PUBLIC SECTOR COMBINATIONS

RESPONSE FROM ICAS (THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND) TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

12 November 2012

Introduction

The Public Sector Committee of ICAS (The Institute of Chartered Accountants of Scotland) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) consultation paper "Public Sector Combinations". The Public Sector Committee is a broad based committee of ICAS members with representation from across public services in the UK.

The Institute's Charter requires its committees to act primarily in the public interest; our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key points

Overall we support the general direction of these proposals and note that similar arrangements are being set up for the UK public sector with amendments to the Financial Reporting Manual (FReM) from 1 April 2012. The approved text is not available at the date of writing.

We agree with the preliminary views presented in the consultation paper. We prefer the pooling of interests approach to accounting for amalgamations in the resulting entity compared to the fair value approach, as the latter risks creating unnecessary costs which add little value in this context. The widening of scope to include mergers (unlike IFRS 3) is helpful to reflect a wider range of scenarios which may be applicable in the public sector. Divergences from IFRS should be kept to a minimum and only take place when sufficient evidence is gathered to demonstrate that the need is significant and would otherwise compromise true and fair presentation. In the UK, public sector bodies' accounting frameworks require them to apply IFRS "as adapted" so divergences are permissible. This link could be clarified in guidance.

Response to Specific Matters for Comment

Specific Matter for Comment 1 (following paragraph 2.49)
In your view, is the scope of this CP appropriate?

Yes.

Specific Matter for Comment 2 (following paragraph 2.49)
In your view, is the approach used in this CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC, appropriate? If you do not support this approach, what alternatives should be considered? Please explain your reasoning.

Definitions appear reasonable although further clarification is required to identify the circumstances whereby amalgamation not under common control might happen.

Specific Matter for Comment 3 (following paragraph 3.13)
In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?

No.

Specific Matter for Comment 4 (following paragraph 5.25)
In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:

(a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);

(b) Distinguishing between different types of acquisitions (Approach B) so that:

(i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and

(ii) *For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition; or*

(c) *Another approach?*

Please explain why you support Approach A, Approach B or another approach.

Our preference is (b) as this better enables the true substance of the transaction to be reflected, which in some cases will mean that "merger accounting" needs to be adopted. Option (a) suggests there would always be an acquirer and acquire, which may not be the case in practice.

Specific Matter for Comment 5 (following paragraph 5.46)
In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:
(a) *Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;*
(b) *Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential); or*
(c) *A loss for all acquisitions?*

Please explain why you support (a), (b), or (c).

Our preference is option (b) for consistency with IFRS 3. Where goodwill arises, a thorough evaluation would be required of the entity being acquired including intangibles and unidentified assets to ensure this value is justified and represents an accurate reflection of the situation.

Specific Matter for Comment 6 (following paragraph 6.26)
In your view, should the recipient in an acquisition UCC recognize in its financial statements, on the date of acquisition, the difference arising as:
(a) *A gain or loss recognized in surplus or deficit (in the statement of financial performance);*
(b) *A contribution from owners or distribution to owners recognized directly in net assets/equity (in the statement of financial position); or*
(c) *A gain or loss recognized directly in net assets/equity (in the statement of financial position), except where the transferor is the ultimate controlling entity and then the gain or loss meets the definition of a contribution from owners or distribution to owners?*

Please explain why you support (a), (b), or (c).

Option (c) is supported as this is not a financial performance issue, as suggested by option (a). We would welcome further information on what the disclosure would look like.

Specific Matter for Comment 7 (following paragraph 6.31)
In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

Symmetrical accounting treatment is a good starting point. Entities under common control and applying IFRS should in theory not have major differences and fair value would be the same in the hands of the buyer and seller.