reflect the best price available to the seller	Sometimes
A7	The combination is imposed by a third party	Not met
A8	The combination is subject to approval by citizens through referenda	Not met
A9	The combination takes place between two parties that are under common control	Not met

The consideration indicators may suggest that the presumption (that a combination in which one party gains control of operations is an acquisition) should be rebutted. However, given that the public sector entity is acting voluntarily and may be exercising legislative powers to give effect to the combination, staff does not consider that the presumption would be rebutted. The combination will be classified as an acquisition. This is consistent with the IPSASB's views at the June 2015 meeting.

Individual weighting approach

Ref.	Indicator	Acquisition	Amalgamation
B5	Gaining of control by one party to the combination	Met	
B6	Consideration that reflects the best price available to the seller	Sometimes	
B7	Absence of consideration in a combination		Sometimes
B8	Consideration does not reflect best price available to the seller		Sometimes
B9	Party gaining control can impose its will on other parties	Sometimes	
B10	Combination is imposed by a third party		Not met
B12	Combination is subject to approval through referenda		Not met
B13	Combination takes place under common control		Not met

The control indicator will always point to the combination being an acquisition. Depending on the type of nationalization being assessed, the consideration indicators may point to the combination being an acquisition or an amalgamation. In some nationalizations, the public sector will use legislative powers to impose its will on the other party, which would point to an acquisition. Staff considers that in the case of nationalizations, the gaining of control and any use of compulsion by the public sector entity would be the indicators that have the most significant impact on the economic substance of the combination. The combination would therefore be classified as an acquisition. This is consistent with the IPSASB's views at the June 2015 meeting.

(e) – Combinations of operations wholly within the public sector but not under common control

Description and examples of combination

Combinations of operations wholly within the public sector but not under common control occur under a wide variety of different circumstances. As a general rule, consideration is not transferred in these types of combination, although there may be exceptions. Common circumstances include:

- (i) The 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.

These are discussed individually in the paragraphs below.

(e)(i) – The transfer of operations from one level of government to another existing level of government

Where operations are transferred from one level of government to another existing level of government, the entities and their governing bodies will remain otherwise unchanged. For example, a national government may decide to centralize a service previously provided by regional government, and then arrange the transfer of the operations from the regional government bodies to an existing government department. Similarly, a national government may decide to devolve responsibility for a service to regional

government, and then arrange the transfer of operations from a government department to the existing regional government bodies.

Transfers of operations between different levels of government may be voluntary, or may be imposed by a higher level of government (whether that higher level of government is a party to the combination or not). In some cases, consideration may be paid, but in many cases there will be no transfer of consideration.

Rebuttable presumption approach

Ref.	Indicator that presumption should be rebutted	Met?
A5	The absence of consideration in a combination	Sometimes
A6	Consideration that does not reflect the best price available to the seller	Sometimes
A7	The combination is imposed by a third party	Sometimes
A8	The combination is subject to approval by citizens through referenda	Not met
A9	The combination takes place between two parties that are under common control	Not met

The consideration indicators may suggest that the presumption (that a combination in which one party gains control of operations is an acquisition) should be rebutted. Where the combination is imposed by a third party, rather than being voluntary, this might also suggest the presumption should be rebutted.

Staff has identified three circumstances in which a combination may be imposed:

- (i) Operations are transferred from a lower level of government to a higher level of government, with that higher level of government imposing the change. Staff considers this analogous to a nationalization, and because the entity gaining control of the operations is able to impose its will on the other party, does not provide evidence to rebut the presumption.
- (ii) A higher level of government requires a lower level of government to accept operations and to provide the services associated with those operations. If the lower level of government, which would gain control of the operations, is an unwilling participant to the combination, this might provide evidence that the presumption should be rebutted.
- (iii) Operations may be transferred between two levels of government (for example, a municipality and a state government) with the transfer being imposed by a higher level of government (for example, a national government). If the two levels of government affected by the transfer are unwilling participants to the combination, this might provide evidence that the presumption should be rebutted.

Staff considers that many transfers of operations between different levels of government will take place voluntarily, and that in such circumstances, the consideration indicators on their own are unlikely to provide sufficient evidence to rebut the presumption. The combinations would be classified as acquisitions.

Where the transfer is imposed by a third party, there may in some circumstances be sufficient evidence to rebut the presumption. In such cases, the combination would be classified as an amalgamation.

Staff notes that this conclusion is inconsistent with the view expressed by some members at the June 2015 meeting that such combinations would always be acquisitions.

Individual weighting approach

Ref.	Indicator	Acquisition	Amalgamation
B5	Gaining of control by one party to the combination	Met	
B6	Consideration that reflects the best price available to the seller	Sometimes	
B7	Absence of consideration in a combination		Sometimes
B8	Consideration does not reflect best price available to the seller		Sometimes
B9	Party gaining control can impose its will on other parties	Sometimes	
B10	Combination is imposed by a third party		Sometimes
B12	Combination is subject to approval through referenda		Not met
B13	Combination takes place under common control		Not met

The control indicator will always point to the combination being an acquisition. Depending on the type of combination, the consideration indicators may point to the combination being an amalgamation. As noted above under the rebuttable presumption discussion, the transfer could be imposed in a number of ways. If the entity gaining control of the operations is able to impose the transfer on the other level of government, this would point to an acquisition. If the entity gaining control of the operations has the combination imposed on it, either by the other party to the combination or by a third party, this might point to the combination being an amalgamation.

The entity would need to assess which of the indicators has the most significant impact on the economic substance of the combination. The classification of the combination would depend on the entity's assessment as to the most significant indicators.

Staff notes that this conclusion is inconsistent with the view expressed by some members at the June 2015 meeting that such combinations would always be acquisitions.

(e)(ii) – Territorial boundaries being rearranged to create three municipalities out of two original municipalities

Where territorial boundaries are changed to create three municipalities out of two original municipalities, this usually involves operations in relation to a particular geographical area being transferred from the original municipalities to the new municipality. The original municipalities and their governing bodies may remain otherwise unchanged, although this is not always the case. When the new municipality is created, this may include the creation of a new governing body (unrelated to the governing bodies of the original municipalities) to manage the operations that will be received from the original municipalities usually after elections takes place.

When territorial boundaries are rearranged in this manner, there will usually be no transfer of consideration. Discussions will focus on the operations and its related assets and liabilities to be transferred to the new municipality.

Territorial boundaries may be rearranged voluntarily (even if legislation is subsequently required to give effect to that decision) or imposed by a higher level of government even if that higher level of government does not, in accounting terms, control the municipalities.

In such combinations, neither party to the combination gains control of the operations. The combination will, therefore, automatically be classified as an amalgamation without the need to refer to either the rebuttable presumption approach or the independent weighting approach. This is consistent with the IPSASB's view at the June 2015 meeting.

(e)(iii) – Two municipalities combining to form a single municipality

There are various circumstances under which two municipalities or regions might combine.

Often, legislation establishing the new, combined municipality will specify the arrangements for the municipality's governing body and management. In some cases a new governing body will be formed, with no links to the governing bodies of the previous municipalities (which will be extinguished by the legislation).

In other cases, legislation will give the responsibility for governing the new, combined entity to the governing body of one of the combining municipalities.

Combinations of municipalities may be voluntary (even if in some cases subsequent legislation is required to give effect to the decision of the municipalities to combine). In other cases, the combination may be imposed by a higher level of government, even if that higher level of government does not, in accounting terms, control the municipalities.

Where a new governing body is formed with no links to the governing bodies of the previous municipalities, neither party to the combination gains control of the operations. The combination will, therefore, automatically be classified as an amalgamation without the need to refer to either the rebuttable presumption approach or the independent weighting approach. This is consistent with the IPSASB's view at the June 2015 meeting.

Where legislation gives for governing the new, combined entity to the governing body of one of the combining municipalities, one party to the combination would gain control of the operations and the further test is required.

Rebuttable presumption approach

Ref.	Indicator that presumption should be rebutted	Met?
A5	The absence of consideration in a combination	Met
A6	Consideration that does not reflect the best price available to the seller	Not met
A7	The combination is imposed by a third party	Sometimes
A8	The combination is subject to approval by citizens through referenda	Sometimes
A9	The combination takes place between two parties that are under common control	Not met

The consideration indicators may suggest that the presumption (that a combination in which one party gains control of operations is an acquisition) should be rebutted. Where the combination is imposed by a third party, rather than being voluntary, this might also suggest the presumption should be rebutted. Similarly, if the combination is subject to approval by citizens through referenda this may suggest that the presumption should be rebutted as the entity gaining control of the operations is not making the final decision as to whether the combination proceeds.

Staff considers that in a voluntary combination (not subject to referenda), the absence of consideration on its own is unlikely to be sufficient to rebut the presumption. The combination would be classified as an acquisition.

Where the combination is either imposed or subject to referenda, there may be sufficient evidence to rebut the presumption. Where the presumption is rebutted, the combination would be classified as an amalgamation.

Staff notes that at its June 2015 meeting, the IPSASB considered all cases of two municipalities combining to be amalgamations.

Individual weighting approach

Ref.	Indicator	Acquisition	Amalgamation
B5	Gaining of control by one party to the combination	Met	
B6	Consideration that reflects the best price available to the seller	Not met	
B7	Absence of consideration in a combination		Met
B8	Consideration does not reflect best price available to the seller		Not met
B9	Party gaining control can impose its will on other parties	Not met	
B10	Combination is imposed by a third party		Sometimes
B12	Combination is subject to approval through referenda		Sometimes
B13	Combination takes place under common control		Not met

The control indicator will always point to the combination being an acquisition. The consideration indicators will always point to the combination being an amalgamation. Where the combination is imposed by a third party, or is subject to approval by citizens through referenda, the decision-making indicators will point to an amalgamation.

The entity would need to assess which of the indicators has the most significant impact on the economic substance of the combination. The classification of the combination would depend on the entity's assessment as to the most significant indicators.

Staff notes that at its June 2015 meeting, the IPSASB considered all cases of two municipalities combining to be amalgamations.

(f) – Public sector combinations under common control

Description and examples of combination

The CP defined a public sector combination under common control as “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.”

Public sector combinations under common control include:

- (i) The transfer of operations between controlled entities;

- (ii) The transfer of operations from controlled entities to a newly formed controlled entity; and
- (iii) A combination of controlled entities.

Combinations under common control occur frequently in the public sector, for example when government ministries or departments are reorganized.

