

Meeting: International Public Sector Accounting
Standards Board
Meeting Location: Toronto, Canada
Meeting Date: June 23–26, 2015

Agenda Item 9

For:
 Approval
 Discussion
 Information

Public Sector Combinations

Objective of Agenda Item

1. The objective of this session is to **review** an Issues Paper on Public Sector Combinations and to **provide directions** for further development.

Material(s) Presented

Agenda Item 9.1 Issues Paper, *Public Sector Combinations*

Action(s) Requested

2. The IPSASB is asked to **consider** the Matters for Consideration presented in Agenda Item 9.1, and to **provide input and direction** on the way forward.

Issues Paper, *Public Sector Combinations***Introduction**

1. At its March 2015 meeting, the IPSASB:
 - (a) Tentatively supported the inclusion of 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;
 - (b) Did not come to a firm conclusion regarding acquisitions under common control, and consequently did not consider the other definitions; and
 - (c) Confirmed that the project is not an IFRS convergence project and need not apply the “rules of the road” process, although the IPSASB agreed that IFRS 3, *Business Combinations* provided a suitable basis for developing the concepts for the acquisition method.
 - (d) Provided direction on revising the sections of the draft Exposure Draft (ED) presented at the March 2015 meeting.
2. The IPSASB directed staff to reconsider the classification issue, using the indicators of control in IPSAS 35, *Consolidated Financial Statements* as the starting point and taking into account the IPSASB’s discussions on this issue. In these discussions, the IPSASB identified a number of other factors that could be taken into account when classifying public sector combinations (PSCs).
3. Following discussions with the Task Based Group (TBG), it became clear that there are two ways in which these other factors could be taken into account. The factors could be considered to be indicators of control, additional to those included in IPSAS 35. Alternatively, they could be treated as additional factors, independent of control, to be taken into account when classifying PSCs.
4. Staff is of the view that there are three approaches to deal with the classification of PSCs (although the first and second approaches are closely related):
 - (a) Consider control as a single criterion to classify the PSC;
 - (b) Consider other factors to help assessing the control criterion;
 - (c) Consider other factors in addition to the control criterion.
5. This Issues Paper therefore:
 - (a) Discusses the relationship between control and other factors in classification of public sector combinations (PSC);
 - (b) Considers the classification of PSCs using the indicators of control in IPSAS 35 and other factors; and
 - (c) Considers the classification of PSCs using the other factors in addition to the control criterion.
6. This Issues Paper does not discuss the revisions to the draft ED. Although staff has revised the ED as directed, and prepared a section of an Issues Paper discussing those revisions, staff notes that further changes may be required depending on the IPSASB’s decisions regarding the classification

of PSCs. Staff will, therefore, bring these matters to a future meeting. Staff will be happy to provide the revised sections of the ED along with the sections of a future Issues Paper to IPSASB members on request.

7. As directed at the last meeting, the following sections outline the control factors identified in IPSAS 35 and how they may be applied in particular circumstances. These sections also consider whether other factors might need to be considered, either to assist in assessing whether control has been gained, or as separate factors independent of control.

Relationship between control and other factors in classification of public sector combinations (PSC)

8. The Consultation Paper (CP) classified PSCs using control as a sole criterion to distinguish acquisitions from amalgamations. The IPSASB's preliminary view (PV) 3 was: "the sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations".
9. The CP had two Specific Matters for Comment (SMC) about other factors to classify PSCs:
 - (a) SMC 2: "In your view, is the approach used in this CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC [Not Under Common Control] and UCC [Under Common Control], appropriate? If you do not support this approach, what alternatives should be considered? Please explain your reasoning."
 - (b) SMC 3: "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?"
10. The following table summarizes the responses¹ to PV 3, SMC 2 and SMC3:

	Support CP	Do not support CP	Do not comment
PV 3	6	3	17
SMC 2	12	12	2
SMC 3	9	14 ²	3

11. A conclusion that can be drawn from the above table is that the support for the CP approach is evenly split, while a majority of the respondents suggested other factors be taken into account. It is not always clear whether these factors were to determine whether one party has gained control of one or more operations, or to be considered in addition to or independently from control.
12. Based on the responses to the CP and the discussions that have taken place at previous IPSASB meetings, staff has identified the following factors:
 - (a) Change of sectors – distinction between public and private sector;
 - (b) Consideration – whether there is no consideration, nominal consideration or significant consideration (i.e., consideration based on fair value);

¹ The June 2014 meeting includes a detailed analysis of the responses to the CP and can be downloaded [here](#).

² This number is based on the number of respondents suggesting alternative classification to PSC.

