

Public Sector Combinations

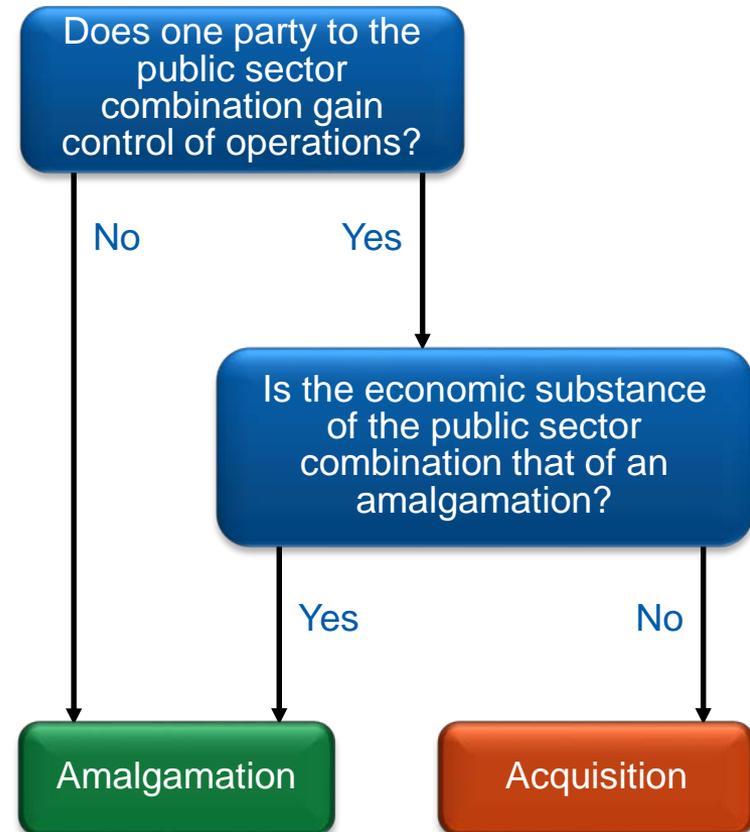
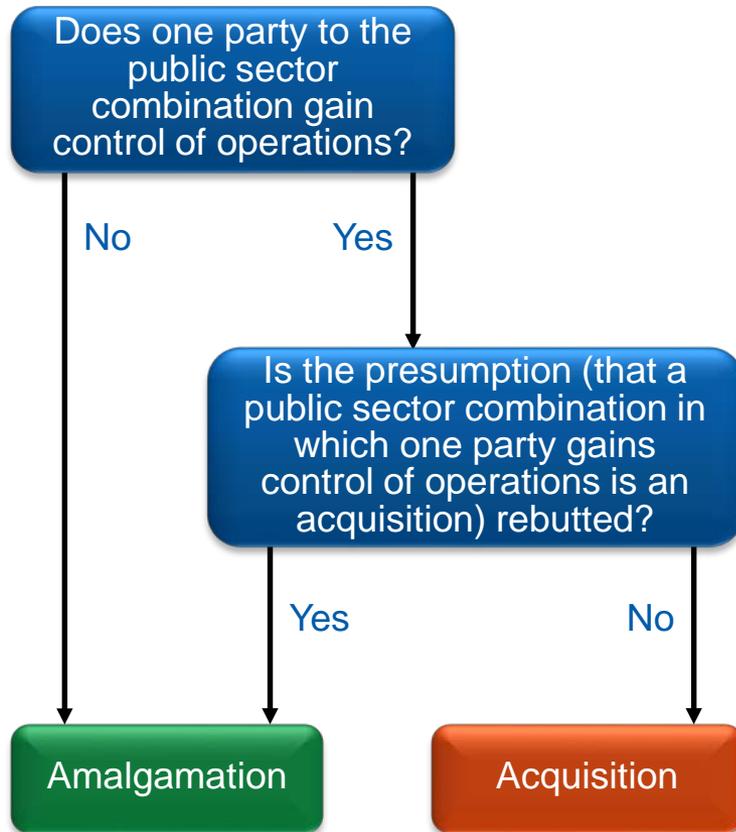
Paul Mason, Principal

IPSASB Meeting

December 6–9, 2016

Stellenbosch, South Africa

Classification Approach (Agenda Item 4.2.1)



Classification Approach (Appendix A to Agenda Item 4.2.1)

8. If one party to a public sector combination gains control of one or more operations as a result of the combination, an entity considers the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition.~~there is a rebuttable presumption that the combination shall be classified as an acquisition. An entity shall classify the combination as an acquisition unless there is evidence that the economic substance of the combination is that of an amalgamation, in which case the presumption is rebutted, and the entity shall classify the combination as an amalgamation. A combination in which one party gains control of one or more operations that does not have the economic substance of an amalgamation shall be classified as an acquisition.~~

Classification Approach (Agenda Item 4.2.1)

- Does the IPSASB support the proposed amendments to the definitions, core text and Basis for Conclusions proposed by staff?

