IPSASB International Public Sector Accounting Standards Board

529 Fifth Avenue, 6th Floor, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ipsasb.org

PROJECT HISTORY

Contact:

João Fonseca (joaofonseca@ipsasb.org)

Paul Mason (paulmason@ipsasb.org)

June 2015

Staff presented an Issues Paper on the classification of public sector combinations.

As directed by the IPSASB at its March 2015 meeting, the Issues Paper considered classification by reference to both control and a range of other factors.

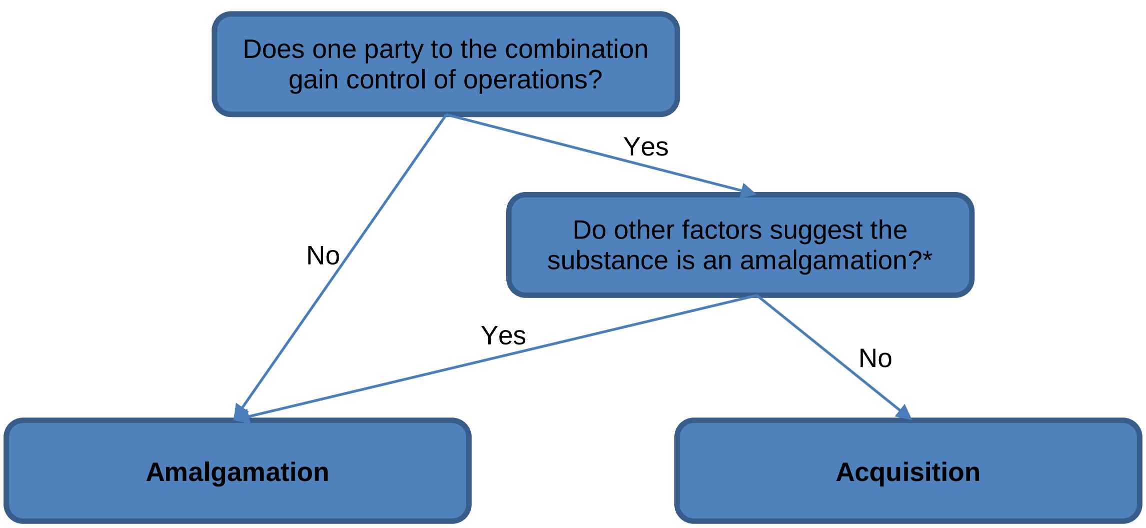
Approaches to factors

Staff outlined the two approaches discussed in the Issues Paper, explaining that the factors identified could be used:

- To assist in determining whether an entity had gained control; or
- As additional factors to be considered in addition to control to determine the appropriate accounting treatment.

The IPSASB agreed to adopt a variation of the second approach, whereby the multiple factors are used in determining the classification of a combination, rather than moving directly to the accounting treatment.

The approach adopted by the IPSASB is summarized in the following diagram:



* Wording of this question to be determined

The IPSASB agreed that producing definitions based on these factors would be difficult and it may be more appropriate to include descriptions of acquisitions and amalgamations in the draft ED.

Factors to be considered

The IPSASB discussed the individual factors identified in the Issues Paper, and concluded that:

- Consideration is an indicator of an acquisition, whereas no consideration is an indicator of an amalgamation, and is a factor to be taken into account.
- Decision making is a factor to be taken into account, and encompasses compulsion, citizens' rights (such as a referendum) and common control.
- Accountability is not be a factor in its own right, but something that is referred to in assessing whether the overall decision is appropriate.
- Both a change of sector and ownership interests are part of the control criteria, and need not be considered independently.

The IPSASB directed staff to undertake further work to clarify how the factors should be taken into account in classifying public sector combinations.

Scenarios

The IPSASB discussed the scenarios set out in the Issues Paper, noting that the factors that the IPSASB had agreed to consider were different to those included in the Issues Paper.

