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Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
TORONTO ONTARIO CANADA M5V 3H2

Email: stepheniefox@ipsasb.org

Dear Stephenie

Consultation Paper Public Sector Combinations

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper (CP) Public Sector Combinations. CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the Consultation Paper and our comments follow.

CPA Australia and the Institute represent over 210,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We welcome the decision of the IPSASB to initiate discussion on the development of an accounting standard that includes within its scope a public sector combination (PSC) of entities under common control (UCC) and a combination of entities not under common control (NUCC). However we do not consider it appropriate that the IPSASB continues on this path without the involvement of the International Accounting Standards Board (IASB). It is clear that this issue is not just an issue for the public sector, but also for the private sector. Hence a joint project with the IASB would be an appropriate way to move forward on this issue.

Our responses to the questions asked are provided in the attached Appendix.
If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au

Yours sincerely

Alex Malley
Chief Executive Officer
CPA Australia Ltd

Lee White
Chief Executive Officer
Institute of Chartered Accountants Australia

Appendix

Specific Matter for Comment 1 (following paragraph 2.49)

In your view, is the scope of this CP appropriate?

We agree there is a need for a project to deal with all combinations as we understand that currently many entities take different approaches. This problem is not restricted to the public sector, as a combination of entities under common control is outside the scope of IFRS 3 *Business Combinations*. Therefore, we encourage the IPSASB to work with the IASB to develop principles that have common application and not develop its own model in isolation.

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.

No, we do not support making a distinction between acquisitions and amalgamations as no adequate justification for a public sector difference has been advanced to depart from the principle of acquisition accounting which is the basis of IFRS 3. We believe acquisition accounting is a suitable basis for a finalised IPSAS.

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?

We believe the establishment of 'control' is the appropriate mechanism to use in determining the existence of a combination of entities. We understand that in the public sector the existence of control is typically demonstrated in a formal way such as through a formal direction from an authorised person or body.

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.

We support Approach A as it is consistent with both the approach taken in IFRS 3 and the approach taken in other IPSASs that apply fair value measurement.

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).

Approach (b) is supported as it is the approach required by IFRS 3 - to recognise goodwill for all acquisitions. We acknowledge that this will require the definition of goodwill to be amended to encompass the notion of service potential.

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).

We support approach (b) – a contribution from owners or distributions to owners recognised directly in net assets/equity (in the statement of financial position). We reason that this approach is consistent with the economic consequences of an acquisition UCC, being no change in underlying assets and liabilities, when analysed from the perspective of whole-of-government reporting.

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?

Yes. We note that symmetrical accounting aligns with a principle that is fundamental to reporting under Government Finance Statistics.