Rebuttable presumption approach

Ref.	Indicator that presumption should be rebutted	Met?
A5	The absence of consideration in a combination	Usually met
A6	Consideration that does not reflect the best price available to the seller	Not met
A7	The combination is imposed by a third party	Not met
A8	The combination is subject to approval by citizens through referenda	Not met
A9	The combination takes place between two parties that are under common control	Met

The consideration indicators will usually suggest that the presumption (that a combination in which one party gains control of operations is an acquisition) should be rebutted. The decision-making indicators will also suggest that the presumption should be rebutted as the controlling entity will have the power to intervene in the combination should it so choose.

Staff considers that in a combination under common control, the presumption would be rebutted and the combination would be classified as an amalgamation. This is consistent with the IPSASB's view in the June 2015 meeting.

Individual weighting approach

Ref.	Indicator	Acquisition	Amalgamation
B5	Gaining of control by one party to the combination	Met	
B6	Consideration that reflects the best price available to the seller	Not met	
B7	Absence of consideration in a combination		Met
B8	Consideration does not reflect best price available to the seller		Not met
B9	Party gaining control can impose its will on other parties	Not met	
B10	Combination is imposed by a third party		Sometimes
B12	Combination is subject to approval through referenda		Sometimes
B13	Combination takes place under common control		Met

The control indicator will always point to the combination being an acquisition. The consideration indicators will always point to the combination being an amalgamation. The decision-making indicators will also always point to an amalgamation.

The entity would need to assess which of the indicators has the most significant impact on the economic substance of the combination. The classification of the combination would depend on the entity's

assessment as to the most significant indicators. However, staff considers it likely that the indicator with the most significant impact on the economic substance of the combination would be the fact that the entity is under common control. In such cases, the combination would be classified as an amalgamation, which is consistent with the IPSASB's view at the June 2015 meeting.

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 or an 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 an amalgamation.
 - (e) A resulting entity recognizes and measures gains, losses and other adjustments recognized in an 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.**

Definitions

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

An acquired operation is the operation that the acquirer gains control of in an acquisition.

An acquirer is the entity that exchanges value to gain control of one or more operations in 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 resulting entity is the entity that is the result of two or more operations combining in an amalgamation.

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

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

6. [Description of acquisition to follow (here or under classification section)]
7. [Description of amalgamation to follow (here or under classification section)]

Identifying a public sector combination

8. **An 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 entity shall account for the transaction or other event in accordance with other IPSASs. Paragraphs AG1–AG8 provide guidance on identifying a public sector combination.**

Classification of public sector combinations

9. [To follow]

Accounting for acquisitions

10. An acquirer shall account for each acquisition by applying the acquisition method.

The acquisition method

11. 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

12. **For each acquisition, one of the combining entities shall be identified as the acquirer.**
13. 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 AG10–AG14 shall be considered in making that determination.

Determining the acquisition date

14. **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquired operation.**
15. 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

16. **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 17 and 18.**

Recognition conditions

17. 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.
18. 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 62–64 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.

19. 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.
20. Paragraphs AG15–AG27 provide guidance on recognizing operating leases and intangible assets. Paragraphs 28–34 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

21. **At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other IPSASs subsequently. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement (including contractual terms), economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.**
22. 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).
23. This [draft] IPSAS provides two exceptions to the principle in paragraph 21:
 - (a) Classification of a lease arrangement as either an operating lease or a finance lease in accordance with IPSAS 13, *Leases*; and
 - (b) Classification of a contract as an insurance contract in accordance with the relevant international or national accounting standard dealing with insurance contracts.

The acquirer shall classify those binding arrangements on the basis of the terms and other factors at the inception of the binding arrangement (or, if the terms of the binding arrangement 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

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

25. 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.
26. Paragraphs 30–36 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

27. This [draft] IPSAS provides limited exceptions to its recognition and measurement principles. Paragraphs 28–36 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 28–36, which will result in some items being:
- (a) Recognized either by applying recognition conditions in addition to those in paragraphs 17–18 or by applying the requirements of other IPSASs, with results that differ from applying the recognition principle and conditions.
 - (b) Measured at an amount other than their acquisition-date fair values.

Exception to the recognition principle

Contingent liabilities

28. 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.
29. 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 where consideration is transferred 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 67 provides guidance on the subsequent accounting for contingent liabilities.

Exceptions to both the recognition and measurement principles

Income taxes

30. Acquisitions by a public sector entity may result in a tax authority forgiving amounts of tax due. The acquirer shall not account for any taxation items that are forgiven as a result of the acquisition (paragraphs AG28–AG30 provides related application guidance).
31. The acquirer shall account for any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes.

Employee benefits

32. 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

33. 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 AG31 provides related application guidance).
34. 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 68 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the measurement principle

Reacquired rights

35. The acquirer shall measure the value of a reacquired right recognized as an intangible asset on the basis of the remaining term of the related binding arrangement regardless of whether market

participants would consider potential renewals of binding arrangements when measuring its fair value. Paragraphs AG22–AG23 provide related application guidance.

Share-based payment transactions

36. 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 accounting standard dealing with share-based payments.

Recognizing and measuring goodwill or a gain from a bargain purchase

37. **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 38–39:**

(a) The aggregate of:

- (i) The consideration transferred measured in accordance with this [draft] IPSAS, which generally requires acquisition-date fair value (see paragraph 44);**
- (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 52–53), 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.

38. **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); and/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 37 above as a loss in the surplus or deficit. Paragraph AG35 provides related application guidance.

39. **The acquirer shall not recognize goodwill where no consideration was transferred. The acquirer shall treat an excess of (a) over (b) in paragraph 37 above as a loss in surplus or deficit. An excess of (b) over (a) in paragraph 37 shall be treated as a bargain purchase in accordance with paragraphs 41–43 below.**

40. 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 37(a)(i)). Paragraph AG36 provide related application guidance.

Bargain purchases

41. Occasionally in a combination classified as an acquisition, an acquirer will make a bargain purchase, which is an acquisition in which the amount in paragraph 37(b) exceeds the aggregate of the amounts specified in paragraph 37(a). If that excess remains after applying the requirements in paragraph 43, the acquirer shall recognize the resulting gain in surplus or deficit on the acquisition date. The gain shall be attributed to the acquirer.
42. A bargain purchase might happen, for example, in an acquisition that is a forced sale in which the seller is acting under economic compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 28–36 may also result in recognizing a gain (or change the amount of a recognized gain) on a bargain purchase.
43. 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

44. 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 36 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.
45. 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

46. The consideration the acquirer transfers in exchange for the acquired operation includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 44). The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquired operation.
47. 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 69 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

48. In the public sector, an entity sometimes obtains control of an 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 entity by a donor for no consideration. Such transfers may take the form of a bequest.

And

- (c) The transfer of an operation to the entity where the operation has net liabilities. The entity may accept the transfer of net liabilities to prevent the cessation of the operation. Such transactions are sometimes known as “bailouts”.
49. Where an assessment of the factors in paragraphs [to follow] indicates that the transaction is an acquisition, 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 39.

A non-exchange acquisition with the transfer of consideration

50. In the public sector, an entity sometimes obtains control of an 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.
51. Where an assessment of the factors in paragraphs [to follow] indicates that the transaction is an acquisition, such non-exchange acquisitions are treated as bargain purchases and accounted for in accordance with paragraphs 41–43.

An acquisition achieved in stages

52. 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.
53. 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

54. 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.
55. 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

56. **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.

57. 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.
58. 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.
59. 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.
60. 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.
61. 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

62. **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.**
63. 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 AG38–AG45 provide related application guidance.

Acquisition-related costs

64. 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

65. 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 AG46 provides related application guidance.

Reacquired rights

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

Contingent liabilities

67. 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

68. 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

69. 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 56–60. 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

70. **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.**
71. To meet the objective in paragraph 70, the acquirer shall disclose the information specified in paragraphs AG47–AG49.
72. **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.**
73. To meet the objective in paragraph 72, the acquirer shall disclose the information specified in paragraph AG50.
74. If the specific disclosures required by this and other IPSASs do not meet the objectives set out in paragraphs 70 and 72, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

Accounting for amalgamations

75. **A resulting entity shall account for each amalgamation by applying the modified pooling of interests method.**

The modified pooling of interests method

76. Applying the modified pooling of interests method requires:
- (a) Identifying the resulting entity;
 - (b) Determining the 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 an amalgamation.

Identifying the resulting entity

77. **For each amalgamation, a resulting entity shall be identified.**
78. Paragraph 5 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 amalgamation.

Determining the amalgamation date

79. **The resulting entity shall identify the amalgamation date, which is the date on which it obtains control of the assets and liabilities of the combining operations.**
80. 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. 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 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 amalgamation date.

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

Recognition principle

81. **As of the 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 82–84.**

Recognition conditions

82. **The resulting entity shall not recognize goodwill as a result of the amalgamation. Any residual amount arising as a result of the amalgamation is recognized in accordance with paragraphs 95–96.**
83. **The effects of all transactions between the combining operations, whether occurring before or after the amalgamation date, are eliminated in preparing the financial statements of the resulting entity.**
84. 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 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 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.

Classifying or designating assets and liabilities in an amalgamation

85. **At the amalgamation date, the resulting entity shall classify or designate the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining operations.**

Measurement principle

86. **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 amalgamation date, subject to the requirements of paragraph 87.**
87. **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.**
88. 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.
89. Paragraphs 91–93 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 both the recognition and measurement principles

90. This [draft] IPSAS provides limited exceptions to its recognition and measurement principles. Paragraphs 91–93 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 91–93, which will result in some items being:
- (a) Recognized either by applying recognition conditions in addition to those in paragraphs 82–84 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 amalgamation date carrying amounts.

Income taxes

91. Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax due. The resulting entity shall not account for any taxation items that are forgiven as a result of the acquisition (paragraphs AG51–AG52 provides related application guidance).
92. The resulting entity shall account for any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes.

Employee benefits

93. 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.

Recognizing and measuring a residual amount arising as a result of an amalgamation

94. To comply with paragraph 87, a resulting entity adjusts the carrying amounts of the identifiable assets and liabilities of the combining entities where required to conform to the resulting entity's accounting policies. The resulting entity shall make corresponding adjustments directly to net assets/equity.
95. Where an amalgamation involves one or more combining operations that are not entities, the carrying amount of the combining operations' assets less the carrying amount of their liabilities may be greater or smaller than the carrying amount of the combining operations' net assets/equity. In such circumstances, the resulting entity shall recognize as a residual amount the aggregate of:
- (a) The carrying amounts of the combining operations' assets, after taking account of any adjustment to the carrying amounts required in accordance with paragraph 87;
 - (b) The carrying amounts of the combining operations' liabilities, after taking account of any adjustment to the carrying amounts required in accordance with paragraph 87; and
 - (c) The carrying amounts of the combining operations' net assets/equity, after taking account of any adjustment to the carrying amounts required in accordance with paragraph 87.
96. The residual amount recognized in accordance with paragraph 95 shall be recognized:
- (a) In the case of an amalgamation under common control, as an ownership contribution or ownership distribution.
 - (b) In the case of an amalgamation not under common control, directly in net assets/equity.