The preliminary views expressed by the IPSASB regarding the different scenarios are summarized in the following table:

Scenario	**Classification**
Purchases at market value	Acquisition
Bargain purchase	Acquisition if private sector; may be amalgamation if not-for-profit
Donated operations	Acquisition if private sector; may be amalgamation if not-for-profit
Nationalizations	Acquisition
Bailouts	Acquisition
PSCs wholly in the public sector but not under common control	
• The transfer of operations from one level of government to another existing level of government.	Acquisition (view expressed by some members)
• Territorial boundaries being rearranged to create three municipalities out of two original municipalities.	Amalgamation
• Two municipalities combining to form a single municipality.	
➢ New municipality is created	Amalgamation
➢ An existing municipality receives the operations	Amalgamation
Public sector combinations UCC	Amalgamation

March 2015

Staff presented an Issues Paper and sections of a draft Exposure Draft (ED) on public sector combinations.

Objective and Scope

The IPSASB tentatively supported the inclusion of the donated operations within the scope of the project, but noted that a final decision would only be made once the accounting consequences of this proposal had been clarified. The IPSASB considered that the decision tree included in the Issues Paper would need to be revised to encompass donated operations.

Definitions

The IPSASB debated the proposed definition of an acquisition, in particular whether acquisitions could arise under common control. The IPSASB did not come to a firm conclusion regarding acquisitions under common control.

In debating the definition of an acquisition and the decision tree, the IPSASB made a number of points, including:

- The most common combinations within the public sector are amalgamations and reorganizations.
- Many constituents considered that acquisitions under common control either would not arise or would be rare, and that the acquisition method should not be applied to combinations under common control.
- Control is a key factor and reflects the economic substance of a transaction.
- The economic substance of the transaction should determine whether it is an acquisition or not.
- The economic substance of a combination can be summarized as "are you getting something additional or reorganizing what you already have?"
- The identification of an exchange of value is important in defining an acquisition. There was some debate about whether the exchange should be at fair value or wider. The IPSASB noted that emphasizing an exchange of value would have implications for the treatment of transactions such as forced seizures where there is no exchange of value.
- An important question relates to who is making the decision to undertake a combination (as opposed to negotiating details once that decision has been made).

The IPSASB directed staff to reconsider this issue by addressing the issues raised in the discussion, and taking the indicators of control in IPSAS 35, *Consolidated Financial Statements*, as a starting point.

The Acquisition Method

The IPSASB confirmed that the project was not an IFRS convergence project and need not apply the "rules of the road" approach, although the IPSASB agreed that IFRS 3, *Business Combinations* provided a suitable basis for developing the concepts for the acquisition method.

The IPSASB discussed a number of detailed matters relating to the acquisition method. Key decisions were as follows:

- The terminology in IFRS 3 will be revised where appropriate.
- A contingent liability should be recognized in the statement of financial position only where an acquisition involves a transfer of consideration, and hence goodwill could arise.

- The shortened wording regarding income tax provided in the Issues Paper should be adopted. This omits specific references to deferred tax assets, liabilities and timing differences. Additional provisions may need to be included to cover those situations where an acquisition included tax forgiveness.
- No reference to non-current assets held for sale would be made in the draft ED.

The Modified Pooling of Interests Method

The IPSASB discussed a number of detailed matters relating to the modified pooling of interests method. Key decisions were as follows:

- Where the larger of the parties combining had not previously adopted IPSAS, it would be more appropriate for the acquisition to be accounted for using IPSAS 33*, First-time Adoption of Accrual Basis IPSASs*). This need not be addressed in a future IPSAS.
- The IPSASB directed staff to reorder the provisions regarding gains and losses so that gains and losses arising from conforming accounting policies are addressed prior to the discussion of any residual gain or loss.

December 2014

The IPSASB discussed an Issues Paper on Public Sector Combinations (PSCs). The Issues Paper considered the classification of PSCs and the rationale for distinguishing between PSCs under common control (UCC) and those not under common control (NUCC).

Combinations UCC - Reorganizations

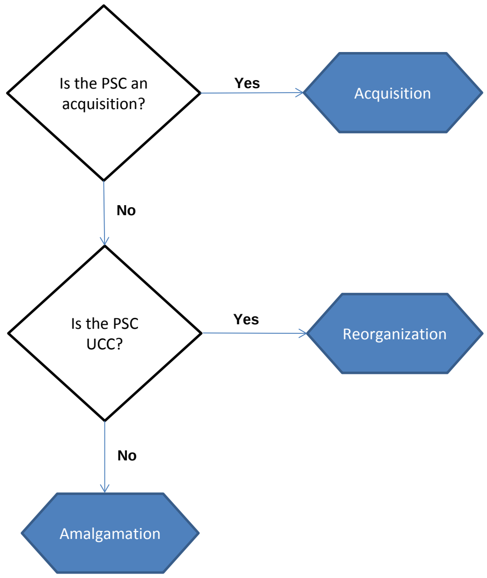
The IPSASB was generally supportive of staff's proposal regarding reorganizations. Nevertheless, IPSASB did not consider the wording *autonomous* and *risks and rewards* appropriate, but instead agreed the emphasis should be on control and the guidance in IPSAS 35 (approved earlier in the December 2014 meeting).

