



Public Sector Combinations

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IPSASB Meeting

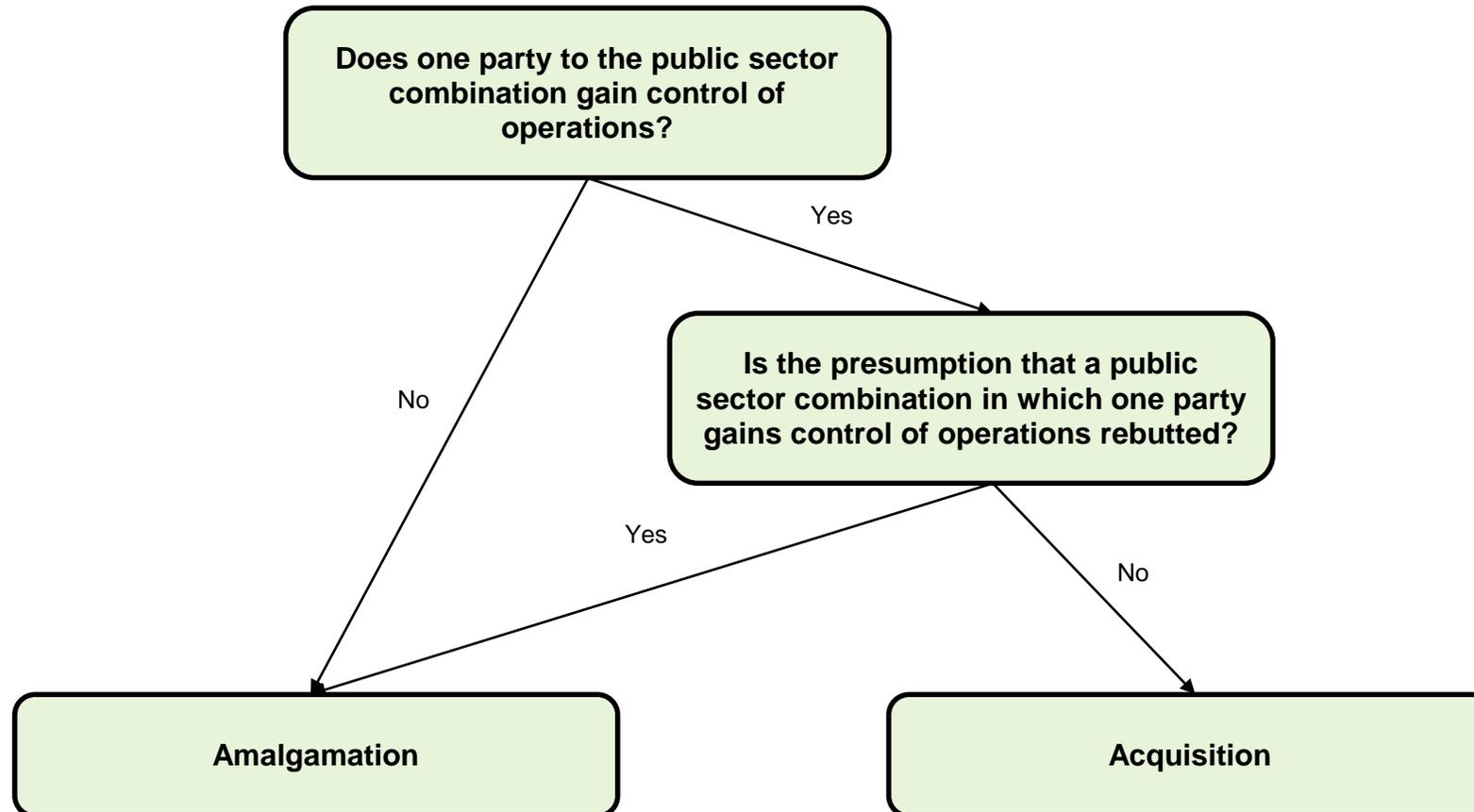
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Toronto, Canada

Objective of Session

- The objective of this session is to:
 - **Consider** Matters for Consideration presented in Agenda Item 2.1; and
 - **Approve** ED xx, Public Sector Combinations.

Approach in Exposure Draft



Objective, Scope and Definitions (Issues Paper (IP) 8–14, ED 1–5 and AG 1)

- An **acquisition** is a public sector combination in which one party to the combination gains control of one or more 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 one or more operations; or
 - b) A public sector combination in which one party to the combination gains control of one or more operations, and in which the presumption that such a combination is an acquisition is rebutted.