Measurement period

97. If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the 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 amalgamation date to reflect new information obtained about facts and circumstances that existed as of the 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 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 amalgamation date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the amalgamation date.
98. The measurement period is the period after the amalgamation date during which the resulting entity may adjust the provisional amounts recognized for an 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 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 amalgamation date. However, this may not be the case where combining entities have previously prepared their financial statements using different accounting policies.

99. The resulting entity recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by adjusting the residual amount recognized in accordance with paragraphs 95–96. 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.
100. During the measurement period, the resulting entity shall recognize adjustments to the provisional amounts as if the accounting for the amalgamation had been completed at the 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.
101. After the measurement period ends, the resulting entity shall revise the accounting for an amalgamation only to correct an error in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Amalgamation-related costs

102. Amalgamation-related costs are costs the resulting entity or combining entities incur to effect an 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 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

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

Disclosures

104. **The resulting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation**
105. To meet the objective in paragraph 104, the resulting entity shall disclose the information specified in paragraph AG53.

106. **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 amalgamations that occurred in the period or previous reporting periods.**
107. To meet the objective in paragraph 106, the resulting entity shall disclose the information specified in paragraph AG54.
108. If the specific disclosures required by this and other IPSASs do not meet the objectives set out in paragraphs 104 and 106, the resulting entity shall disclose whatever additional information is necessary to meet those objectives.

Effective date and transition

Effective date

109. This [draft] IPSAS shall be applied prospectively to public sector combinations for which the acquisition date or amalgamation date is on or after the beginning of the first annual reporting period beginning on or after [Date]. Earlier application is permitted. If an entity applies this [draft] IPSAS before [Date], it shall disclose that fact.

Transition

110. Assets and liabilities that arose from public sector combinations whose acquisition dates or amalgamation dates preceded the application of this [draft] IPSAS shall not be adjusted upon application of this [draft] IPSAS.

Appendix A

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X]

Identifying a public sector combination (see paragraph 8)

- AG1. Paragraph 5 of this [draft] IPSAS defines a public sector combination as “the bringing together of separate operations into one entity.” A public sector combination might occur:
- (a) By mutual agreement;
 - (b) By compulsion (for example by legislation); or
 - (c) By one entity gaining control of operations without mutual agreement and without compulsion (for example, by purchasing a controlling interest in the operation).
- AG2. Paragraph 5 of this [draft] IPSAS defines an operation as “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.”
- AG3. 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 of activities and related assets and/or liabilities 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.
- AG4. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets and/or liabilities 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.
- AG5. 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.
- AG6. An integrated set of activities and assets and/or liabilities 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.

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

- AG7. Determining whether a particular set of activities and assets and/or liabilities 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.
- AG8. In the absence of evidence to the contrary, a particular set of activities and assets and/or liabilities in which goodwill is present shall be presumed to be an operation. However, an operation need not have goodwill.

Classification of public sector combinations (see paragraphs 9–xx)

- AG9. [To follow]

Identifying the acquirer in an acquisition (see paragraphs 12–13)

- AG10. The guidance in IPSAS 35, *Consolidated Financial Statements* and [add reference to other factors earlier in the ED] shall be used to identify the acquirer—the entity that obtains control of the acquired operation. If an acquisition has occurred but applying the guidance in IPSAS 35 [add reference to other factors earlier in the ED] does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs AG11–AG14 shall be considered in making that determination.
- AG11. In an acquisition effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities.
- AG12. The acquirer is usually the combining entity whose relative size (measured in, for example, assets, revenues or profit) is significantly greater than that of the other combining entity or entities.
- AG13. In an acquisition involving more than two entities, determining the acquirer shall include a consideration of, among other things, which of the combining entities (if any) initiated the combination, as well as the relative size of the combining entities.
- AG14. A new entity formed to effect an acquisition is not necessarily the acquirer. If a new entity is formed to issue equity interests to effect an acquisition, one of the combining entities that existed before the acquisition shall be identified as the acquirer by applying the guidance in paragraphs AG10–AG13. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration, or which is created as a result of legislation, may be the acquirer.

Recognizing particular assets acquired and liabilities assumed in an acquisition (see paragraphs 16–20)

Operating leases

- AG15. The acquirer shall recognize no assets or liabilities related to an operating lease in which the acquired operation is the lessee except as required by paragraphs AG16–AG17.
- AG16. The acquirer shall determine whether the terms of each operating lease in which the acquired operation is the lessee are favorable or unfavorable. The acquirer shall recognize an intangible asset if the terms of an operating lease are favorable relative to market terms and a liability if the terms are unfavorable relative to market terms. Paragraph AG32 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquired operation is the lessor.
- AG17. An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits or service potential that qualify as identifiable intangible assets, for example, as a relationship with users of a service. In that situation, the acquirer shall recognize the associated identifiable intangible asset(s) in accordance with paragraph AG18.

Intangible assets

- AG18. The acquirer shall recognize, separately from goodwill, the identifiable intangible assets acquired in an acquisition. An intangible asset is identifiable if it meets either the separability criterion or the binding arrangement criterion.
- AG19. An intangible asset that meets the binding arrangement criterion is identifiable even if the asset is not transferable or separable from the acquired operation or from other rights and obligations. For example:
- (a) An acquired operation leases a facility under an operating lease that has terms that are favorable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favorable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease arrangement.
 - (b) An acquired operation owns and operates a nuclear power plant. The license to operate that power plant is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognize the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.
 - (c) An acquired operation owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related license agreement meet the binding arrangement criterion for recognition separately from goodwill even if selling or

exchanging the patent and the related license agreement separately from one another would not be practical.

- AG20. The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquired operation and sold, transferred, licensed, rented or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, lists of users of a service are frequently licensed and thus meet the separability criterion. Even if an acquired operation believes its lists of users of a service have characteristics different from other lists of users of a service, the fact that lists of users of a service are frequently licensed generally means that the acquired list of users of a service meets the separability criterion. However, a list of users of a service acquired in an acquisition would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its users of a service.
- AG21. An intangible asset that is not individually separable from the acquired operation or combined entity meets the separability criterion if it is separable in combination with a related binding arrangement, identifiable asset or liability. For example, an acquired operation owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquired operation or combined entity and sold if the related trademark is sold, it meets the separability criterion.

Reacquired rights

- AG22. As part of an acquisition, an acquirer may reacquire a right that it had previously granted to the acquired operation to use one or more of the acquirer's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognizes separately from goodwill. Paragraph 35 provides guidance on measuring a reacquired right and paragraph 66 provides guidance on the subsequent accounting for a reacquired right.
- AG23. If the terms of the binding arrangement giving rise to a reacquired right are favorable or unfavorable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognize a settlement gain or loss. Paragraph AG39 provides guidance for measuring that settlement gain or loss.

Assembled workforce and other items that are not identifiable

- AG24. The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to

continue to operate an acquired operation from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialized) knowledge and experience that employees of an acquired operation bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognized separately from goodwill, any value attributed to it is subsumed into goodwill.

- AG25. The acquirer also subsumes into goodwill any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential binding arrangements the acquired operation is negotiating with prospective new customers at the acquisition date. Because those potential binding arrangements are not themselves assets at the acquisition date, the acquirer does not recognize them separately from goodwill. The acquirer should not subsequently reclassify the value of those binding arrangements from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognizable intangible asset existed at the acquisition date.
- AG26. After initial recognition, an acquirer accounts for intangible assets acquired in an acquisition in accordance with the provisions of IPSAS 31, *Intangible Assets*. However, as described in paragraph 6 of IPSAS 31, the accounting for some acquired intangible assets after initial recognition is prescribed by other IPSASs.
- AG27. The identifiability criteria determine whether an intangible asset is recognized separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would use when pricing the intangible asset, such as expectations of future renewals of binding arrangements, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 35, which establishes an exception to the fair value measurement principle for reacquired rights recognized in an acquisition.) Paragraphs 39B and 39C of IPSAS 31 provide guidance for determining whether intangible assets should be combined into a single unit of account with other intangible or tangible assets.

Forgiveness of amounts of tax due in an acquisition (see paragraphs 30–31)

- AG28. The acquirer shall not recognize any amounts in respect of an acquired operation's tax due where these amounts have been forgiven by a tax authority. The acquirer shall account for an acquired operation's tax due that has not been forgiven by a tax authority in accordance with the relevant international or national accounting standard dealing with income taxes.
- AG29. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven.
- AG30. If, as a consequence of an acquisition, a tax authority forgives an amount of the acquirer's tax due, the acquirer shall derecognize those amounts in accordance with the relevant international or national accounting standard dealing with income taxes.

Measuring the fair value of particular identifiable assets and a non-controlling interest in an acquired operation in an acquisition (see paragraphs 24–36)

Assets with uncertain cash flows (valuation allowances)

AG31. The acquirer shall not recognize a separate valuation allowance as of the acquisition date for assets acquired in an acquisition that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this [draft] IPSAS requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values in accounting for an acquisition, the acquirer does not recognize a separate valuation allowance for the cash flows of the binding arrangement that are deemed to be uncollectible at that date.

Assets subject to operating leases in which the acquired operation is the lessor

AG32. In measuring the acquisition-date fair value of an asset such as a building that is subject to an operating lease in which the acquired operation is the lessor, the acquirer shall take into account the terms of the lease. In other words, the acquirer does not recognize a separate asset or liability if the terms of an operating lease are either favorable or unfavorable when compared with market terms as paragraph AG16 requires for leases in which the acquired operation is the lessee.

Non-controlling interest in an acquired operation

AG33. This [draft] IPSAS allows the acquirer to measure a non-controlling interest in the acquired operation at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market for the equity shares (i.e., those not held by the acquirer). In other situations, however, a quoted price in an active market for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other valuation techniques.

AG34. The fair values of the acquirer's interest in the acquired operation and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquired operation or, conversely, the inclusion of a discount for lack of control (also referred to as a non-controlling interest discount) in the per-share fair value of the non-controlling interest if market participants would take into account such a premium or discount when pricing the non-controlling interest.