Combinations NUCC – Amalgamations

The IPSASB supported the view that an amalgamation did not involve an exchange.

The IPSASB agreed not to consider whether transferor accounting needed to be included at this stage, but considered that the definitions could be simplified in the future ED.

The IPSASB agreed the following sequence of decisions as the basis for classifying PSCs:



The IPSASB indicated that donations of operations should not be considered as combinations under this project, but rather should be accounted for under IPSAS 23. Nationalizations should be treated as acquisitions if that is the substance of combination.

Definitions

The IPSASB decided to adopt the minimum definitions possible when identifying the parties and the operations involved in the combination. The IPSASB supported the following definitions as a good starting point:

- A **reorganization** is a public sector combination under common control;
- An **acquisition** is a public sector combination not under common control in which an entity exchanges value to gain control of an operation;
- An **amalgamation** is a public sector combination not under common control that is not an acquisition.

Given the decisions taken on classification of PSCs, the definitions included in the issues paper were not discussed.

The IPSASB agreed that the exchange value term in an acquisition definition is wider than the definition of an exchange transaction used in IPSAS 23, and includes some non-exchange transactions. The meaning of “exchange value” would need to be explained in guidance.

The IPSASB decided to retain reorganizations and amalgamations at this stage, but to reassess this decision at the March 2015 meeting. This may lead to a single classification covering both amalgamations and reorganizations, with any differences addressed in the accounting treatment.

Measurement

The IPSASB decided to use fair value as the measurement basis for acquisitions, as the term is defined in IPSASs.

The IPSASB supported the staff recommendation that the acquisition method include the recognition of goodwill encompassing both the generation of cash inflows and reduction in net cash outflows.

The IPSASB supported the staff recommendation to adopt the modified pooling of interests method when accounting for reorganizations and amalgamations. Some members supported the use of fresh-start accounting for amalgamations where it may be impracticable to apply the modified pooling of interest approach, for example where entities have very different accounting policies or have previously used cash accounting.

The IPSASB will reconsider the provision of comparative information in respect of amalgamations and reorganizations at later meetings.

Joint Ventures

The IPSASB decided to maintain the CP's exclusion of joint ventures by scoping out due to its complexity.

Terminology

With the exception of replacing recipient with acquirer, the IPSASB agreed to retain the terms used in the CP.

Presentation Objectives

The IPSASB decided that presentation objectives should follow the objectives of the standard and reflect the economic nature of each class of combination.

Directions to Staff

The IPSASB directed staff to develop an ED that only addresses mainstream PSC transactions. Other types of PSC should be left to professional judgment.

September 2014

The IPSASB discussed an Issues Paper on Public Sector Combinations. The Issues Paper considered the classification of public sector combinations

Combinations Not Under Common Control (NUCC) and Combinations Under Common Control (UCC)

The IPSASB agreed that the primary distinction between public sector combinations should be between those UCC and those NUCC. The IPSASB agreed that the default treatment for combinations UCC is as reorganizations, but that combinations UCC should be treated as acquisitions in the rare cases where this reflects the substance of the combination. The IPSASB used the term "reorganizations" to describe combinations UCC that are not acquisitions to distinguish them, at this stage, from amalgamations. The IPSASB considered that recognition and measurement may differ for reorganizations and amalgamations NUCC and until these issues have been considered, it is important to consider reorganizations and amalgamations separately.

Acquisitions and Amalgamations NUCC

The IPSASB considered whether the factors suggested by respondents to the CP provided a clear basis for determining when one operation in a combination has gained control and the combination therefore meets the definition of an acquisition. The IPSASB agreed that a basket of factors needs to be taken into account in determining whether a combination is an acquisition or an amalgamation. These factors include:

- Whether there is a transfer of consideration;
- Whether a combination is an exchange transaction (this includes, transfers at market price and commercial substance);

- Whether a combination involves a change in sector (additional work on this factor will consider whether a change of economic entity, change of control and/or change of ownership are also relevant); and
- Whether a combination is voluntary or involuntary.