- (c) Compulsion – whether a PSC is imposed by a third party (UCC or NUCC) or is entered into voluntarily by the combining parties;
 - (d) Accountability – which accounting method provides the best information to hold the entity accountable for the decisions made;
 - (e) Decision making – PSC can be made for political, economic or emotional reasons;
 - (f) Citizens' rights – have the rights of citizens changed, or are, in substance, the same resources being applied to provide the same services to the same constituents;
 - (g) Ownership interests – have ownership interests changed with a view of maximizing the return of equity holders.
 - (h) Quantifiable ownership interests – PSCs can involve quantifiable or non-quantifiable ownership interests;
 - (i) Common control – PSCs UCC may have a different economic nature from PSC NUCC.
13. These factors are discussed below. Staff acknowledges that the relative weight of each factor can vary in different circumstances and in different jurisdictions and that other factors not identified in the previous paragraph but identified by preparers may suggest a different accounting treatment.
14. The following analysis is different from the analyses previously presented to the IPSASB. Previous analyses have made the assumption that other factors are used to assess whether an entity has gained control over an operation or not. This issues paper analyses the factors both as they relate to control, and as independent factors.

Change of Sectors

15. An operation may transfer from the private sector to the public sector. If this factor were to be used to assess whether an entity had gained control, a change of sector is likely to be a strong indicator that a public sector entity has gained control of the operation.
16. If this factor were to be used independently of control to assess the appropriate accounting treatment, it is likely that, for any PSC that involves the public sector receiving operations from the private sector, it would be appropriate to apply fair value accounting. This is because public control means that resources are governed by a political body representing society in a given jurisdiction while private control rests on individuals or entities that are not government entities and have different accountability mechanisms. Fair value accounting enables to assess the gain, loss or goodwill to the public sector.

Consideration

17. If this factor were to be used to assess whether an entity had gained control, the presence of consideration (whether nominal or significant) is likely to indicate that an entity has gained control of an operation, as consideration is usually only transferred in a purchase-type transaction. The exception might be a PSC UCC, where the controlling entity could specify that consideration be paid, even without control being gained.
18. If this factor were to be used independently of control to assess the appropriate accounting treatment, the presence of consideration based on fair value would be a strong indication that an acquisition has occurred, while having no consideration or nominal consideration might be insufficient to

conclude that an acquisition has occurred. However, staff notes that in IPSAS 23 assets (without related operations) acquired through a non-exchange transaction are measured at its fair value.

Compulsion

19. If this factor were to be used to assess whether an entity had gained control, it is unlikely to be relevant, although it might be taken into account in assessing whether an entity had the ability to direct significant relevant activities of the other party to the PSC. This is discussed in more detail later in this issues paper.
20. If this factor were to be used independently of control to assess the appropriate accounting treatment, some respondents and TBG members would argue that fair value accounting may not be appropriate where the PSC has taken place under compulsion wholly within the public sector. Those respondents and TBG members who hold this view consider that the use of fair value might be viewed as treating the PSC as an acquisition, and do not consider that this reflects the economic substance of a PSC made under compulsion.

Accountability

21. If this factor were to be used to assess whether an entity had gained control, it is unlikely to be relevant. Accountability considerations do not determine whether an entity has gained control of the other party to a PSC.
22. This factor may be helpful if used independently of control to assess the appropriate accounting treatment. Some respondents and TBG members argue that accounting for a PSC at fair value provides more information about the effect of a PSC, but that this is only useful for accountability purposes where the entity was responsible for the decision to combine. In this respect, it could complement the compulsion factor.
23. Others would argue that subsequent decision making by the entity will be influenced by the effect of a PSC, and that accounting for the PSC at fair value would provide useful context, and thereby be useful for accountability purposes. Staff notes this argument, but also notes that it could be used to support fair value accounting in all circumstances.

Decision making

24. Decision making can include a discussion of both the entity that makes the decision, and the reason the decision was made. The issues to be considered in respect of who makes the decision as similar to those raised above in the discussion of compulsion and accountability. The following paragraphs focus on the reason the decision was made.
25. If this factor were to be used to assess whether an entity had gained control, it is unlikely to be relevant. The reasons why a decision was made do not determine whether an entity has gained control of the other party to a PSC.
26. If this factor were to be used independently of control to assess the appropriate accounting treatment, some respondents and TBG members would argue that fair value accounting may not be appropriate where the reason for the PSC is not an economic reason, but (for example) a political reason. Those respondents and TBG members who hold this view consider that the use of fair value is appropriate where a PSC has commercial substance. They do not consider that a PSC made for reasons other

than economic reasons has economic substance, and therefore consider that fair value accounting would not faithfully represent the PSC.