Joint ventures and joint arrangements (Agenda Item 4.2.2)

ED 60 included amendments based on limited scope IFRS



IASB deferred implementation of the amendments

Three approaches:

- Delete the consequential amendments;
- Retain the consequential amendments; or
- Retain the consequential amendments, but amend the effective date of the amendments to a date to be decided by the IPSASB.

Recommend last option because:

- Maximizes alignment with IFRS;
- Allows entities that wish to adopt early to do so
- Does not require entities to change their accounting twice in a short period; and
- Minimizes future changes.

Joint ventures and joint arrangements (Agenda Item 4.2.2)

- Does the IPSASB support the staff recommendation that IPSAS 40 should retain the consequential amendments to IPSAS 35 and IPSAS 36 proposed in ED 60, but amend the effective date of the amendments to a date to be decided by the IPSASB?

Information regarding planned combinations (Agenda Item 4.2.3)

150. An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

...

(b) A description of the nature of the entity's operations and principal activities, including any planned changes to those operations or activities;

- Does the IPSASB wish to include a consequential amendment to IPSAS 1?

Page-by-page review of draft IPSAS 40

(Agenda Item 4.2.4)

Page	Paragraph	Detail
5	1	Amendments to remove references to the residual amount and replace with references to net assets/equity.
6-7	5	Amendments to the definitions of an amalgamation and an acquisition to remove references to the rebuttable presumption.
7-9	8-14	Amendments to the classification approach to remove references to the rebuttable presumption.
9	16	Amendments to remove references to the residual amount and replace with references to net assets/equity.
12	33 (and heading above)	Amendments to limit the income taxes exception to the recognition and measurement principles to those cases where tax forgiveness is included in the terms of the amalgamation.
12	35	Amended the reference to the <i>Employee Benefits</i> standard from IPSAS 25 to IPSAS 39.

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
12-13	37-39 (and heading above 36)	Amendments to remove references to the residual amount and replace with references to net assets/equity (without specifying which components of net assets/equity should be used).
13	42	Amendments to remove references to the residual amount and replace with references to net assets/equity.
14-15	46 and 49 (and heading above)	Amendments to include subsequent measurement of income taxes where tax forgiveness is not included in the terms of the amalgamation.
15-16	51 and 53(g)	Amendments to permit, but not require, the presentation of comparative information when accounting for amalgamations.
16	53(f)	Amendments to remove references to the residual amount and replace with references to net assets/equity
16	53(h)(i)	Terminology: “reliable” replaced by “faithfully representative” for consistency with changes introduced by <i>Improvements to IPSASs 2015</i> .

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
17	55(b)	Amendments to limit the income taxes disclosure to those cases where tax forgiveness is included in the terms of the amalgamation.
20	76	Footnote added to the first use of “reliably” (excluding the quotation from IPSAS 19), for consistency with changes introduced by <i>Improvements to IPSASs 2015</i> .
20-21	77 (and heading above)	Amendments to limit the income taxes exception to the recognition and measurement principles to those where tax forgiveness is included in the terms of the amalgamation
21	79	Amended the reference to the <i>Employee Benefits</i> standard from IPSAS 25 to IPSAS 39.
22	84	Addition to include provision to measure items for which the fair value cannot be reliably measured at carrying value under the acquisition method.
22	N/A	Paragraph 85 of the ED has been deleted.

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
23-24	92 and 94	Amendments to remove references to the rebuttable presumption.
25	Headings above paragraph 101	Amendments to the headings above paragraphs 101 and 102 to clarify the circumstances in which these paragraphs apply.
26	103	Measurement period for acquisitions changed to two years from one year.
28-29	112 and 118	Amendments to include subsequent measurement of income taxes where tax forgiveness is not included in the terms of the acquisition.
30-31	120(n)	Amendments to include a disclosure of the loss on acquisition recognized in surplus or deficit.
33	124(f)	Amendments to limit the income taxes disclosure to those cases where tax forgiveness is included in the terms of the acquisition

Page-by-page review of draft IPSAS 40

(Agenda Item 4.2.4)

Page	Paragraph	Detail
35	AG1	Amendments to reflect the change in the classification approach to remove references to the rebuttable presumption.
35	AG4	Amendments to clarify that the definitions of inputs and outputs are specific to this standard.
36	AG10	Amendments to the classification approach to remove references to the rebuttable presumption.
37-38	AG18, AG19 (and header above)-AG23	Amendments to the classification approach to remove references to the rebuttable presumption.
38	AG24	Amendment to clarify that the imposition of the combination being discussed is by a party to the combination, not a third party.
39	AG25, AG27- AG29, AG31	Amendments to the classification approach to remove references to the rebuttable presumption.