The IPSASB considered that the nature of a jurisdiction, political control and the operation of government were not relevant factors in themselves, but could influence how other factors were applied.

Joint Ventures

The IPSASB will reconsider whether to include the formation of joint ventures in the scope of the project in December 2014.

June 2014

The IPSASB discussed an Issues Paper and a review of the responses to the June 2012 Consultation Paper *Public Sector Combinations*.

Scope of the project

The IPSASB confirmed its previous decision that the scope of the project should be all events or transactions that bring together separate operations into one entity. The IPSASB agreed to defer the decision on whether to retain transferor accounting in the scope of the project.

Classification

The IPSASB discussed the analysis in the Issues Paper. Members noted that some respondents felt that the language in the Consultation Paper was confusing and did not take account of public sector circumstances. Members also noted the lack of experience of consolidation in many jurisdictions and that consolidation is a challenging process. These factors may have contributed to the negative nature of some comments.

The IPSASB discussed the proposal in the Issues Paper regarding ownership. This suggested supplementing control by considering of whether an entity had “ultimate owners”. Only where ultimate owners existed would acquisition accounting be applied. The IPSASB decided not to proceed with this approach. The IPSASB directed staff to further develop options for classification based on the approach in the Consultation Paper, taking into account the suggestions made by respondents including whether there is consideration and whether a combination is an exchange transaction.

Measurement

The IPSASB discussed the responses to the Specific Matters for Comment in the Consultation Paper relating to measurement. The IPSASB agreed that decisions on these matters should be deferred until the approach to classification has been agreed.

March 2013

The IPSASB had an initial discussion of the responses received to Consultation Paper (CP), *Public Sector Combinations* prepared by staff. The CP was issued in June 2012 with comments requested by October 31, 2012. The IPSASB has received 26 responses.

The IPSASB considered the responses to Specific Matter for Comment (SMC) 1 “Is the scope of the CP appropriate?” The IPSASB:

- Agreed that the project should continue with the scope proposed in the CP;

- Agreed to provide guidance on derecognition and recognition of assets for the transferor to avoid unintended differences in accounting treatment of the same combination between transferor and transferee in the absence of an equivalent standard to IFRS 5, *Accounting for Non-Current Assets Held for Sale and Discontinued Operations*; and
- Agreed further guidance should be included in the draft ED where further clarity is necessary on (a) the definition of an operation, (b) disclosure requirements for combining entities relating to the going concern basis, (c) subsequent measurement requirements similar to that included in IFRS 3, *Business Combinations*, and (d) distinguishing between asset acquisitions, entity and operation acquisitions and amalgamations using relevant text from IFRS 3.

The IPSASB had an initial discussion of the responses to SMC 2 which asked respondents whether the approach used in the CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC, is appropriate. The IPSASB directed staff to outline the possible consequences for the accounting treatment of the different suggestions that respondents made to this SMC for consideration at its June 2013 meeting.

The IPSASB will consider a detailed analysis of the responses to the other SMCs and Preliminary Views at its June 2013 meeting.

June 2012:

The IPSASB approved the Consultation Paper (CP), *Public Sector Combinations*. It defines a public sector combination as "the bringing together of separate operations into one entity, either as an acquisition or an amalgamation." The CP distinguishes between PSCs that are acquisitions and PSCs that are amalgamations. The CP then distinguishes between PSCs that are "not under common control" (NUCC) and "under common control" (UCC).

The CP has a response date of October 31, 2012.

March 2012

At its December 2011 meeting, the IPSASB agreed a working definition for entity combination as "the bringing together of separate operations into one entity either as an acquisition or an amalgamation." The term "operation" is used because it encompasses both "part of an entity" and an "entity." This decision meant that the title of the project "entity combinations" is not appropriate and thus, the title of the project has been changed to "public sector combinations."