Citizens' rights

27. If this factor were to be used to assess whether an entity had gained control, it is unlikely to be relevant. Citizens may have rights, but these rights do not generally give them control over an entity, and hence citizens' rights will not influence whether an entity has gained control over the other party to a PSC.
28. If this factor were to be used independently of control to assess the appropriate accounting treatment, some would argue that an assessment should be made as to whether, in substance, the same resources being applied to provide the same services to the same constituents. Where this is the case, they would argue that the PSC is in substance a restructuring of the public sector, and that accounting for the PSC at carrying amount best reflects the economic substance of the transaction. Where there is changes in the overall resources or services provided, the use of fair value accounting would be appropriate.

Ownership interests

29. According to para BC5.66 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities "The term "ownership interest" is analogous to the ownership interest in a private sector entity and, for some, indicates that the citizens own the resources of the public sector entity and that government is responsible to the citizens for the use of those resources. Some supporters of this approach argue that it emphasizes the democratic accountability of governments." The reference to ownership rights as a factor is addressed in the quantifiable ownership rights.

Quantifiable ownership interests

30. If this factor were to be used to assess whether an entity had gained control, a change in quantifiable ownership interests is an indicator that there has been a change in control. This factor will not be relevant in assessing whether an entity has gained control if there are no quantifiable ownership interests to assess.
31. This factor may be helpful if used independently of control to assess the appropriate accounting treatment. In PSCs where quantifiable ownership interests are involved, the holders of those equity instruments want to maximize their returns, while in PSCs where there are no quantifiable ownership interests, the negotiations generally focus on service delivery for the benefit of the public. As fair value accounting is useful to assess any gain, loss or goodwill as a result of the PSC some would argue that it is the most appropriate accounting treatment in PSCs involving quantifiable ownership interests. Similarly, it might be more appropriate to use carrying amounts in the PSCs with no quantifiable ownership interests.

Common control

32. Where the parties to a PSC are under common control, this fact is relevant in assessing whether an entity is able to direct the relevant activities of the other party as a result of the PSC, or whether the ultimate controlling entity retains this control. However, this assessment can be made by reference to the reporting entity alone; separate consideration of whether the parties are under common control is not required. This is discussed in more detail later in this Issues Paper.

33. If this factor were to be used independently of control to assess the appropriate accounting treatment, it may not provide a conclusive indication, as some respondents and TBG members consider that acquisitions may arise UCC. However, this factor is helpful in assessing the weight to be given to other factors. Where a PSC takes place UCC, the ultimate controlling entity will be able to direct certain aspects of the PSC such as consideration. The weighting given to these factors should, therefore, be lower, as they may not reflect the economic substance of the combination.

Approaches to classifying PSCs

34. As noted in paragraph 4, staff is of the view that there are three approaches to deal with the classification of PSCs:
- (a) Consider control as a single criterion to classify the PSC;
 - (b) Consider other factors to help assessing the control criterion;
 - (c) Consider other factors in addition to the control criterion.
35. Approach (a) is fully consistent with the CP approach, where the definitions of acquisitions and amalgamations were based on using control as a single criterion.
36. Approach (b) would consider the factors above when determining whether an entity had gained control of the other party to the combination only where the control indicators in IPSAS 35 do not clearly indicate whether the entity has gained control or not. Because approach (b) is a variation on approach (a), the two are considered together in the discussion below.
37. Approach (c) considers the factors discussed above in addition to or as independent from the control criterion. As such, it is not consistent with the approach taken in the CP. However, some respondents and TBG member consider that this approach better reflects the economic substance of combinations in the public sector. This approach would require the definitions set out in the CP to either be amended or replaced by a description of the types of possible accounting treatments that would be determined based on an assessment of a series of factors/indicators.

Classification of PSCs using the indicators of control in IPSAS 35, *Consolidated Financial Statements*

38. Under this approach, PSCs are classified using control as the sole criterion. If one of the parties to the PSC gains control of the operations of the other party, the PSC is an acquisition. If no party to the PSC gains control of the operations, then the PSC is an amalgamation. The assessment as to whether one party gains control is based on the indicators of control in IPSAS 35.
39. For one entity to control another entity, IPSAS 35 requires the following to be present:
- (a) Power over the other entity;
 - (b) Exposure, or rights, to variable benefits from its involvement with the other entity; and
 - (c) The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity.
40. IPSAS 35 provides guidance on factors that may assist in determining whether control exists. IPSAS 35 states that an entity shall consider all facts and circumstances in assessing whether it controls

another entity. IPSAS 35 also notes (in the Application Guidance) that when assessing whether it controls another entity, an entity shall consider the nature of its relationship with other parties.

41. As noted above in paragraph 34, where consideration of the control indicators in IPSAS 35 does not clearly indicate whether an entity has gained control, other factors will be taken into account in assessing control.
42. This Issues Paper describes various PSC scenarios which staff considers will be fairly common within the public sector. After each description, the Issues Paper considers the indicators of control provided by the guidance in IPSAS 35, supplemented by other factors where necessary, and forms a conclusion as to whether the combination in the scenario would be treated as an acquisition, based on control being the sole criterion.