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
40	AG32, AG35-AG37	Amendments to the classification approach to remove references to the rebuttable presumption.
40	AG33	Amendment to clarify that the imposition of the combination being discussed is by a third party, not a party to the combination.
40	AG35	Amendment to clarify that the imposition of the combination being discussed is by a party to the combination, not a third party.
41	AG38-AG42	Amendments to the classification approach to remove references to the rebuttable presumption
41-43	AG43 and AG45 (table)	Additional sentence added to reflect respondents' comments that the modified pooling of interests may not assist with comparability adjustments are required to achieve consistent accounting policies.

Page-by-page review of draft IPSAS 40

(Agenda Item 4.2.4)

Page	Paragraph	Detail
43	AG46-AG47	Amendments to the classification approach to remove references to the rebuttable presumption.
43	AG49	Amendments to remove references to the residual amount.
43-44	AG50	Amendments to the classification approach to remove references to the rebuttable presumption.
44	AG52	Amendments to remove references to the residual amount.
45	AG57 (and heading above)	Amendments to limit the income taxes exception to the recognition and measurement principles to those cases where tax forgiveness is included in the terms of the amalgamation.
45	AG59	Amendments to remove references to the residual amount and replace with references to net assets/equity.
46	AG64	Amendments to permit, but not require, the presentation of comparative information when accounting for amalgamations.

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
50-51	AG85 (and heading above) and AG87	Amendments to limit the income taxes exception to the recognition and measurement principles to those cases where tax forgiveness is included in the terms of the acquisition.
62-63	IPSAS 17.60 IPSAS 17.107M	Amendments to include the consequential amendment to IPSAS 17, which arises from a consequential amendment made by IFRS 3, <i>Business Combinations</i> . Changed text shown highlighted.
70	IPSAS 26.90F(b)	Measurement period for acquisitions changed to two years from one year. Changed text shown highlighted.
75, 78	IPSAS 26.108; IPSAS 26.124	Formatting changes. The amendments originally shown in square brackets were formatted as changes, as they were not part of the issued text. However, they were included in the IPSASB's ED, <i>Impairment of Revalued Assets</i> . The IPSASB has since approved these changes, so the amendments have been actioned, and the explanatory footnotes removed.

Page-by-page review of draft IPSAS 40

(Agenda Item 4.2.4)

Page	Paragraph	Detail
94-95	IPSAS 35.79C IPSAS 35.BC57	The effective date of amendments mirroring <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (Amendments to IFRS 10 and IAS 28) has been changed to a date to be determined by the IPSASB (and a BC paragraph added). Changed text in IPSAS 35.79C is shown highlighted; IPSAS 35.BC57 is an addition (underlined).
97-98	IPSAS 36.51C IPSAS 36.BC15	The effective date of amendments mirroring <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (Amendments to IFRS 10 and IAS 28) has been changed to a date to be determined by the IPSASB (and a BC paragraph added). Changed text in IPSAS 36.51C is shown highlighted; IPSAS 36.BC15 is an addition (underlined).
107-108	BC15	Additional paragraph added to the Basis for Conclusions explaining that this standard will apply to combinations undertaken on a temporary basis

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
115-116	BC40-BC45 (and heading above)	Additional paragraphs to explain the change to the classification approach from ED 60.
116	BC46(b)	Reference to entities amended to businesses, as IFRS 3 applies to more than just entities.
118-119	BC65 and BC66	Amendments and additional paragraph to explain the IPSASB's decision to permit, but not require, the presentation of comparative information when accounting for amalgamations.
119	BC68(b)	Addition to acknowledge the change to the tax forgiveness requirements in an amalgamation made since ED 60.
120	BC68(c)	Amended the reference to the <i>Employee Benefits</i> standard from IPSAS 25 to IPSAS 39.

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
120-121	BC69-BC79 (and heading above)	Amendments and additional paragraphs to explain the IPSASB's decision to remove references to the residual amount and replace with references to net assets/equity (without specifying which components of net assets/equity should be used)
122	BC81	Reference to consistency with the acquisition method in respect of the measurement period removed following the IPSASB's decision in September 2016 to extend the measurement period for acquisitions.
123	BC87	Addition to note that respondents to ED 60 supported the use of the acquisition method.