The IPSASB considered a draft Consultation Paper (CP), *Public Sector Combinations*. The IPSASB tentatively agreed that:

- The structure of the draft CP should be changed to first distinguish between acquisitions and amalgamations and, secondly, to distinguish acquisitions or amalgamations that are not under common control (NUCC) or are under common control (UCC).
- The definition of common control should be revised, as follows. Common control is defined as "all of the operations are ultimately controlled by the same entity."
- Discussion of recognition issues, such as acquisition date, needs to be added to the draft CP.
- The discussion of the differences between entities UCC and NUCC should focus on whether the parties to a PSC are controlled by the same ultimate controlling entity rather than focusing on the related party nature of the entities.

- Section 4, *The Boundary between Acquisitions and Amalgamations* should be placed immediately after the scope and definitions section.
- The discussion relating to qualitative characteristics should be based on those set out in IPSAS 1, *Presentation of Financial Statements* rather than on CF–ED1 to be consistent with other decisions in the draft CP relating to the use of current IPSASs.
- A sub-section on goodwill needs to be added to acquisitions NUCC as to whether goodwill can arise in the public sector.
- A sub-section on the treatment of the difference arising needs to be added to acquisitions UCC to include the option for gains or losses to be recognized directly in accumulated surplus or deficit, or be treated as contributions from owners or distributions to owners.

The IPSASB discussed the definition of fair value used in the draft CP (AP 6.1, paragraphs 3.8–3.10). It was noted that this definition differs from that used by the IASB and that the IASB's model is a method of obtaining fair value for exchange transactions. This point needs to be made clear in the draft CP. The IPSASB agreed that a Specific Matter for Comment should be included asking whether fair value is the appropriate term to use given that the IASB uses it in a different way to the IPSASB.

The IPSASB will consider a revised draft Consultation Paper at the June 2012 meeting.

December 2011

The IPSASB considered draft working definitions related to entity combinations. The IPSASB tentatively agreed that the working definition of an entity combination include only the term "operation" rather than "entity and/or operation" because the term "operation" encompasses both "part of an entity" and an "entity." As a consequence, the title of the project will need to be amended. The IPSASB agreed to consider the project title further at its March 2012 meeting.

Staff proposed that the working definition of an operation include circumstances where there are (1) activities and assets, or (2) activities and assets and liabilities. The IPSASB agreed that operations comprising activities and liabilities should be included within the definition of an operation and thus within the scope of the project.

At the September 2011 meeting, the IPSASB agreed to explore replacing the term "control" with the more expansive phrase such as that used in the CF–ED 1 of the Conceptual Framework project, in the definitions of acquisition and amalgamation. The IPSASB discussed this proposal and tentatively agreed that the Introduction to the Consultation Paper should explain why the term "control" is used and that this does not pre-empt decisions in the Conceptual Framework project relating to the reporting entity.

The IPSASB also considered an initial draft Consultation Paper, *Entity Combinations*. The IPSASB tentatively agreed that:

- The scope of the project should exclude acquisitions of joint ventures (in addition to the tentative decision made at the September 2011 meeting to exclude the formation of joint ventures).
- The category of entity combinations not under common control: acquisitions should be split into two sub-sections, (1) acquisitions where consideration is transferred in exchange (including bargain purchases) and (2) acquisitions where no consideration (or nominal consideration) is transferred. The draft CP should explore the different views expressed as to whether this split is appropriate.
- The section on entity combinations not under common control: acquisitions should be reordered as follows: (1) which approach (method of accounting) responds to user needs and satisfies the

objectives of financial reporting for the transaction or other event that has happened, (2) which measurement basis is appropriate, i.e., is able to provide this information, and (3) does that measurement basis meet the qualitative characteristics.

- The sub-section on goodwill as it relates to entity combinations not under common control: acquisitions should address why the approach taken for the accounting treatment of the difference arising where consideration transferred in exchange is in excess of net assets acquired, i.e., is it a loss in surplus or deficit or does it meet the definition of an asset and thus is categorized as goodwill. This differs from the approach taken in IFRS 3, *Business Combinations* which determines that the residual meets the definition of an asset and thus is categorized as goodwill. Goodwill is separately assessed for impairment.
- The IPSASB agreed that the sub-section on acquisitions of entities in financial distress (paragraphs 4.53–4.57) should be removed.
- The IPSASB agreed that the draft CP should include a sub-section on recognition, including issues relating to determining the acquisition date.
- The IPSASB discussed whether a sub-section on determining the boundary between acquisitions and amalgamations is necessary. The IPSASB agreed that this sub-section should be expanded to made a link between the definition and the criteria set out in this sub-section and that it should focus on whether an acquirer can be identified rather than focusing on whether control exists.