Entities assessing control

43. When assessing whether the IPSAS 35 indicators of control have been satisfied, staff consider that a distinction between acquisitions and other combinations can only be identified when the indicators are assessed against an operation or entity that is a party to the combination taking place.
44. This is because every public sector combination will give rise to a single entity that controls all the operations that were part of the combination. If the indicators of control are assessed against this (post-combination) entity, the answer will always be that the entity controls the operations. This does not allow a distinction between acquisitions and other combinations to be made.
45. By contrast, if the assessment is made against an operation that is a party to the combination taking place, it will be possible to determine if that operation has gained control of other operations in the combination (and hence an acquisition has occurred) or not.

Classification of PSCs considering other factors in addition to the control criterion

46. Under this approach, PSCs are assessed by applying professional judgment to a range of factors. Control is one factor to be considered, but it is not the sole, or even the dominant factor. A combination of other factors might outweigh control in cases where different factors suggested different accounting approaches would be appropriate.
47. The factors to be considered, and the weight to be given to each factor, would be determined on a case by case basis, using professional judgment. Staff has set out earlier in this Issues Paper the main factors that, in staff's view, will need to be taken into account, but other factors may be relevant in specific circumstances.
48. This approach focuses on identifying the appropriate accounting treatment for a particular set of circumstances rather than classifying PSCs as acquisitions, amalgamations or reorganizations.
49. As noted above, this Issues Paper describe various PSC scenarios which staff considers will be fairly common within the public sector. After each description, the Issues Paper considers the factors identified by staff, and where possible forms a conclusion as to which accounting treatment would most appropriate for the combination in the scenario.

Respondents' views

50. The Issues Paper also considers how the conclusions under each approach relate to the comments made by respondents to the CP, and identifies any alternative approaches raised by respondents. A

summary indicating the level of support for the proposed treatment(s) is included in the analysis of each scenario, and a more detailed breakdown is provided in Appendix A to this Issues Paper. A list of respondents is provided at Appendix B to this Issues Paper. The detailed responses were posted with the March 2013 agenda papers, and can be downloaded [here](#).

Methodology in this section of the Issues Paper

51. For each scenario considered below, this Issues Paper considers how the two approaches would treat a PSC.

Methodology for assessing PSCs against control indicators in IPSAS 35

52. For each scenario, this Issues Paper considers whether the control indicators (listed in paragraph 36) are met by an operation or entity that is a party to the combination taking place. Where IPSAS 35 includes, in its Application Guidance, multiple factors that are taken into account when determining whether a control indicator is satisfied, all the relevant factors must be individually satisfied.
53. For example, the first control indicator is “power over the other entity (or operation)”. There are three factors that must be satisfied for this control indicator to be satisfied:
 - (a) The entity must have substantive rights over the other entity or operation, not just protective rights or regulatory control. If the entity only has protective rights, or only exerts regulatory control, it does not have power over the other entity or operation.
 - (b) If an entity has substantive rights over the other entity or operation, these rights must be rights to direct the relevant activities of that other entity or operation. If the entity has substantive rights over the other entity or operation, but these rights do not relate to the relevant activities of that other entity or operation, the first entity does not have power over the other entity or operation.
 - (c) An entity may have substantive rights to direct the relevant activities of the other entity or operation, but these may not be exclusive. Where two or more parties have rights to direct the relevant activities of the other entity or operation, the power over that other entity or operation will rest with the party that is able to direct the most significant relevant activities of the other operation or entity. If the party that is able to direct the most significant relevant activities of the other operation or entity is a third party, the entity assessing control will not have power over the other entity or operation.
54. For control over the other entity or operation to be established, all the control indicators must be satisfied. Where control is established, this will, using control as the sole criterion, indicate that the combination is an acquisition.
55. Some of the scenarios considered below will always involve, from a control perspective, similar transactions. For example, transfers of donated operations will always involve one party ceding control to another. It follows that it is possible to determine whether or not a control indicator will be met or not for the scenario as a whole. If one transaction within the scenario satisfies the control indicator, all transactions within the scenario will satisfy the control indicator; if one transaction within the scenario fails to satisfy the control indicator, no transaction within the scenario will satisfy the control indicator.