Matter for Consideration 1

- The IPSASB is asked:
 - **To agree** definitions included in ED xx, or to agree amendments to the definitions;
 - **To decide** whether definitions should be listed alphabetically or grouped by type of classification (Issues Paper, Appendix B)

Identifying a public sector combination and classification of public sector combinations (IP 15–27, ED 6–13, AG2–AG48, IG1–IG2 and IE1–IE170)

- Control
 - IPSAS 35
 - Guidance from IFRS 3 on identifying acquirer
- Rebuttable Presumption
 - Economic Substance
 - Consideration
 - Decision Making
 - Information useful for accountability and decision-making
 - Qualitative characteristics

Matter for Consideration 2 (a)–(c) - principles

- The IPSASB is asked to:
 - Confirm staff’s approach to classification of public sector combinations, in particular the scope of Application Guidance and Illustrative Examples; or to suggest an alternative approach.
 - Confirm staff’s decision to relocate Application Guidance from section on identifying an acquirer to section on the assessment of control.
 - Indicate whether guidance on information that is useful for accountability and decision-making purposes and QCs should be retained; and if so, whether any amendments are required.

Matter for Consideration 2 (d)–(e) - examples

- The IPSASB is asked to:
 - Indicate whether it considers that Illustrative Examples accurately reflect draft ED and Application Guidance.
 - Confirm stand-alone approach for each example scenario; or suggest an alternative approach.

Accounting for amalgamations (1)

(IP 28–53, ED 14–54, AG49–AG63 and IE171–IE208)

- Licenses and similar rights granted by one combining operation to another
 - Recognized as intangible assets
 - Guidance in AG53–AG54
- Loans between combining operations
 - Covered by the elimination of transactions requirements
 - Guidance in AG49–AG50, Example in IE171–IE175
- Transfers between combining operations
 - Covered by the elimination of transactions requirements
 - Guidance in AG49–AG50, Example in IE176–IE179

Accounting for amalgamations (2) (IP 28–53, ED 14–54, AG49–AG63 and IE171–IE208)

- Goodwill
 - No new goodwill; carry forward previously recognized amounts
 - Guidance in AG57–AG58
- Transfers between combining operation and 3rd party
 - Not part of combination – subsequent measurement requirements
 - Guidance in AG59–AG61, Example in IE204–IE207

Accounting for amalgamations (3) (IP 28–53, ED 14–54, AG49–AG63 and IE171–IE208)

- Presentation and Disclosure
 - Disclosure requirements now included in core ED
 - Amalgamations during reporting period (AG62–AG63)
 - Direct users to previous financial statements if available
 - Disclose information (paragraph 51(g)) if not

Matter for Consideration 3 (a)–(c)

- The IPSASB is asked **to confirm staff's approach** to:
 - Accounting for licenses and similar rights granted by one combining operation to another combining operation prior to an amalgamation
 - Accounting for loans between combining operations prior to an amalgamation
 - Accounting for transfers between combining operations prior to an amalgamation

Matter for Consideration 3 (d)–(e)

- The IPSASB is asked **to confirm staff's approach** to:
 - Transfers between combining operation and 3rd party prior to an amalgamation
 - Accounting for goodwill in an amalgamation
 - Reporting amalgamations part way through a reporting period

Accounting for acquisitions (1)

IP 54–74, ED 55–122, AG64–AG111 and IE209–IE294

- Guidance from IFRS 3
 - Reverse acquisitions and mutual entities included
 - Earnings per share omitted
 - Acquisition of assets to prevent their use by others amended
- Reacquired rights
 - Recognized as intangible assets
 - Guidance in AG77–AG78
- Loans between acquirer and acquiree
 - Determining what is part of the acquisition transaction
 - Guidance in AG96–AG99, Example in IE276–IE278

Accounting for acquisitions (2)

IP 54–74, ED 55–122, AG64–AG111 and IE209–IE294

- Transfers between an acquirer and an acquired operation
 - Determining what is part of the acquisition transaction
 - Guidance in AG96–AG99, Example in IE279–IE282
- Transfers involving 3rd party
 - Not part of combination – subsequent measurement requirements
 - Guidance in AG107–AG109, Example in IE290–IE293
- Goodwill or a gain from a bargain purchase
 - Recognize loss where assume net liabilities - not adopted
- Disclosures
 - Disclosure requirements now included in core ED