Measuring goodwill or a gain from a bargain purchase in an acquisition (see paragraphs 37–47)

Relationship between goodwill and cash flows (see paragraph 38)

AG35. The acquirer shall recognize goodwill only to the extent that the acquirer estimates there will be favorable changes to its net cash flows, either from increased cash inflows or decreased cash outflows. An acquirer shall not recognize goodwill related to service potential other than cash flows.

Measuring the acquisition-date fair value of the acquirer's interest in the acquired operation using valuation techniques (see paragraph 40)

AG36. In an acquisition achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquired operation for the acquisition-date fair value

of the consideration transferred to measure goodwill or a gain on a bargain purchase (see paragraphs 37–41).

Determining what is part of the acquisition transaction (see paragraphs 62–64)

AG37. The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquired operation or whether the transaction is separate from the acquisition:

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

Effective settlement of a pre-existing relationship between the acquirer and acquired operation in an acquisition (see paragraph 63(a))

AG38. The acquirer and acquired operation may have a relationship that existed before they contemplated the acquisition, referred to here as a 'pre-existing relationship'. A pre-existing relationship between the acquirer and acquired operation may arise from a binding arrangement (for example, vendor and customer or licensor and licensee) or may arise outside of a binding arrangement (for example, plaintiff and defendant).

AG39. If the acquisition in effect settles a pre-existing relationship, the acquirer recognizes a gain or loss, measured as follows:

- (a) For a pre-existing relationship arising outside of a binding arrangement (such as a lawsuit), fair value.

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

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

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

AG40. A pre-existing relationship may be a binding arrangement that the acquirer recognizes as a reacquired right. If the binding arrangement includes terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer recognizes, separately from the acquisition, a gain or loss for the effective settlement of the binding arrangement, measured in accordance with paragraph AG39.

Arrangements for contingent payments to employees or selling shareholders (see paragraph 63(b))

AG41. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the acquisition or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

AG42. If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquired operation or is a transaction separate from the acquisition, the acquirer should consider the following indicators:

- (a) Continuing employment. The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.
- (b) Duration of continuing employment. If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.
- (c) Level of remuneration. Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the

combined entity may indicate that the contingent payments are additional consideration rather than remuneration.

- (d) Incremental payments to employees. If selling shareholders who do not become employees receive lower contingent payments on a per-share basis than the selling shareholders who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the selling shareholders who become employees is remuneration.
- (e) Number of shares owned. The relative number of shares owned by the selling shareholders who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the selling shareholders who owned substantially all of the shares in the acquired operation continue as key employees, that fact may indicate that the arrangement is, in substance, a profit-sharing arrangement intended to provide remuneration for post-combination services. Alternatively, if selling shareholders who continue as key employees owned only a small number of shares of the acquired operation and all selling shareholders receive the same amount of contingent consideration on a per-share basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to selling shareholders who continue as key employees, such as family members, should also be considered.
- (f) Linkage to the valuation. If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquired operation and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration. Alternatively, if the contingent payment formula is consistent with prior profit-sharing arrangements, that fact may suggest that the substance of the arrangement is to provide remuneration.
- (g) Formula for determining consideration. The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of earnings, that might suggest that the obligation is contingent consideration in the acquisition and that the formula is intended to establish or verify the fair value of the acquired operation. In contrast, a contingent payment that is a specified percentage of earnings might suggest that the obligation to employees is a profit-sharing arrangement to remunerate employees for services rendered.
- (h) Other agreements and issues. The terms of other arrangements with selling shareholders (such as agreements not to compete, executory contracts, consulting contracts and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquired operation. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant selling shareholder. If the lease payments specified in the lease arrangement are significantly below market, some or all of the contingent payments to the lessor (the selling shareholder) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognize separately in its post-combination financial statements. In contrast, if the lease arrangement specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the selling shareholder may be contingent consideration in the acquisition.

Acquirer share-based payment awards exchanged for awards held by the acquired operation's employees (see paragraph 63(b))

- AG43. An acquirer may exchange its share-based payment awards for awards held by employees of the acquired operation. The acquirer shall account for exchanges of share options or other share-based payment awards in conjunction with an acquisition in accordance with the relevant international or national accounting standard dealing with share-based payments.
- AG44. In situations in which acquired operation awards would expire as a consequence of an acquisition and if the acquirer replaces those awards when it is not obliged to do so, the acquirer shall recognize any costs as remuneration cost in the post-combination financial statements in accordance with the relevant international or national accounting standard dealing with share-based payments. The cost of those awards shall not be included in measuring the consideration transferred in the acquisition.

Equity-settled share-based payment transactions of the acquired operation

- AG45. The acquired operation may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions. If vested, those acquired operation share-based payment transactions are part of the non-controlling interest in the acquired operation. If unvested, they are measured as if the acquisition date were the grant date. Share-based payment transactions are measured in accordance with the relevant international or national accounting standard dealing with share-based payments.

Other IPSASs that provide guidance on subsequent measurement and accounting (see paragraph 65)

- AG46. Examples of other IPSASs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an acquisition include:
- (a) IPSAS 31 prescribes the accounting for identifiable intangible assets acquired in an acquisition. The acquirer measures goodwill at the amount recognized at the acquisition date less any accumulated impairment losses. IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets* prescribes the accounting for impairment losses.
 - (b) IPSAS 35 provides guidance on accounting for changes in a parent's ownership interest in a subsidiary after control is obtained.

Disclosures relating to acquisitions (see paragraphs 70–74)

- AG47. To meet the objective in paragraph 70, the acquirer shall disclose the following information for each acquisition that occurs during the reporting period:
- (a) The name and a description of the acquired operation.
 - (b) The acquisition date.
 - (c) The percentage of voting equity interests or equivalent acquired.
 - (d) The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquired operation.

- (e) A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining operations of the acquired operation and the acquirer, intangible assets that do not qualify for separate recognition or other factors.
- (f) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
 - (i) Cash;
 - (ii) Other tangible or intangible assets, including an operation or subsidiary of the acquirer;
 - (iii) Liabilities incurred, for example, a liability for contingent consideration; and
 - (iv) Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.
- (g) For contingent consideration arrangements and indemnification assets:
 - (i) The amount recognized as of the acquisition date;
 - (ii) A description of the arrangement and the basis for determining the amount of the payment; and
 - (iii) An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.
- (h) For acquired receivables:
 - (i) The fair value of the receivables;
 - (ii) The gross amounts receivable in accordance with a binding arrangement; and
 - (iii) The best estimate at the acquisition date of the cash flows in accordance with a binding arrangement not expected to be collected.

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

- (i) The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed.
- (j) For each contingent liability recognized in accordance with paragraph 29, the information required in paragraph 98 of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. If a contingent liability is not recognized because its fair value cannot be measured reliably, the acquirer shall disclose:
 - (i) The information required by paragraph 100 of IPSAS 19; and
 - (ii) The reasons why the liability cannot be measured reliably.
- (k) The total amount of goodwill that is expected to be deductible for tax purposes.
- (l) For transactions that are recognized separately from the acquisition of assets and assumption of liabilities in the acquisition in accordance with paragraph 62:
 - (i) A description of each transaction;

- (ii) How the acquirer accounted for each transaction;
 - (iii) The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized; and
 - (iv) If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.
- (m) The disclosure of separately recognized transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognized as an expense and the line item or items in the statement of financial performance in which those expenses are recognized. The amount of any issue costs not recognized as an expense and how they were recognized shall also be disclosed.
- (n) In a bargain purchase (see paragraphs 41–43):
- (i) The amount of any gain recognized in accordance with paragraph 41 and the line item in the statement of financial performance in which the gain is recognized; and
 - (ii) A description of the reasons why the transaction resulted in a gain.
- (o) For each acquisition in which the acquirer holds less than 100 per cent of the equity interests or equivalent in the acquired operation at the acquisition date:
- (i) The amount of the non-controlling interest in the acquired operation recognized at the acquisition date and the measurement basis for that amount; and
 - (ii) For each non-controlling interest in an acquired operation measured at fair value, the valuation technique(s) and significant inputs used to measure that value.
- (p) In an acquisition achieved in stages:
- (i) The acquisition-date fair value of the equity interest in the acquired operation held by the acquirer immediately before the acquisition date; and
 - (ii) The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquired operation held by the acquirer before the acquisition (see paragraph 53) and the line item in the statement of financial performance in which that gain or loss is recognized.
- (q) The following information:
- (i) The amounts of revenue and surplus or deficit of the acquired operation since the acquisition date included in the consolidated statement of financial performance for the reporting period; and
 - (ii) The revenue and surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period.

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

- AG48. For individually immaterial acquisitions occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph AG47(e)–(q).
- AG49. If the acquisition date of an acquisition is after the end of the reporting period but before the financial statements are authorized for issue, the acquirer shall disclose the information required by paragraph AG47 unless the initial accounting for the acquisition is incomplete at the time the financial statements are authorized for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.
- AG50. To meet the objective in paragraph 72, the acquirer shall disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:
- (a) If the initial accounting for an acquisition is incomplete (see paragraph 56) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognized in the financial statements for the acquisition thus have been determined only provisionally:
 - (i) The reasons why the initial accounting for the acquisition is incomplete;
 - (ii) The assets, liabilities, equity interests (or equivalent) or items of consideration for which the initial accounting is incomplete; and
 - (iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 60.
 - (b) For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:
 - (i) Any changes in the recognized amounts, including any differences arising upon settlement;
 - (ii) Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
 - (iii) The valuation techniques and key model inputs used to measure contingent consideration.
 - (c) For contingent liabilities recognized in an acquisition, the acquirer shall disclose the information required by paragraphs 97 and 98 of IPSAS 19 for each class of provision.
 - (d) A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:
 - (i) The gross amount and accumulated impairment losses at the beginning of the reporting period.
 - (ii) Additional goodwill recognized during the reporting period.
 - (iii) Adjustments resulting from the subsequent recognition of amounts during the reporting period in accordance with the relevant international or national accounting standard dealing with income taxes.

- (iv) Goodwill derecognized during the reporting period.
 - (v) Impairment losses recognized during the reporting period in accordance with IPSAS 21 and IPSAS 26. (IPSAS 21 and IPSAS 26 require disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)
 - (vi) Net exchange rate differences arising during the reporting period in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*.
 - (vii) Any other changes in the carrying amount during the reporting period.
 - (viii) The gross amount and accumulated impairment losses at the end of the reporting period.
- (e) The amount and an explanation of any gain or loss recognized in the current reporting period that both:
- (i) Relates to the identifiable assets acquired or liabilities assumed in an acquisition that was effected in the current or previous reporting period;
 - (ii) Is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements; and
- (f) If amounts of tax due are forgiven as a result of the acquisition (see paragraphs 30–31):
- (i) The amount of tax due that was forgiven; and
 - (ii) Where the acquirer is the tax authority, details of the adjustment made to tax receivable.