September 2011

The IPSASB considered issues relating to: (1) proposed revisions to the definitions related to entity combinations, (2) distinguishing between types of entity combinations and the related accounting treatment, (3) the relationship between entity combinations and the entering into of a joint venture, and (4) the existence of minority interests.

The IPSASB tentatively agreed that the overarching definition of an entity combination is kept and there should be two lower level definitions: amalgamation and acquisition.

The IPSASB agreed to explore replacing the term “control” with the more expansive phrase such as that used in the Consultation Paper on Phase 1 of the Conceptual Framework project (power to govern the strategic financing and operating policies of the entity and can benefit from it, or is exposed to a financial burden), in the definition of an acquisition. However members did note that to be successful, this change in wording would need to articulate with the definition of control in IPSAS 6, *Consolidated and Separate Financial Statements* and other related IPSASs.

The IPSASB tentatively agreed that the only distinction between different types of entity combination should be whether the entity combination takes place under common control or not. It also tentatively agreed that the measurement approach for an entity combination that takes place under common control should be carrying amount. For entity combinations not under comment control the IPSASB agreed to explore whether there were other measurement bases that could be appropriate, in addition to carrying amount and fair value.

June 2011

The IPSASB considered issues relating to distinguishing between different types of entity combination and potential methods to account for them. The IPSASB tentatively agreed that the definition of an operation will be an integrated set of activities, assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving the entity's objectives, either by providing economic benefits or service potential.

The IPSASB considered a potential approach to distinguishing between different types of entity combination where one entity gains control of another entity or operation being based upon the type of entity that is gained control of. The IPSASB tentatively agreed that the first distinction between different types of entity combinations should be based upon whether the parties to an entity combination are under common control or not.

March 2011

The IPSASB considered issues relating to the scope of the project. The IPSASB agreed that the accounting treatment in the entity that loses control of, or transfers, an entity (i.e., derecognition of an entity) should also be included in the scope of the project because the current suite of IPSASs do not contain guidance on this aspect of an entity combination.

The IPSASB agreed that additional terminology be used to ensure that each type of entity combination is referred to consistently and to easily and consistently identify the entities and operations involved in an entity combination. The IPSASB considered that transferor and recipient are appropriate terms to use.

The IPSASB agreed that the working definition for "a combination of entities and/or operations under common control" is "An entity combination in which all of the combining entities and/or operations are ultimately controlled by the same entity or entities both before and after the entity combination."

The IPSASB agreed that the project should include the formation of a jointly controlled entity as it is within the scope of the working definition of an entity combination.

November 2010

The IPSASB considered the revised Project Brief and approved it for issue. It discussed the working definition of an entity combination and tentatively agreed that it will be: an entity combination is the bringing together of entities and/or operations into one entity.

June 2010

The IPSASB considered initial issues on entity combinations in the public sector, divided between entity combinations under common control and entity combinations not under common control. The IPSASB agreed that this project should encompass all types of entity combinations which occur in the public sector and that to progress this project in an effective manner, the Project Brief needed to be revised.

April 2010

The IPSASB considered a revised draft of IPSAS 32, *Entity Combinations: Acquisitions*. The IPSASB agreed that the scope could not be made sufficiently clear to enable finalization of this Standard. Further, the IPSASB agreed to commence a discussion on the public sector specific aspects of entity combinations at its June 2010 meeting. The work relating to draft IPSAS 32 will be incorporated at a later stage of the overall entity combination project.

December 2009

The IPSASB considered draft IPSAS 32. The IPSASB agreed that the scope of the draft Standard should focus, and explain clearly which entity combinations are within its scope. Separate paragraphs should then explain which entity combinations are excluded from its scope. Staff will bring a revised draft IPSAS 32 to the April 2010 meeting.

September 2009

The IPSASB considered the Staff analysis of the key issues raised from the responses to ED 41. The IPSASB agreed that entity combinations from exchange transactions, while rare, do occur in some jurisdictions and therefore this project should continue; that the ED should be explicit that local government mergers or amalgamations are excluded from its scope; and that the paragraphs relating to the treatment of goodwill arising from the acquisition of a non-cash-generating operation should be in the text of the Standard itself and not left in the Application Guidance.