56. In other scenarios, the transactions involved may differ from a control perspective. In such cases, it is possible for a control indicator to be satisfied in some of the transactions within the scenario and not satisfied in others. The tables below set out whether, in staff's view, a control indicator will always be satisfied; sometimes be satisfied and sometimes not satisfied; or never be satisfied for a particular scenario. The Issues Paper sets out the reasons for staff's view.
57. In the tables below, a control indicator will be demonstrated in all combinations only when each factor is demonstrated in all combinations. Where some factors are demonstrated in all combinations, but others are only demonstrated in some combinations, the control indicator as a whole will only be demonstrated in some combinations.
58. Appendix A to this Issues Paper analyses respondents' comments to determine which respondents would support the proposed outcomes, using control as the sole criterion. Staff notes that the CP did not ask respondents to comment on particular transactions. Staff has therefore exercised its professional judgment in considering whether the principles proposed by respondents would give rise to the same outcome as the proposals in this Issues Paper. Staff also acknowledges that respondents might have responded differently had they been asked about the specific transactions.

Methodology for assessing PSCs against a range of factors

59. For each scenario, this Issues Paper considers each of the factors identified by staff (listed in paragraph 11 and discussed in more detail in paragraphs 14–31) and forms a judgment about whether that factor suggests that a particular accounting treatment (fair value or carrying amount) is most appropriate for that scenario, or whether that factor is neutral.
60. Having considered each factor individually, the Issues Paper then seeks to form an opinion as to how these factors will interact, the relative weighting to be given to each factor and an overall conclusion as to the appropriate accounting treatment for the scenario.
61. In some scenarios, the variety of PSCs that may occur means that it will not be possible to determine an approach that is suitable for all circumstances. In these scenarios, professional judgment will need to be exercised on a case by case basis.
62. Staff notes that there is arguably greater subjectivity in the assessments made under this approach, and accepts that some IPSASB members may come to different conclusions than those reached by staff. Some would argue that this subjectivity means that this approach may not meet the qualitative characteristic of comparability. Others would argue that because of the variety of circumstances that may occur, the exercise of professional judgment on a case by case basis is required to meet the qualitative characteristic of faithful representation.

Analysis of combination scenarios

63. Staff identified 6 common scenarios for PSCs:
- (a) Combinations at fair value
 - (b) Bargain Purchases
 - (c) Donated Operations
 - (d) Nationalizations
 - (e) Combinations of operations wholly within the public sector but not under common control:
 - (i) The transfer of operations from one level of government to another existing level of government;
 - (ii) Territorial boundaries being rearranged to create three municipalities out of two original municipalities; and
 - (iii) Two municipalities combining to form a single municipality
 - (f) Public sector combinations under common control
64. The scenarios can be grouped into three types:
- Type 1:** PSCs NUCC involving a transfer of operations from the private sector to the public sector. These PSCs are scenarios (a), (b), (c) and (d) above. In these scenarios, analysing PSCs by reference to a range of factors (the second approach) is expected to result in the same outcome as analysing PSCs by reference to control as the sole criterion.
- Type 2:** PSCs NUCC involving a transfer of operations between public sector entities. These PSCs are scenarios (e) (i), (e) (ii) and (e) (iii) above. In these scenarios, analysing PSCs by reference to a range of factors (the second approach) may result in a different outcome to that produced by analysing PSCs by reference to control as the sole criterion.
- Type 3:** PSCs UCC. These PSCs are scenarios (f) above. In these scenarios, analysing PSCs by reference to a range of factors (the second approach) may result in a different outcome to that produced by analysing PSCs by reference to control as the sole criterion. In addition, the fact that a PSC takes place UCC may affect the weightings given to the different factors when undertaking the second approach.
65. The following paragraphs:
- Describe each PSC;
 - Make an assessment of indicators of control in IPSAS 35;
 - Make an assessment of the range of factors identified by staff; and
 - Present staff's views on the classification or accounting treatment under each approach.

(a) – Combinations at fair value

Description and examples of combination

66. Combinations at fair value occur when an entity gains control of an operation or entity, and in exchange transfers consideration approximately equal to the fair value of the net assets acquired to the previous owners. This type of combination occurs frequently in the private sector, and is described in IFRS 3 as an acquisition.
67. Such acquisitions are exchange transactions, and often carried out by mutual agreement.

Indicators of control in IPSAS 35

68. The following table considers how the indicators of control relate to combinations at fair value:

The prior entity assessing control can demonstrate:	In all PSCs of this type	In some PSCs of this type	In no PSCs of this type
<i>Power over other entity</i>	✓		
Substantive rights, not protective rights or regulatory control	✓		
Rights to direct relevant activities (whether legislative, administrative, contractual, based on founding documents or voting or similar rights)	✓		
No other party has the right to direct the most significant relevant activities	✓		
<i>Exposure, or rights, to variable benefits from its involvement with the other entity</i>	✓		
<i>Link between power and benefits</i>	✓		
Entity acts as principal, not as agent	✓		

69. This analysis suggests that combinations at fair value, using control as the sole criterion, meet the definition of acquisitions.