Forgiveness of amounts of tax due in an amalgamation (see paragraphs 91–92)

AG51. The resulting entity shall not recognize any amounts in respect of a combining operation's tax due where these amounts have been forgiven by a tax authority. In applying the modified pooling of interests method of accounting, the resulting entity shall treat those amounts as having been derecognized prior to the amalgamation. The resulting entity shall account for a combining operation's tax due that has not been forgiven by a tax authority in accordance with the relevant international or national accounting standard dealing with income taxes.

AG52. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven.

Disclosures relating to amalgamations (see paragraphs 104–108)

AG53. To meet the objective in paragraph 104, the resulting entity shall disclose the following information for each amalgamation that occurs during the reporting period:

- (a) The name and a description of the combining operations.
- (b) The amalgamation date.
- (c) The primary reasons for the amalgamation.
- (d) The amounts recognized as of the amalgamation date for each major class of assets and liabilities transferred.

- (e) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation prior to the amalgamation:
 - (i) To eliminate the effect of transactions between combining operations in accordance with paragraph 83; and
 - (ii) To conform to the resulting entity's accounting policies in accordance with paragraph 87.
- (f) An analysis of the residual amount recognized in accordance with paragraphs 95–96.
- (g) If, at the time the financial statements of the resulting entity are authorized for issue, the last reporting date of the combining operations does not immediately precede the amalgamation date, the resulting entity shall disclose the following information:
 - (i) The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue shall be analyzed in a manner appropriate to the entity's operations, in accordance with paragraph 108 of IPSAS 1, *Presentation of Financial Statements*. The amounts of expense shall be analyzed using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant, in accordance with paragraph 109 of IPSAS 1.
 - (ii) The amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities.
 - (iii) The amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.

AG54. To meet the objective in paragraph 106, the resulting entity shall disclose:

- (a) If the initial accounting for an amalgamation is incomplete (see paragraph 97) for particular assets or liabilities, and the amounts recognized in the financial statements for the amalgamation thus have been determined only provisionally:
 - (i) The reasons why the initial accounting for the amalgamation is incomplete;
 - (ii) The assets or liabilities for which the initial accounting is incomplete; and
 - (iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 100.
- (b) If amounts of tax due are forgiven as a result of the amalgamation (see paragraphs 91–92):
 - (i) The amount of tax due that was forgiven; and
 - (ii) Where the acquirer is the tax authority, details of the adjustment made to tax receivable.

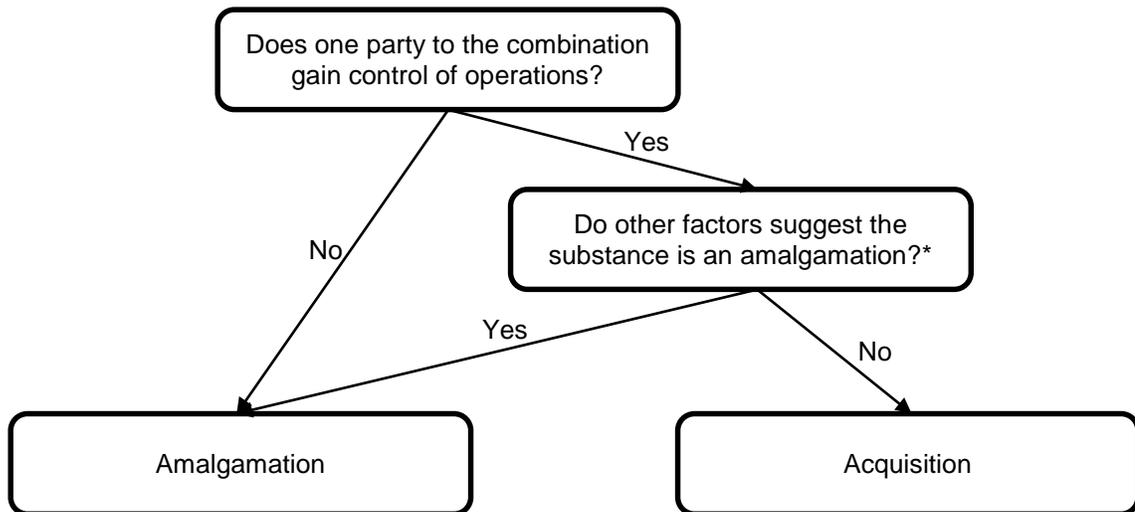
Implementation Guidance

This guidance accompanies, but is not part of, [draft] IPSAS [X]

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of [draft] IPSAS [X].

Classification of public sector combinations

IG2. The diagram below summarizes the process established by [draft] IPSAS [X] for classifying public sector combinations.



* Wording of this question to be determined

Illustrative Examples

These examples accompany, but are not part of, [draft] IPSAS [X]

Identifying a public sector combination

IE1. [To follow if required]

Classification of public sector combinations

IE2. [To follow]

Identifiable intangible assets in an acquisition

Illustrating the consequences of applying paragraphs 16–20 and AG18–AG27 of [draft] IPSAS [X]

- IE3. The following are examples of identifiable intangible assets acquired in an acquisition. Some of the examples may have characteristics of assets other than intangible assets. The acquirer should account for those assets in accordance with their substance. The examples are not intended to be all-inclusive.
- IE4. Intangible assets identified as having a 'binding arrangement' basis are those that arise from binding arrangements (including rights from contracts or other legal rights). Those designated as having a 'no binding arrangement' basis do not arise from binding arrangements but are separable. Intangible assets identified as having a binding arrangement basis might also be separable but separability is not a necessary condition for an asset to meet the binding arrangement criterion.

Marketing-related intangible assets

- IE5. Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples of marketing-related intangible assets are:

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

Trademarks, trade names, service marks, collective marks and certification marks

- IE6. Trademarks are words, names, symbols or other devices used in trade to indicate the source of a product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks identify the goods or services of members of a group. Certification marks certify the geographical origin or other characteristics of a good or service.

- IE7. Trademarks, trade names, service marks, collective marks and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce or by other means. If it is protected legally through registration or other means, a trademark or other mark acquired in an acquisition is an intangible asset that meets the binding arrangement criterion. Otherwise, a trademark or other mark acquired in an acquisition can be recognized separately from goodwill if the separability criterion is met, which normally it would be.
- IE8. The terms *brand* and *brand name*, often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. [Draft] IPSAS [X] does not preclude an entity from recognizing, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

Internet domain names

- IE9. An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name creates an association between that name and a designated computer on the Internet for the period of the registration. Those registrations are renewable. A registered domain name acquired in an acquisition meets the binding arrangement criterion.

Service user or customer-related intangible assets

- IE10. Examples of service user or customer-related intangible assets are:

Class	Basis
Lists of users of a service	No binding arrangement
Order or production backlog	Binding arrangement
Customer binding arrangements and the related customer relationships	Binding arrangement
Customer relationships arising through means other than binding arrangements	No binding arrangement

Lists of users of a service

- IE11. A list of users of a service consists of information about service users, such as their names and contact information. A list of users of a service also may be in the form of a database that includes other information about the users, such as their service use histories and demographic information. A list of users of a service does not usually arise from a binding arrangement (including rights from contracts or other legal rights). However, lists of users of a service are often leased or exchanged. Therefore, a list of users of a service acquired in an acquisition normally meets the separability criterion.

Order or production backlog

- IE12. An order or production backlog arises from binding arrangements such as purchase or sales orders. An order or production backlog acquired in an acquisition meets the binding arrangement criterion even if the purchase or sales orders can be cancelled.

Customer binding arrangements and the related customer relationships

- IE13. If an entity establishes relationships with its customers through binding arrangements, those customer relationships arise from binding arrangement rights. Therefore, customer binding arrangements and the related customer relationships acquired in an acquisition meet the binding arrangement criterion, even if confidentiality or other terms of the binding arrangement prohibit the sale or transfer of a binding arrangement separately from the acquired operation.
- IE14. A customer binding arrangement and the related customer relationship may represent two distinct intangible assets. Both the useful lives and the pattern in which the economic benefits of the two assets are consumed may differ.
- IE15. A customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. Customer relationships meet the binding arrangement criterion if an entity has a practice of establishing binding arrangements with its customers, regardless of whether a binding arrangement exists at the acquisition date. Customer relationships may also arise through means other than binding arrangements, such as through regular contact by sales or service representatives.
- IE16. As noted in paragraph IE12, an order or a production backlog arises from binding arrangements such as purchase or sales orders and is therefore considered a binding arrangement right. Consequently, if an entity has relationships with its customers through these types of binding arrangements, the customer relationships also arise from binding arrangement rights and therefore meet the binding arrangement criterion.

Examples

- IE17. The following examples illustrate the recognition of customer binding arrangement and customer relationship intangible assets acquired in an acquisition.
- (a) Acquirer Entity (AE) acquires Target Entity (TE) in an acquisition on 31 December 20X5. TE has a five-year agreement to supply goods to Customer. Both TE and AE believe that Customer will renew the agreement at the end of the current binding arrangement. The agreement is not separable.
- The agreement, whether cancellable or not, meets the binding arrangement criterion. Additionally, because TE establishes its relationship with Customer through a binding arrangement, not only the agreement itself but also TE's customer relationship with Customer meet the binding arrangement criterion.
- (b) AE acquires TE in an acquisition on 31 December 20X5. TE manufactures goods in two distinct lines of business: sporting goods and electronics. Customer purchases both sporting goods and electronics from TE. TE has a binding arrangement with Customer to be its exclusive provider of sporting goods but has no binding arrangement for the supply of

electronics to Customer. Both TE and AE believe that only one overall customer relationship exists between TE and Customer.

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

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

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

- (d) AE acquires TE, an insurer, in an acquisition on 31 December 20X5. TE has a portfolio of one-year motor insurance contracts that are cancellable by policyholders.

Because TE establishes its relationships with policyholders through insurance contracts, the customer relationship with policyholders meets the binding arrangement criterion. IPSAS 26, *Impairment of Cash-Generating Assets* and IPSAS 31, *Intangible Assets* apply to the customer relationship intangible asset.

Customer relationships arising through means other than binding arrangements

- IE18. A customer relationship acquired in an acquisition that does not arise from a binding arrangement may nevertheless be identifiable because the relationship is separable. Exchange transactions for the same asset or a similar asset that indicate that other entities have sold or otherwise transferred a particular type of customer relationship arising through means other than binding arrangements would provide evidence that the relationship is separable.