The IPSASB also discussed the fact that amendments made to IAS 27 *Consolidated and Separate Financial Statements* at the same time as the revision to IFRS 3 *Business Combinations* in January 2008, have not been reflected in IPSAS 6 *Consolidated and Separate Financial Statements*, either as a consequential amendment in ED 41 or as a separate update of IPSAS 6. The amendments to IAS 27 provide additional guidance which is not currently reflected in IPSASs. The IPSASB agreed that the amendments made to IAS 27 would be added to the list of potential projects to be considered when the 2010-2012 Strategic Plan is discussed.

May 2009

The IPSASB issued ED 41 *Entity Combinations from Exchange Transactions*. Comments are requested by August 15, 2009.

February 2009

Entity combinations from exchange transactions: The IPSASB considered draft ED 41 “Entity Combinations from Exchange Transactions”, adapted from IFRS 3 “Business Combinations”. The Board agreed that the proposed split between an acquisition of a business or function is to be removed; the terms business and function should be replaced with one definition, based on the definition of a business and using the word “operation”; that ED 41 should be consistent with existing IPSASB standards and retain the exchange/non-exchange split. However, wording in the Introduction should reflect that ED 41 is limited to convergence with IFRS 3 and that other types of entity combinations which occur in public sector entities will be addressed separately in order to determine the appropriate accounting treatment. The Board also agreed that ED 41 would include proposed subsequent amendments to IPSAS 26 “Impairment of Cash-Generating Assets” so that guidance on how to test any goodwill arising on cash-generating units will be included and that Application Guidance will be included in ED 41 regarding the application of IPSAS 21 “Impairment of Non-Cash-Generating Assets” to the acquisition of non-cash generating units. The IPSASB directed staff to redraft ED 41 in light of these comments and to circulate it for approval out of session.

Entity combinations from non-exchange transactions: The IPSASB considered an issues paper on entity combinations from non-exchange transactions. The Board agreed that for entity combinations arising from non-exchange transactions the parties to the combination are more appropriately described as “recipient” instead of “acquirer” and “transferee” instead of “acquire”, with a consequential amendment to the definition of an entity combination.

The Board generally agreed that whether or not an entity combination takes place between entities under common control is dependent upon the jurisdiction. However, the accounting treatment of this type of entity combination (from a non-exchange transaction under common control), is a separate issue and needs to be addressed in the next stage of this project.

The Staff set out an example where a provincial government restructures a program by transferring it from one department to another department. The Board generally agreed that the accounting treatment in the recipient entity should be based on the recognition of existing assets and liabilities; measurement at carrying amount and any difference arising is a contribution from owners.

The Staff set out an example where a federal government creates legislation which mandates that the operations of one municipality are annexed into another municipality, in a jurisdiction where municipalities are not under the control of the federal government. At its June 2008 meeting, the Board held a preliminary view that this type of entity combination should be accounted for at carrying amount. At that meeting, it was acknowledged that this treatment may be inconsistent with some of its other Standards, such as IPSAS 23, where initial measurement of an asset, received in a non-exchange transaction, is fair value. Overall, the Board considered that the key point is that it was a practical decision in IPSAS 23 to require assets acquired from non-exchange transactions to be measured at fair value on initial recognition. This practical decision should not limit the development of an accounting treatment for entity combinations from non-exchange transactions.

The Board agreed that the issues raised need to be examined in further detail and that the proposed taskforce should initially undertake this work.

June 2008

The Board formed a preliminary view that the entity combinations project should result in two standards:

1. Entity combinations arising from exchange transactions and not under common control; and
2. Entity combinations arising from non-exchange transactions under common control and not under common control.

For point a. above, a draft exposure draft of IFRS 3 is planned to be provided to the Board for review in October 2008. A draft discussion paper on the second component of the project, point b. above, is planned for review at the IPSASB's February 2009 meeting.

March 2007

The IPSASB approved a Project Brief to commence a project on entity combinations. The Board agreed that for some entity combinations undertaken by public sector entities, the accounting requirements in IFRS 3 "Business Combinations" are appropriate. However, for the many other types of entity combinations undertaken by public sector entities a separate issues paper is to be developed.