Consideration of a range of factors

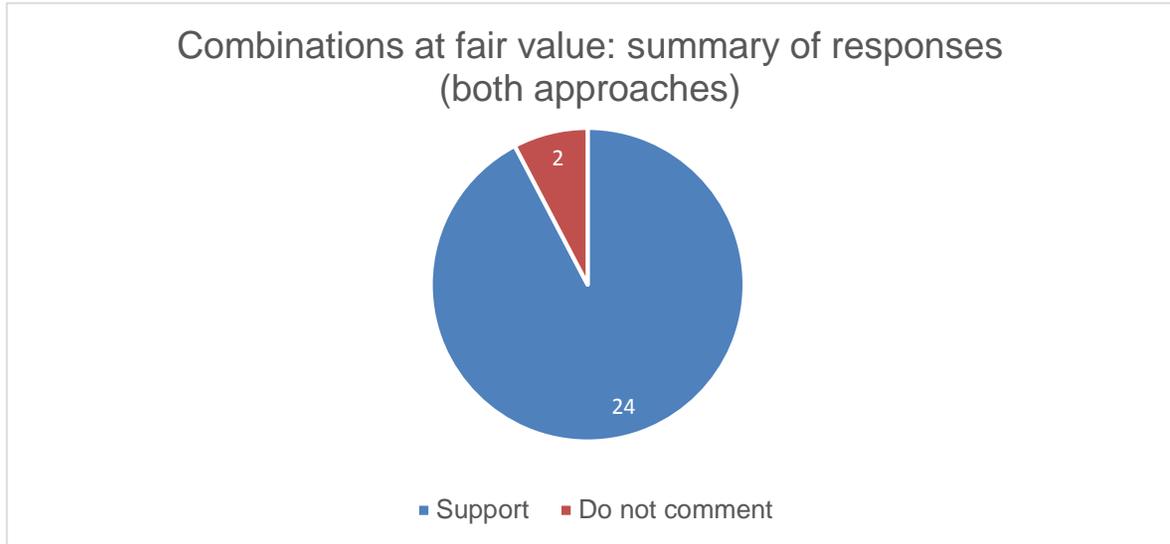
70. The following table considers how the range of factors relate to combinations at fair value:

Factors suggesting fair value accounting	Factors suggesting carrying amount accounting	Factors that are neutral or not relevant
Control; change of sectors; consideration; (absence of) compulsion; accountability; decision making; existence of quantifiable ownership interests.		Citizens' rights; common control.

71. This analysis suggests that, for combinations at fair value, the most appropriate accounting treatment is fair value accounting. This is equivalent to classifying a combination at fair value as an acquisition using control as the sole criterion.

Comparison with responses to CP

72. Appendix A to this Issues Paper analyses respondents' comments to determine which respondents would support the proposed outcome that combinations at fair value would be classified as acquisitions (using control as the sole criterion) and accounted for using fair value accounting (using a range of factors). This analysis is summarized in the chart below.



Staff comments

73. Staff considers, therefore, that:

- Treating combinations at fair value as acquisitions, in line with the sole criterion of control, is consistent with the vast majority of respondents' views; and
- Concluding that the most appropriate accounting method for combinations at fair value, in line with the consideration of a range of factors, is fair value accounting is (as above) consistent with the vast majority of respondents' views.

74. Staff also considers that both conclusions are consistent with the IPSASB's previous discussions.

Matter(s) for Consideration

1. The IPSASB is asked **to indicate** whether it supports the staff view that, using control as the sole criterion, combinations at fair value should be classified as acquisitions.
2. The IPSASB is asked **to indicate** whether it supports the staff view that, considering a range of factors, the most appropriate accounting method for combinations at fair value is fair value accounting.

(b) – Bargain Purchases

Description and examples of combination

75. Bargain purchases occur when an entity gains control of an operation or entity, but where the consideration transferred to the previous owners is less than the fair value of the net assets acquired. This type of combination also occurs in the private sector, and is addressed in IFRS 3.

76. Bargain purchases usually occur when the seller needs cash immediately and there is only one buyer willing to pay cash for those operations.

Indicators of control in IPSAS 35

77. The following table considers how the indicators of control relate to bargain purchases:

The prior entity assessing control can demonstrate:	In all PSCs of this type	In some PSCs of this type	In no PSCs of this type
<i>Power over other entity</i>	✓		
Substantive rights, not protective rights or regulatory control	✓		
Rights to direct relevant activities (whether legislative, administrative, contractual, based on founding documents or voting or similar rights)	✓		
No other party has the right to direct the most significant relevant activities	✓		
<i>Exposure, or rights, to variable benefits from its involvement with the other entity</i>	✓		
<i>Link between power and benefits</i>	✓		
Entity acts as principal, not as agent	✓		

78. This analysis suggests that bargain purchases, using control as the sole criterion, meet the definition of acquisitions.