Matter for Consideration 4

- The IPSASB is asked **to confirm staff's approach** to:
 - Including additional guidance, based on IFRS 3 relating to
 - Reverse acquisitions
 - Acquisition of assets to prevent their use by others
 - Combinations of mutual entities
 - Accounting for reacquired rights
 - Accounting for loans between acquirer and acquired operation
 - Transfers between acquirer and acquired operation
 - Transfers between acquirer or acquired operation and 3rd party
 - Recognizing/measuring goodwill or gain from bargain purchase

Matter for Consideration 5

- Effective date and transition
 - IP 75–76, ED 125–133 and AG120–AG121
 - Includes combinations involving only mutual entities or by contract alone (based on IFRS 3)
- The IPSASB is asked **to indicate whether:**
 - It supports the inclusion of the transitional provisions
 - There are any further transitional provisions that should be included

Amendments to other IPSASs (1)

IP 77–120, ED Appendix B

- Minor amendments to IPSASs
 - Terminology changes, reference to this [draft] IPSAS
- Impairment of Goodwill
 - Reduced cash outflows of non-cash-generating operation
 - Treat as if cash-generating operation under IPSAS 26
 - IPSAS 21 amended to specify goodwill as cash-generating asset
 - Alternative approach – exclude from definition of goodwill
 - Substantial amendments to IPSAS 26
 - Based on IAS 36

Amendments to other IPSASs (2)

IP 77–120, ED Appendix B

- Intangible assets acquired in an acquisition
 - Significant amendments to IPSAS 33, based on IAS 38
- First-time adoption of accrual basis IPSASs
 - No impact on opening statement of financial position (prospective)
 - Combinations may occur during transition period
 - Exemptions apply to combination assets/liabilities
 - No goodwill if applying exemptions - always adjust net assets/equity
- Interests in other entities
 - Exclude the possibility that an operation could become a controlled entity through an amalgamation
 - IFRS amendments not included IPSAS 34–38

Matter for Consideration 6

- The IPSASB is asked **to indicate whether:**
 - It supports the minor amendments to other IPSASs
 - The amendments to IPSAS 21 and 26 should be retained
 - Or whether the alternative approach (excluding non-cash-generating operations from the scope of goodwill) should be adopted;
 - It supports the amendments to IPSAS 31
 - It supports the amendments to IPSAS 33
 - It supports the amendments to IPSASs 34–38

Other Issues

- Basis for Conclusions
 - IP 121–122, ED Basis for Conclusions
- Specific Matters for Comment
 - IP 123–124, ED Request for Comments (pages 3 and 4 of ED)
 - Suggestion to revise SMC 2, delete SMC 3
- Address in page-by-page review
 - Amendments to reflect earlier discussions

Revised SMC 2

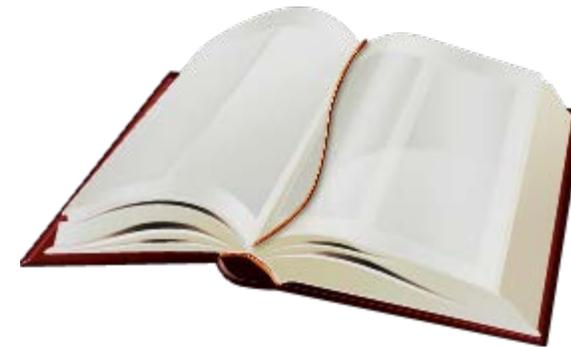
Do you agree with the following elements of the approach to classifying public sector combinations adopted in this Exposure Draft?

- (a) Where no party to the combination gains control or one or more operations, the combination is classified as an amalgamation;
- (b) The gaining of control of one or more operations by a party to the combination is an essential requirement for an acquisition, but is not of itself sufficient to determine that a combination should be classified as an acquisition;
- (c) Where one party to the combination gains control or one or more operations, there is a rebuttable presumption that the combination is an acquisition; and
- (d) Two additional factors—consideration and decision-making—are taken into account, along with their related indicators in determining whether the presumption is rebutted?

If not, how would you change the approach to classifying public sector combinations?

Matters for Consideration 7 and 8

- The IPSASB is asked to **perform a page-by-page review** and to **identify any changes** to the ED that are required.
- The IPSASB is asked to **approve** the ED for issue and to **decide** what consultation period is appropriate for this project.





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