IPSASB

Consultation Paper Summary
Public Sector Combinations

This summary provides an overview of the Consultation Paper (CP), *Public Sector Combinations*

Project objectives:	The objective of this project is to establish the accounting treatment for public sector combinations. This CP is the first step in determining the requirements and guidance appropriate for these transactions and other events.
The project and stage:	The IPSASB issued this Consultation Paper in June 2012.
Next steps:	The IPSASB seeks feedback to guide it in further developing the principles of accounting for public sector combinations.
Comment deadline:	The Consultation Paper is open for public comment until October 31, 2012.

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Why is the IPSASB Undertaking this Project?

The purpose of the IPSASB's project on public sector combinations (PSCs) is to initiate discussion about matters such as the timing of recognition and what measurement basis or approach should be adopted in accounting for public sector combinations.

Currently, IPSASs do not provide guidance on how to account for a public sector combination—instead, IPSAS 6, Consolidated and Separate Financial Statements, explains that guidance on accounting for entity combinations can be found in the relevant international or national accounting standard dealing with business combinations. This means that there may not be consistent or appropriate reporting of such combinations in the general purpose financial statements (GPFSs) of public sector entities. Consequently, users may not be able to obtain the information needed to evaluate the nature and financial effect of a PSC.

The CP uses the term "public sector combinations" rather than "business combinations," the term generally used for this type of transaction or other event by profit-oriented entities. The different terminology is considered useful as it reflects key differences in the circumstances in which PSCs and business combinations may arise.

Examples of key differences are:

- **The objective of most businesses and business combinations is to generate profits, whereas the objective of public sector entities is generally to deliver goods and services for community or social benefit.**
- **Many PSCs take place by way of non-exchange transactions whereas, for profit-oriented entities, the large majority of combinations arise as a result of exchange transactions. Exchange transactions are transactions where one entity receives assets or services or has liabilities extinguished and directly gives approximately equally value in exchange.**
- **Many business combinations occur voluntarily. A PSC may be undertaken voluntarily or can be required by legislation or other authority.**

Scope of CP and Definitions

The key definitions in the CP are:

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).

Public Sector Combination

A **public sector combination** is “the bringing together of separate operations into one entity, either as an acquisition or an amalgamation.”

Where entities and operations are controlled by the same ultimate controlling entity, they are UCC. The definition of a **PSC UCC** is “a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.”

Acquisition

An **acquisition** is “a transaction or other event that results in a recipient gaining control of one or more operations.”

Section 5 of the CP discusses acquisitions NUCC and Section 6 discusses acquisitions UCC.

Amalgamation

An **amalgamation** is “a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture.”

Section 7 of the CP discusses amalgamations and considers that the same issues arise irrespective of whether or not the amalgamation takes place UCC.

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Acquisitions Not Under Common Control (NUCC)

The CP sets out two approaches to determining the measurement basis or approach that could be applied to acquisitions NUCC. It also considers the accounting treatment for the difference arising.

The difference arising is the difference between consideration transferred (if any), plus minority interests (if any), minus the amount of net assets acquired.

Approach A

- **Point of recognition—the date the recipient gains control of the acquired operation (the date of acquisition).**
- **Measurement basis or approach—the recipient recognizes in its GPFSs the acquired operation's identifiable assets and liabilities at fair value.**
- **Treatment of difference arising:**
  - Net assets acquired in excess of consideration transferred (if any)—gain.
  - Net liabilities assumed—loss.
  - Consideration transferred in excess of net assets acquired—goodwill or loss.

Approach B: Acquisition where No or Nominal Consideration is Transferred

- **Point of recognition—the date the recipient gains control of the acquired operation (the date of acquisition).**
- **Measurement basis or approach— the recipient recognizes in its GPFSs the carrying amount of the assets and liabilities in the acquired operation's financial statements, with amounts adjusted to align the operation's accounting policies to those of the recipient.**
- **Treatment of difference arising:**
  - Net assets acquired—gain.
  - Net liabilities assumed—loss.