Artistic-related intangible assets

IE19. Examples of artistic-related intangible assets are:

Class	Basis
Plays, operas and ballets	Binding arrangement
Books, magazines, newspapers and other literary works	Binding arrangement
Musical works such as compositions, song lyrics and advertising jingles	Binding arrangement
Pictures and photographs	Binding arrangement
Video and audio-visual material, including motion pictures or films, music videos and television programs	Binding arrangement

IE20. Artistic-related assets acquired in an acquisition are identifiable if they arise from binding arrangements (including rights from contracts) or legal rights such as those provided by copyright. The holder can transfer a copyright, either in whole through an assignment or in part through a licensing agreement. An acquirer is not precluded from recognizing a copyright intangible asset and any related assignments or license agreements as a single asset, provided they have similar useful lives.

Binding arrangement-based intangible assets

IE21. Binding arrangement-based intangible assets represent the value of rights that arise from binding arrangements. Binding arrangements with customers are one type of binding arrangement-based intangible asset. If the terms of a binding arrangement give rise to a liability (for example, if the terms of an operating lease or binding arrangement with a customer are unfavorable relative to market terms), the acquirer recognizes it as a liability assumed in the acquisition. Examples of binding arrangement-based intangible assets are:

Class	Basis
Licensing, royalty and standstill agreements	Binding arrangement
Advertising, construction, management, service or supply binding arrangements	Binding arrangement
Lease agreements (whether the acquired operation is the lessee or the lessor)	Binding arrangement
Construction permits	Binding arrangement
Franchise agreements	Binding arrangement
Operating and broadcast rights	Binding arrangement
Servicing binding arrangements, such as mortgage servicing binding arrangements	Binding arrangement
Binding arrangements for employment	Binding arrangement

Class	Basis
Use rights, such as drilling, water, air, timber cutting and route authorities	Binding arrangement

Servicing binding arrangements, such as mortgage servicing binding arrangements

IE22. Binding arrangements to service financial assets are one type of binding arrangement-based intangible asset. Although servicing is inherent in all financial assets, it becomes a distinct asset (or liability) by one of the following:

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

IE23. If mortgage loans, credit card receivables or other financial assets are acquired in an acquisition with servicing retained, the inherent servicing rights are not a separate intangible asset because the fair value of those servicing rights is included in the measurement of the fair value of the acquired financial asset.

Binding arrangements for employment

IE24. Binding arrangements for employment that are beneficial binding arrangements from the perspective of the employer because the pricing of those binding arrangements is favorable relative to market terms are one type of binding arrangement-based intangible asset.

Use rights

IE25. Use rights include rights for drilling, water, air, timber cutting and route authorities. Some use rights are binding arrangement-based intangible assets to be accounted for separately from goodwill. Other use rights may have characteristics of tangible assets rather than of intangible assets. An acquirer should account for use rights on the basis of their nature.

Technology-based intangible assets

IE26. Examples of technology-based intangible assets are:

Class	Basis
Patented technology	Binding arrangement
Computer software and mask works	Binding arrangement
Unpatented technology	No binding arrangement
Databases, including title plants	No binding arrangement
Trade secrets, such as secret formulas, processes and recipes	Binding arrangement

Computer software and mask works

- IE27. Computer software and program formats acquired in an acquisition that are protected legally, such as by patent or copyright, meet the binding arrangement criterion for identification as intangible assets.
- IE28. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may have legal protection. Mask works with legal protection that are acquired in an acquisition meet the binding arrangement criterion for identification as intangible assets.

Databases, including title plants

- IE29. Databases are collections of information, often stored in electronic form (such as on computer disks or files). A database that includes original works of authorship may be entitled to copyright protection. A database acquired in an acquisition and protected by copyright meets the binding arrangement criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as lists of service users, or specialized information, such as scientific data or credit information. Databases that are not protected by copyright can be, and often are, exchanged, licensed or leased to others in their entirety or in part. Therefore, even if the future economic benefits from a database do not arise from legal rights, a database acquired in an acquisition meets the separability criterion.
- IE30. Title plants constitute a historical record of all matters affecting title to parcels of land in a particular geographical area. Title plant assets are bought and sold, either in whole or in part, in exchange transactions or are licensed. Therefore, title plant assets acquired in an acquisition meet the separability criterion.

Trade secrets, such as secret formulas, processes and recipes

- IE31. A trade secret is 'information, including a formula, pattern, recipe, compilation, program, device, method, technique, or process that (a) derives independent economic value, actual or potential, from not being generally known and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.'¹ If the future economic benefits from a trade secret acquired in an acquisition are legally protected, that asset meets the binding arrangement criterion. Otherwise, trade secrets acquired in an acquisition are identifiable only if the separability criterion is met, which is likely to be the case.

Measurement of non-controlling interest (NCI) in an acquisition

Illustrating the consequences of applying paragraph 25 of [draft] IPSAS [X].

- IE32. The following examples illustrate the measurement of components of NCI at the acquisition date in an acquisition.

¹ Melvin Simensky and Lanning Bryer, *The New Role of Intellectual Property in Commercial Transactions* (New York: John Wiley & Sons, 1998), page 293.

Measurement of NCI including preference shares

- IE33. TE has issued 100 preference shares, which are classified as equity. The preference shares have a nominal value of CU1 each. The preference shares give their holders a right to a preferential dividend in priority to the payment of any dividend to the holders of ordinary shares. Upon liquidation of TE, the holders of the preference shares are entitled to receive out of the assets available for distribution the amount of CU1 per share in priority to the holders of ordinary shares. The holders of the preference shares do not have any further rights on liquidation.
- IE34. AE acquires all ordinary shares of TE. The transaction gives AE control of TE, and an analysis of the other factors (see paragraphs [to be added] in [draft] IPSAS [X]) confirms the transaction is an acquisition. The acquisition-date fair value of the preference shares is CU120.
- IE35. Paragraph 25 of [draft] IPSAS [X] states that for each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interest 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 fair value or the present ownership instruments' proportionate share in the acquired operation's recognized amounts of the identifiable net assets. All other components of non-controlling interest must be measured at their acquisition-date fair value, unless another measurement basis is required by IPSASs.
- IE36. The non-controlling interests that relate to TE's preference shares do not qualify for the measurement choice in paragraph 25 of [draft] IPSAS [X] because they do not entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. The acquirer measures the preference shares at their acquisition-date fair value of CU120.

First variation

- IE37. Suppose that upon liquidation of TE, the preference shares entitle their holders to receive a proportionate share of the assets available for distribution. The holders of the preference shares have equal right and ranking to the holders of ordinary shares in the event of liquidation. Assume that the acquisition-date fair value of the preference shares is now CU160 and that the proportionate share of TE's recognized amounts of the identifiable net assets that is attributable to the preference shares is CU140.
- IE38. The preference shares qualify for the measurement choice in paragraph 25 of [draft] IPSAS [X]. AE can choose to measure the preference shares either at their acquisition-date fair value of CU160 or at their proportionate share in the acquired operation's recognized amounts of the identifiable net assets of CU140.

Second variation

- IE39. Suppose also that TE has issued share options as remuneration to its employees. The share options are classified as equity and are vested at the acquisition date. They do not represent present ownership interest and do not entitle their holders to a proportionate share of TE's net assets in the event of liquidation. The fair value of the share options in accordance with the relevant international or national accounting standard dealing with share-based payments at the acquisition date is CU200. The share options do not expire on the acquisition date and AE does not replace them.

- IE40. Paragraph 25 of [draft] IPSAS [X] requires such share options to be measured at their acquisition-date fair value, unless another measurement basis is required by IPSASs. Paragraph 36 of [draft] IPSAS [X] states that the acquirer shall measure an equity instrument related to share-based payment transactions of the acquired operation in accordance with the relevant international or national accounting standard dealing with share-based payments.
- IE41. The acquirer measures the non-controlling interests that are related to the share options at their fair value of CU200.

Forgiveness of amounts of tax due in an acquisition

Illustrating the consequences of accounting for tax forgiveness in an acquisition by applying paragraphs 30–31 and AG28–AG30 of [draft] IPSAS [X]

- IE42. The following example illustrates the accounting for an acquisition in which part of the acquired operation's tax liability is forgiven.
- IE43. On 1 January 20X4 AE, a government ministry, acquires TE, a private entity in exchange for cash of CU575. As a result of the acquisition, AE expects to reduce costs through economies of scale. The fair value of the assets acquired and liabilities assumed are as follows:

Assets acquired and liabilities assumed:	CU
Financial assets	265
Inventory	5
Property, plant and equipment	640
Identifiable intangible assets	12
Financial liabilities	(320)
Tax liabilities	(40)
Total net assets	<u>562</u>

- IE44. AE recognizes goodwill of CU13, the difference between the price paid to acquire TE (CU575) and the net assets of TE (CU562).
- IE45. Suppose that as a result of the acquisition, MF (the tax authority) forgives 50 per cent of TE's tax liability. The fair value of the assets acquired and liabilities assumed would now be as follows:

Assets acquired and liabilities assumed:	CU
Financial assets	265
Inventory	5
Property, plant and equipment	640
Identifiable intangible assets	12
Financial liabilities	(320)
Tax liabilities	<u>(20)</u>

Total net assets	582
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- IE46. AE recognizes a gain of CU7, the difference between the price paid to acquire TE (CU575) and the net assets of TE (CU582). AE would account for the remaining tax liability in accordance with the relevant international or national accounting standard dealing with income taxes.
- IE47. MF accounts for tax receivable in accordance with IPSAS 23, and would recognize an adjustment for the tax forgiven.

Gain on a bargain purchase in an acquisition

Illustrating the consequences of recognizing and measuring a gain from a bargain purchase in an acquisition by applying paragraphs 37–43 of [draft] IPSAS [X]

- IE48. The following example illustrates the accounting for an acquisition in which a gain on a bargain purchase is recognized.
- IE49. On 1 January 20X5 AE acquires 80 per cent of the equity interests of TE, a private entity, in exchange for cash of CU150. Because the former owners of TE needed to dispose of their investments in TE by a specified date, they did not have sufficient time to market TE to multiple potential buyers. The management of AE initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of [draft] IPSAS [X]. The identifiable assets are measured at CU250 and the liabilities assumed are measured at CU50. AE engages an independent consultant, who determines that the fair value of the 20 per cent non-controlling interest in TE is CU42.
- IE50. The amount of TE’s identifiable net assets (CU200, calculated as CU250 – CU50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TE. Therefore, AE reviews the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in TE and the consideration transferred. After that review, AE decides that the procedures and resulting measures were appropriate. AE measures the gain on its purchase of the 80 per cent interest as follows:

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

- IE51. AE would record its acquisition of TE in its consolidated financial statements as follows:

	CU	CU
Dr Identifiable assets acquired	250	

	CU	CU
Cr Cash		150
Cr Liabilities assumed		50
Cr Gain on the bargain purchase		8
Cr Equity—non-controlling interest in TE		42

IE52. If the acquirer chose to measure the non-controlling interest in TE on the basis of its proportionate interest in the identifiable net assets of the acquired operation, the recognized amount of the non-controlling interest would be CU40 ($CU200 \times 0.20$). The gain on the bargain purchase then would be CU10 ($CU200 - (CU150 + CU40)$).