Consideration of a range of factors

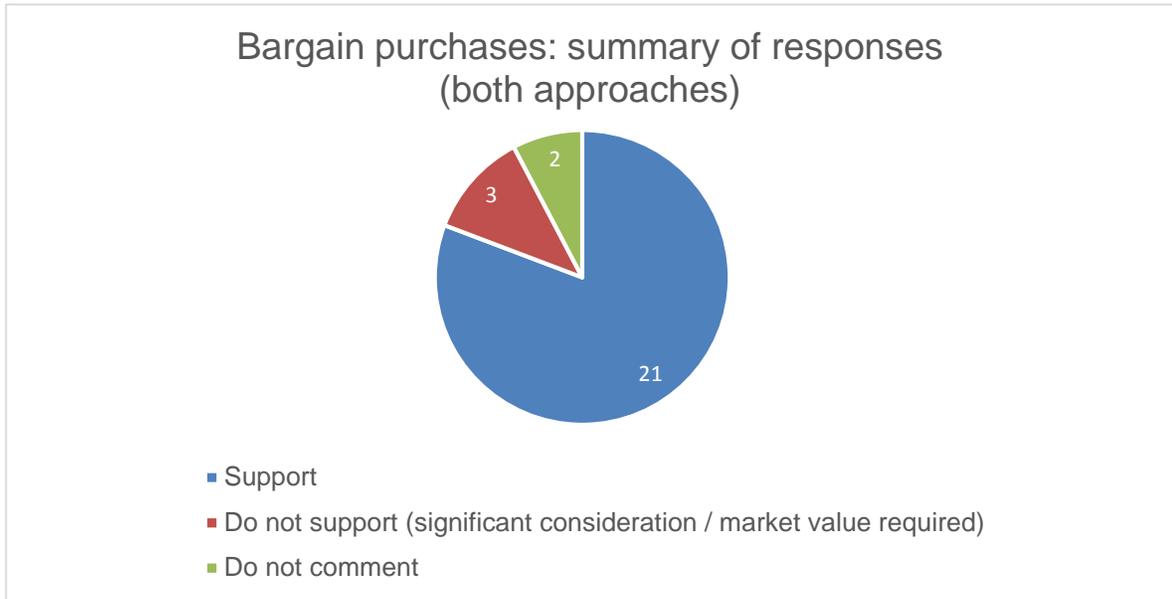
79. The following table considers how the range of factors relate to bargain purchases:

Factors suggesting fair value accounting	Factors suggesting carrying amount accounting	Factors that are neutral or not relevant
Control; change of sectors; consideration (any); (absence of legal) compulsion; accountability; decision making; existence of quantifiable ownership interests.	Consideration (based on fair value).	Citizens' rights; common control.

80. This analysis suggests that, for bargain purchases, the most appropriate accounting treatment is fair value accounting. This is equivalent to classifying a bargain purchase as an acquisition using control as the sole criterion.

Comparison with responses to CP

81. Appendix A to this Issues Paper analyses respondents' comments to determine which respondents would support the proposed outcome that bargain purchases would be classified as acquisitions (using control as the sole criterion) and accounted for using fair value accounting (using a range of factors). This analysis is summarized in the chart below.



Staff comments

82. Staff considers that:

- Treating bargain purchases as acquisitions, in line with the sole criterion of control, is consistent with a significant majority of respondents' views, albeit a narrower majority than for combinations at fair value – the traditional “acquisition”; and
- Concluding that the most appropriate accounting method for bargain purchases, in line with the consideration of a range of factors, is fair value accounting is (as above) consistent with a significant majority of respondents' views.

83. Staff also considers that both conclusions are consistent with the IPSASB's previous discussions.

Matter(s) for Consideration

3. The IPSASB is asked **to indicate** whether it supports the staff view that, using control as the sole criterion, bargain purchases should be classified as acquisitions.
4. The IPSASB is asked **to indicate** whether it supports the staff view that, considering a range of factors, the most appropriate accounting method for bargain purchases is fair value accounting.

(c) – Donated Operations

Description and examples of combination

- 84. An entity may gain control of an operation without transferring any consideration. Individuals or other legal entities (usually not-for-profit organizations) may transfer operations to a public sector entity at no cost where they share the same objectives.
- 85. The transfer of a donated operation is made by mutual agreement (as the public sector entity could refuse to accept the donation) in a non-exchange transaction.
- 86. The receipt of donated operations is more likely to occur in the public sector than the private business sector, as entities' objectives are to deliver services rather than to generate profit. An individual or not-for-profit organization may be willing to surrender their rights over an operation if this will enable their objectives to be better met, despite the economic losses they would incur.