Approach B: Acquisition where Consideration is Transferred

- **Point of recognition—the date the recipient gains control of the acquired operation (the date of acquisition).**
- **Measurement basis or approach—the recipient recognizes in its GPFSs the acquired operation's identifiable assets and liabilities at fair value.**
- **Treatment of difference arising:**
  - Net assets acquired in excess of consideration transferred—gain.
  - Net liabilities assumed—loss.
  - Consideration transferred in excess of net assets acquired—goodwill or loss.

Acquisitions Under Common Control (UCC)

The CP discusses the possible accounting treatment of an acquisition UCC in the GPFSs of the recipient and also considers the accounting treatment of that transaction or other event in the GPFSs of the transferor.

Recipient

- **Point of recognition—the date the recipient gains control of the acquired operation (the date of acquisition).**
- **Measurement basis or approach—the recipient recognizes in its GPFSs the carrying amount of the assets and liabilities recognized in the acquired operation's financial statements, with amounts adjusted to align the operation's accounting policies to those of the recipient.**
- **Treatment of difference arising—the CP considers three options:**
    - Gain or loss in surplus or deficit.
    - Contribution from owners or distribution to owners.
    - Gain or loss directly in net assets/equity.

Transferor

The accounting treatment in the GPFSs of the entity that loses control of one or more of its operations (the transferor) is included in the CP, because there is no economic change in the ultimate controlling entity's consolidated GPFSs.

IPSAS 6 includes requirements where a controlling entity loses control of a controlled entity and requires that the difference between the proceeds from disposal (if any) and the controlled entity's carrying amount at the date of disposal is recognized in the consolidated statement of financial performance as a gain or loss on disposal of a controlled entity. These accounting requirements reflect that IPSASs do not distinguish between transactions and other events that occur between entities UCC and entities NUCC.

Depending on the decision for the accounting treatment of the difference arising in the recipient's GPFSs, it could result in accounting treatment that is not symmetrical between the recipient and transferor.

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Amalgamations

The CP discusses the possible accounting treatment of an amalgamation in the GPFSs of the resulting entity and also considers the accounting treatment in the GPFSs of the combining operations in the period leading up to the amalgamation.

Resulting Entity

The resulting entity should apply the modified pooling of interests method of accounting which requires:

- **Point of recognition—**the date of the amalgamation**.**
- **Measurement basis or approach—**the combining operations' financial statement items are recognized without remeasurement at carrying amount, with amounts adjusted to align the combining operations' accounting policies to those of the resulting entity.
- **Surplus or deficit in year of combination—**surplus or deficit recognized in the Statement of Financial Performance commences from the date of the amalgamation**.**
- **Comparatives in the year of the amalgamation—**none.

Combining Operations

The CP considers how the combining operations' should apply accrual-based IPSASs in the period between the announcement of the amalgamation and the date of the amalgamation, because the process to achieve an amalgamation may cover more than one reporting period.

Where the resulting entity will fulfill the responsibilities of the combining operations, the combining operations should continue to prepare and present their GPFSs on a going concern basis, i.e., continue to measure assets and liabilities in accordance with applicable IPSASs until the date of the amalgamation.

Next Steps:

The deadline for comments is October 31, 2012.

During the comment period, the IPSASB members are available to discuss the proposals with a wide range of parties.

How can I Comment on the Proposals?

The CP requests comments on the Preliminary Views of the IPSASB and the Specific Matters for Comment on which it has not reached a Preliminary View. The IPSASB has not provided Preliminary Views on all of the issues so as to get the widest possible consultation on those specific matters.

Respondents may choose to provide comments and answers on all the Preliminary Views and Specific Matters for Comment or just selected views or matters for comment and are also welcome to comment on any other matter they think the IPSASB should consider in forming its views.

Comment letters will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and, as usual, discuss responses to the proposals at its public meetings after the comment period has ended.

Stay Informed

The IPSASB will announce on its website the dates and location of meetings to discuss feedback on the CP.

To stay up to date about the project, please visit: https://www.ifac.org/public-sector/projects/public-sector-combinations-formerly-entity-combinations