Measurement period in an acquisition

Illustrating the consequences of applying paragraphs 56–61 of [draft] IPSAS [X].

IE53. If the initial accounting for an acquisition is not complete at the end of the financial reporting period in which the combination occurs, paragraph 56 of [draft] IPSAS [X] requires the acquirer to recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph 60 of [draft] IPSAS [X] requires the acquirer to recognize such adjustments as if the accounting for the acquisition had been completed at the acquisition date. Measurement period adjustments are not included in surplus or deficit.

IE54. Suppose that AE acquires TE on 30 September 20X7. AE seeks an independent valuation for an item of property, plant and equipment acquired in the combination, and the valuation was not complete by the time AE authorized for issue its financial statements for the year ended 31 December 20X7. In its 20X7 annual financial statements, AE recognized a provisional fair value for the asset of CU30,000. At the acquisition date, the item of property, plant and equipment had a remaining useful life of five years. Five months after the acquisition date, AE received the independent valuation, which estimated the asset's acquisition-date fair value as CU40,000.

IE55. In its financial statements for the year ended 31 December 20X8, AE retrospectively adjusts the 20X7 prior year information as follows:

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

IE56. In accordance with paragraph AG50 of [draft] IPSAS [X], AE discloses:

- (a) In its 20X7 financial statements, that the initial accounting for the acquisition has not been completed because the valuation of property, plant and equipment has not yet been received.

- (b) In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, AE discloses that the 20X7 comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by CU9,500, offset by a decrease to goodwill of CU10,000 and an increase in depreciation expense of CU500.

Determining what is part of the acquisition transaction

Settlement of a pre-existing relationship

Illustrating the consequences of applying paragraphs 62–63 and AG37–AG40 of [draft] IPSAS [X].

- IE57. AE purchases electronic components from TE under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than the rates at which AE could purchase similar electronic components from another supplier. The supply contract allows AE to terminate the contract before the end of the initial five-year term but only by paying a CU6 million penalty. With three years remaining under the supply contract, AE pays CU50 million to acquire TE, which is the fair value of TE based on what other market participants would be willing to pay.
- IE58. Included in the total fair value of TE is CU8 million related to the fair value of the supply contract with AE. The CU8 million represents a CU3 million component that is 'at market' because the pricing is comparable to pricing for current market transactions for the same or similar items (selling effort, customer relationships and so on) and a CU5 million component for pricing that is unfavorable to AE because it exceeds the price of current market transactions for similar items. TE has no other identifiable assets or liabilities related to the supply contract, and AE has not recognized any assets or liabilities related to the supply contract before the acquisition.
- IE59. In this example, AE calculates a loss of CU5 million (the lesser of the CU6 million stated settlement amount and the amount by which the contract is unfavorable to the acquirer) separately from the acquisition. The CU3 million 'at-market' component of the contract is part of goodwill.
- IE60. Whether AE had recognized previously an amount in its financial statements related to a pre-existing relationship will affect the amount recognized as a gain or loss for the effective settlement of the relationship. Suppose that IPSASs had required AE to recognize a CU6 million liability for the supply contract before the acquisition. In that situation, AE recognizes a CU1 million settlement gain on the contract in surplus or deficit at the acquisition date (the CU5 million measured loss on the contract less the CU6 million loss previously recognized). In other words, AE has in effect settled a recognized liability of CU6 million for CU5 million, resulting in a gain of CU1 million.

Contingent payments to employees in an acquisition

Illustrating the consequences of applying paragraphs 62–63, AG37 and AG41–AG42 of [draft] IPSAS [3].

- IE61. TE appointed a candidate as its new CEO under a ten-year contract. The contract required TE to pay the candidate CU5 million if TE is acquired before the contract expires. AE acquires TE eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.
- IE62. In this example, TE entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of CEO. Thus,

there is no evidence that the agreement was arranged primarily to provide benefits to AE or the combined entity. Therefore, the liability to pay CU5 million is included in the application of the acquisition method.

- IE63. In other circumstances, TE might enter into a similar agreement with CEO at the suggestion of AE during the negotiations for the business combination. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AE or the combined entity rather than TE or its former owners. In that situation, AE accounts for the liability to pay CEO in its post-combination financial statements separately from application of the acquisition method.

Disclosure requirements relating to acquisitions

Illustrating the consequences of applying the disclosure requirements in paragraphs 70–74 and AG47–AG50 of [draft] IPSAS [X].

- IE64. The following example illustrates some of the disclosure requirements relating to acquisitions of [draft] IPSAS [X]; it is not based on an actual transaction. The example assumes that AE is a public sector entity with responsibility for healthcare in its region and that TE is a listed entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Paragraph reference

- AG47(a)–(d) On 30 June 20X2 AE acquired 75 per cent of the ordinary shares of TE and obtained control of TE. An analysis of the other factors (see paragraphs x–x in [draft] IPSAS [X]) confirms the transaction is an acquisition. TE is a provider of medical supplies. As a result of the acquisition, AE is expected to deliver improved healthcare to its residents. It also expects to reduce costs through economies of scale.
- AG47(e) The goodwill of CU2,500 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of AE and TE.
- AG47(k) None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for TE and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in TE.

At 30 June 20X2

	Consideration	CU
AG47(f)(i)	Cash	11,000
AG47(f)(iii); AG47(g)(i)	Contingent consideration arrangement	1,000
		<hr/>

Paragraph reference		
AG47(f)	Total consideration transferred	12,000
AG47(m)	Acquisition-related costs (included in selling, general and administrative expenses in AE's statement of comprehensive income for the year ended 31 December 20X2)	1,250
AG47(i)	Recognized amounts of identifiable assets acquired and liabilities assumed	
	Financial assets	3,500
	Inventory	1,000
	Property, plant and equipment	10,000
	Identifiable intangible assets	3,300
	Financial liabilities	(4,000)
	Contingent liability	(1,000)
	Total identifiable net assets	12,800
AG47(o)(i)	Non-controlling interest in TE	(3,300)
	Goodwill	2,500
		12,000
AG47(f)(iii) AG47(g) AG50(b)	<p>The contingent consideration arrangement requires AE to pay the former owners of TE 5 per cent of the revenues of XE, an unconsolidated equity investment owned by TE, in excess of CU7,500 for 20X3, up to a maximum amount of CU2,500 (undiscounted).</p> <p>The potential undiscounted amount of all future payments that AE could be required to make under the contingent consideration arrangement is between CU0 and CU2,500.</p> <p>The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying an income approach. Key assumptions include a discount rate range of 20–25 per cent and assumed probability-adjusted revenues in XE of CU10,000–20,000.</p> <p>As of 31 December 20X2, neither the amount recognized for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.</p>	
AG47(h)	The fair value of the financial assets acquired includes receivables with a fair value of CU2,375. The gross amount due under the contracts is CU3,100, of which CU450 is expected to be uncollectible.	

**Paragraph
reference**

- AG50(a) The fair value of the acquired identifiable intangible assets of CU3,300 is provisional pending receipt of the final valuations for those assets.
- AG47(j)
AG50(c)
IPSAS 19.97,
98 A contingent liability of CU1,000 has been recognized for expected warranty claims on products sold by TE during the last three years. We expect that the majority of this expenditure will be incurred in 20X3 and that all will be incurred by the end of 20X4. The potential undiscounted amount of all future payments that AE could be required to make under the warranty arrangements is estimated to be between CU500 and CU1,500. As of 31 December 20X2, there has been no change since 30 June 20X2 in the amount recognized for the liability or any change in the range of outcomes or assumptions used to develop the estimates.
- AG47(o) The fair value of the non-controlling interest in TE, a listed company, was measured using the closing market price of TE's ordinary shares on the acquisition date.
- AG47(q)(i) The revenue included in the consolidated statement of comprehensive income since 30 June 20X2 contributed by TE was CU4,090. TE also contributed profit of CU1,710 over the same period.
- AG47(q)(ii) Had TE been consolidated from 1 January 20X2 the consolidated statement of comprehensive income would have included revenue of CU27,670 and profit of CU12,870.

Adjusting the carrying amounts of the identifiable assets and liabilities of the combining entities to conform to the resulting entity's accounting policies in an amalgamation

Illustrating the consequences of applying paragraphs 86–87 and 94 of [draft] IPSAS [X]

- IE65. The following example illustrates the process for adjusting the carrying amounts of the identifiable assets and liabilities of the combining entities to conform to the resulting entity's accounting policies in an amalgamation.
- IE66. On 1 October 20X5 Resulting Entity (RE) is formed by an amalgamation of two government departments, Combining Operation A (COA) and Combining Operation B (COB). COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model in IPSAS 17. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model in IPSAS 17.
- IE67. RE adopts an accounting policy of measuring property, plant and equipment using the revaluation model. RE seeks an independent valuation for the items of property, plant and equipment previously controlled by COA.
- IE68. In accordance with paragraphs 54 and 55 of IPSAS 17, increases in the carrying amounts of a class of assets are credited to revaluation surplus. Decreases in the carrying amounts of a class of assets are debited to accumulated surpluses or deficits.

IE69. On receiving the independent valuation for the items of property, plant and equipment previously controlled by COA, RE adjusts the carrying amounts of the items of property plant and equipment as follows:

Class of Asset	Carrying Amount (CU)	Valuation (CU)	Adjustment (CU)	Component of net assets/equity (CU)
Land	17,623	18,410	787	Revaluation surplus
Buildings	35,662	37,140	1,478	Revaluation surplus
Vehicles	1,723	1,605	(118)	Accumulated surpluses or deficits

IE70. RE also reviews the carrying amounts of the items of property, plant and equipment previously controlled by COB to ensure the amounts are up to date as at 1 October 20X5. The review confirms the carrying amounts of the items of property, plant and equipment previously controlled by COB are up to date and that no adjustment is required.