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
123-124	BC90	<p>Explanation of the IPSASB's decisions to amend acquisition accounting requirements in respect of:</p> <ul style="list-style-type: none"> • Tax forgiveness • Exception to the measurement principle where it is impracticable to determine fair value; and • Measurement period.
125	IG2 (diagram)	<p>Second step amended to remove the reference to the rebuttable presumption. Step now reads: "Is the economic substance of the public sector combination that of an amalgamation? (See paragraphs 9–14 and AG19–AG50 of IPSAS 40)"</p>
127	IE10	<p>Amendment to clarify that the imposition of the combination being discussed is by a third party, not a party to the combination.</p>

Page-by-page review of draft IPSAS 40

(Agenda Item 4.2.4)

Page	Paragraph	Detail
128	IE18-IE22	Example amended to remove references to the rebuttable presumption, and to clarify that the imposition of the combination being discussed is by a third party, not a party to the combination.
129	IE24	Amendment to clarify that the imposition of the combination being discussed is by a third party, not a party to the combination.
129-130	IE28-IE32	Example amended to remove references to the rebuttable presumption, and to clarify that the imposition of the combination being discussed is by a third party, not a party to the combination.
132	IE44-IE48	Example amended to remove references to the rebuttable presumption.
134	IE58-IE62	Example amended to remove references to the rebuttable presumption.

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
135-136	IE67, IE69-IE71	Example amended to remove references to the rebuttable presumption.
137-138	IE77, IE79-IE81	Example amended to remove references to the rebuttable presumption.
138	IE83-IE84	Example amended to remove references to the rebuttable presumption, and to address concerns that the classification was too dependent on the legal form.
138-139	IE85 (and heading above)-IE93	Example amended to remove references to the rebuttable presumption, and to remove references to a GBE following the publication of <i>The Applicability of IPSASs</i> , which removes that term from the IPSASB's literature.
140-141	IE98, IE100-IE102	Example amended to remove references to the rebuttable presumption.

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
141	IE104-IE105	Example amended to remove references to the rebuttable presumption, and to clarify that the imposition of the combination being discussed is by a party to the combination, not a third party.
142	IE111, IE113-IE115	Example amended to remove references to the rebuttable presumption.
142	IE117-IE119	Example amended to remove references to the rebuttable presumption, and to clarify that the imposition of the combination being discussed is by a party to the combination, not a third party.
143-144	IE125, IE127-IE129	Example amended to remove references to the rebuttable presumption.

Page-by-page review of draft IPSAS 40

(Agenda Item 4.2.4)

Page	Paragraph	Detail
144-145	IE134, IE136-IE138	Example amended to remove references to the rebuttable presumption, and to clarify that the imposition of the combination being discussed is by a party to the combination, not a third party.
146	IE143, IE145-IE147	Example amended to remove references to the rebuttable presumption, and to clarify that the imposition of the combination being discussed is by a party to the combination, not a third party.
147-148	IE152, IE154-IE156	Example amended to remove references to the rebuttable presumption.
148	IE161	Amendment to remove the reference to the residual amount.
149	IE165	Amendment to remove the reference to the residual amount.
149	IE169	Amendment to replace the reference to the residual amount with a reference to net assets/equity.

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
149	IE171	Included additional text in example to address a respondent's request for additional guidance on assessing asset lives post amalgamation.
150	IE172, IE173 and IE175	Example amended to limit its applicability to those cases where tax forgiveness is included in the terms of the amalgamation.
150-151	IE175	Amendment to remove the reference to the residual amount.
151-152	IE177-IE183 (and heading above)	Amendment to the example to replace the reference to the residual amount with a reference to net assets/equity, and to remove the transactions transferring components of net assets/equity to the residual amount.
153	IE186 and IE187	Amendment to replace the references to the residual amount with references to net assets/equity.

Page-by-page review of draft IPSAS 40 (Agenda Item 4.2.4)

Page	Paragraph	Detail
155	IE192	Amendment to remove the reference to the residual amount.
155-156	IE192	Correction of some dates in the example disclosure.
156	IE192	Inclusion of a sentence in the amalgamation disclosure example referring preparers to the discussion of materiality in IPSAS 1.
159	IE201	Example amended to refer to the correct entity.
168-169	IE245, IE246 and IE248	Example amended to limit its applicability to those cases where tax forgiveness is included in the terms of the acquisition.
175	IE278	Inclusion of a sentence in the acquisition disclosure example referring preparers to the discussion of materiality in IPSAS 1.

Approval of IPSAS 40 and effective date (Agenda Item 4.2.4)

- The IPSASB is asked to:
 - a) Confirm that it is satisfied that due process has been followed effectively;
 - b) Approve IPSAS 40; and
 - c) Agree an effective date for IPSAS 40 of January 1, 2019.



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