IE71. RE recognizes the items of property, plant and equipment previously controlled by COB at their carrying amounts. RE also recognizes the related components of COB's net assets/equity, for example revaluation surplus, at their carrying amounts.

Forgiveness of amounts of tax due in an amalgamation

Illustrating the consequences of accounting for tax forgiveness in an amalgamation by applying paragraphs 91–92 and AG51–AG52 of [draft] IPSAS [X]

IE72. The following example illustrates the accounting for an amalgamation in which the resulting entity's tax liability is forgiven.

IE73. On 1 January 20X6 RE is formed by an amalgamation of two public sector entities, COA and COB. RE, COA and COB have the same accounting policies; no adjustment to the carrying amounts of the identifiable assets and liabilities of the COA and COB to conform to the resulting entity's accounting policies is required. At the date of the amalgamation, there are no amounts outstanding between COA and COB.

IE74. In its statement of financial position as at 1 January 20X6, RE recognizes and measures the assets and liabilities of COA and COB at their carrying amounts in their respective financial statements as at the amalgamation date:

Statement of Financial Position:	COA (CU)	COB (CU)	RE (CU)
Financial assets	1,205	997	2,202
Inventory	25	42	67
Property, plant and equipment	21,944	18,061	40,005
Identifiable intangible assets	0	3,041	3,041
Financial liabilities	(22,916)	(22,020)	(44,936)
Tax liabilities	(76)	(119)	(195)

Total net assets	182	2	184
Net Assets/Equity	182	2	184

- IE75. Suppose that as a result of the amalgamation, the Ministry of Finance (MF) (the tax authority) forgives RE's tax liability. RE would derecognize the tax liability and make the adjustment to net assets/equity. The statement of financial position as at 1 January 20X6 for RE would be as follows:

Statement of Financial Position:	RE (CU)
Financial assets	2,202
Inventory	67
Property, plant and equipment	40,005
Intangible assets	3,041
Financial liabilities	(44,936)
Tax liabilities	0
Total net assets	379
Net Assets/Equity	379

- IE76. MF accounts for tax receivable in accordance with IPSAS 23, and would recognize an adjustment for the tax forgiven.

Recognizing and measuring a residual amount arising as a result of an amalgamation

Illustrating the consequences of applying paragraphs 95–96 of [draft] IPSAS [X]

- IE77. The following example illustrates the accounting for an amalgamation which involves one or more combining operations that are not entities, and where the carrying amount of the combining operations' assets less the carrying amount of their liabilities is greater or smaller than the carrying amount of the combining operations' net assets/equity.
- IE78. On 1 June 20X4, a new municipality RE is formed by the amalgamation of operations COA and COB relating to two geographical areas of other municipalities, not previously under common control. In the amalgamation, the assets and liabilities relating to COA and COB are transferred to RE; however, the other municipalities retain all their previously accumulated surpluses or deficits.
- IE79. COB has previously performed services for COA for which it was to be paid CU750. Payment was outstanding at the amalgamation date. This transaction formed part of carrying amount of financial liabilities for COA and part of the carrying amount of financial assets for COB.
- IE80. COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE has adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE obtains an independent valuation for the items of property, plant and equipment previously controlled by COA. As a result,

it increases its carrying amount for those items of the property, plant and equipment by CU5,750 and makes the corresponding adjustment to revaluation surplus.

- IE81. The carrying amounts of the assets, liabilities and net assets/equity transferred are summarized below. Adjustments to eliminate transactions between COA and COB (see paragraph 83) and to conform the carrying amounts to the resulting entity's accounting policies are also shown.

	COA (CU)	COB (CU)	Elimination Adjustments (CU)	Accounting Policy Adjustments (CU)	RE (CU)
Financial Assets	11,248	17,311	(750)		27,809
Inventory	1,072	532			1,604
Property, plant and equipment	5,663	12,171		5,750	23,584
Intangible assets	0	137			137
Financial liabilities	(18,798)	(20,553)	750		(38,601)
Total net assets/(liabilities)	(815)	9,598			14,533
Revaluation surplus	0	6,939		5,750	12,689
Accumulated surpluses or deficits	0	0			0
Total net assets/equity	0	6,939			12,689

- IE82. In accordance with paragraph 95 of [draft] IPSAS [X], the residual amount is calculated after eliminating transactions between COA and COB, and after adjustments to conform the carrying amounts to RE's accounting policies. The residual amount is calculated as the difference between the net assets recognized by RE (CU14,533) and the net assets/equity recognized by RE (CU12,689), i.e., CU1,844.
- IE83. In accordance with paragraph 96 of [draft] IPSAS [X], RE recognizes the residual amount directly in net assets/equity. As [draft] IPSAS [X] does not specify in which component of net assets/equity the residual amount is to be recognized, RE may recognize the residual amount in accumulated surpluses or deficits or in another component of net assets/equity, for example a separate reserve.
- IE84. The other municipalities that, prior to the combination, controlled COA and COB would derecognize the assets, liabilities and (in the case of the municipality that controlled COB) the revaluation surplus transferred to RE in accordance with other IPSASs.

Measurement period in an amalgamation

Illustrating the consequences of applying paragraphs 97–101 of [draft] IPSAS [X].

- IE85. If the initial accounting for an amalgamation is not complete at the end of the financial reporting period in which the combination occurs, paragraph 97 of [draft] IPSAS [X] requires the resulting entity to recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph 100 of [draft] IPSAS [X] requires the resulting entity to recognize such adjustments as if the accounting for the amalgamation had been completed at the amalgamation date. Measurement period adjustments are not included in surplus or deficit.
- IE86. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the revaluation model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the cost model. RE adopts an accounting policy of measuring land and buildings using the valuation model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of CU150,000 and CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.
- IE87. In its financial statements for the year ended 31 December 20X4, RE retrospectively adjusts the 20X3 prior year information as follows:
- (a) The carrying amount of the land as of 31 December 20X3 is increased by CU10,000. As the land has an indefinite life, no depreciation is charged.
 - (b) The carrying amount of the buildings as of 31 December 20X3 is increased by CU89,500. That adjustment is measured as the valuation adjustment at the amalgamation date of CU90,000 less the additional depreciation that would have been recognized if the asset's value at the amalgamation date had been recognized from that date (CU500 for one month's depreciation).
 - (c) An adjustment of CU100,000 is recognized in the revaluation surplus component of net assets/equity as of 31 December 20X3.
 - (d) Depreciation expense for 20X3 is increased by CU500.
- IE88. In accordance with paragraph AG54 of [draft] IPSAS [X], RE discloses:
- (a) In its 20X3 financial statements, that the initial accounting for the amalgamation has not been completed because the valuation of land and buildings previously controlled by COB has not yet been received.

- (b) In its 20X4 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, RE discloses that the 20X3 comparative information is adjusted retrospectively to increase the value of the land and buildings at the acquisition date by CU99,500, offset by an increase in depreciation expense of CU500 and an increase in the revaluation surplus component of net assets/equity of CU100,000. RE may transfer an amount matching the increase in depreciation between the revaluation surplus and accumulated surpluses or deficits where this is in accordance with its accounting policy (see paragraph 57 of IPSAS 17).

Disclosure requirements relating to amalgamations

Illustrating the consequences of applying the disclosure requirements in paragraphs 104–108 and AG53–AG54 of [draft] IPSAS [X].

- IE89. The following example illustrates some of the disclosure requirements relating to amalgamations of [draft] IPSAS [X]; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Paragraph reference

- AG53(a)–(c) On 30 June 20X2 RE was formed by an amalgamation of the former municipalities COA and COB. Neither COA nor COB gained control of RE in the combination. The amalgamation was mutually agreed by COA and COB, and enacted by the Government through legislation. The amalgamation aims to reduce costs through economies of scale, and to provide improved services to residents.

AG53(d) **Amounts recognized for each major class of assets and liabilities transferred as at 30 June 20X2**

	CU
Financial assets	1,701
Inventory	5
Property, plant and equipment	74,656
Intangible assets	42
Financial liabilities	(2,001)
Total net assets	<u>74,403</u>

- AG53(e) The following adjustments have been made to the carrying amounts of assets and liabilities recorded by COA and COB as at 30 June 20X2 prior to the amalgamation:

**Paragraph
reference**

		Original Amount (CU)	Adjustment (CU)	Revised Amount (CU)
AG53(e)(i)	Restatement of financial assets recorded by COA to eliminate transactions with COB	822	(25)	797
AG53(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
AG53(e)(ii)	Restatement of property plant and equipment recorded by COA to measure the items using the revaluation model	12,116	17,954	30,070

AG53(f) **Amounts recognized in Net assets/equity as at 30 June 20X2**

	COA (CU)	COB (CU)	Adjustment (CU)	RE (CU)
Revaluation surplus	0	18,332	17,954	36,286
Accumulated surpluses or deficits	12,047	26,070	0	38,117
Total net assets/equity	12,047	44,402	17,954	74,403

AG53(g) At the time these financial statements were authorized for issue, the last reporting date for COA and COB was 31 December 20X1. The revenue and expense, and surplus or deficit for COA and COB from 31 December 20X1 to the amalgamation date, and the amounts reported by COA and COB for each major class of assets and liabilities, and for net assets/equity, is shown below:

		COA (CU)	COB (CU)
AG53(g)(i)	Revenue		
	Property taxes	45,213	70,369
	Revenue from exchange transactions	2,681	25,377
	Transfers from other government entities	32,615	19,345
	Total revenue	80,509	115,091

Paragraph reference	Expenses		
AG53(g)(i)	Wages, salaries and employee benefits	(51,263)	(68,549)
	Grants and other transfer payments	(18,611)	(26,445)
	Supplies and consumables used	(7,545)	(13,391)
	Depreciation expense	(677)	(2,598)
	Impairment of property, plant and equipment	(17)	(33)
	Finance costs	(2)	(3)
	Total expenses	(78,115)	(111,019)
AG53(g)(i)	Surplus or (deficit) for the period	2,394	4,072
AG53(g)(ii)	Assets		
	Financial assets	822	904
	Inventory	0	5
	Property, plant and equipment	12,116	44,586
	Intangible assets	42	0
	Total Assets	12,980	45,495
AG53(g)(ii)	Liabilities		
	Financial liabilities	(933)	(1,093)
	Total liabilities	(933)	(1,093)
AG53(g)(iii)	Net assets	12,047	44,402
	Net assets/equity		
	Revaluation surplus	0	18,332
	Accumulated surpluses or deficits	12,047	26,070
	Total net assets/equity	12,047	44,402