Indicators of control in IPSAS 35

- 87. The following table considers how the indicators of control relate to donated operations:

The prior entity assessing control can demonstrate:	In all PSCs of this type	In some PSCs of this type	In no PSCs of this type
<i>Power over other entity</i>	✓		
Substantive rights, not protective rights or regulatory control	✓		
Rights to direct relevant activities (whether legislative, administrative, contractual, based on founding documents or voting or similar rights)	✓		
No other party has the right to direct the most significant relevant activities	✓		
<i>Exposure, or rights, to variable benefits from its involvement with the other entity</i>	✓		
<i>Link between power and benefits</i>	✓		
Entity acts as principal, not as agent	✓		

- 88. This analysis suggests that donated operations, using control as the sole criterion, meet the definition of acquisitions.

Consideration of a range of factors

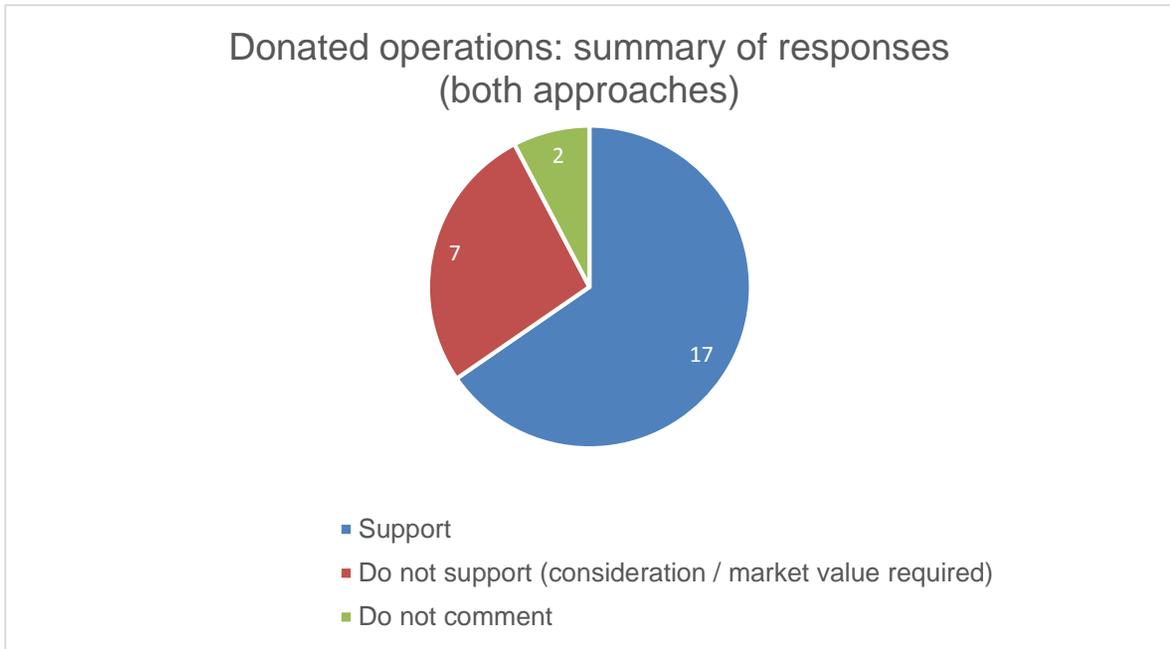
89. The following table considers how the range of factors relate to donated operations:

Factors suggesting fair value accounting	Factors suggesting carrying amount accounting	Factors that are neutral or not relevant
Control; change of sectors; (absence of) compulsion; accountability; decision making; existence of quantifiable ownership interests.	(Absence of) consideration; non-quantifiable ownership interests.	Citizens' rights; common control.

90. This analysis suggests that, for donated operations, the most appropriate accounting treatment is fair value accounting. This is equivalent to classifying a donated operation as an acquisition using control as the sole criterion.

Comparison with responses to CP

91. Appendix A to this Issues Paper analyses respondents' comments to determine which respondents would support the proposed outcome that bargain purchases would be classified as acquisitions (using control as the sole criterion) and accounted for using fair value accounting (using a range of factors). This analysis is summarized in the chart below.



Staff comments

92. Staff considers that:

- Treating donated operations as acquisitions, in line with the sole criterion of control, is consistent with a majority of respondents' views, albeit a narrower majority than for combinations at fair value or bargain purchases; and

- Concluding that the most appropriate accounting method for donated operations, in line with the consideration of a range of factors, is fair value accounting is (as above) consistent with a majority of respondents' views.
93. Staff also considers that both conclusions are consistent with the discussion at the March 2015 meeting that lead to the IPSASB tentatively agreeing to include donated operations within the scope of this project.

Matter(s) for Consideration

5. The IPSASB is asked **to indicate** whether it supports the staff view that, using control as the sole criterion, transfers of donated operations should be classified as acquisitions.
6. The IPSASB is asked **to indicate** whether it supports the staff view that, considering a range of factors, the most appropriate accounting method for donated operations is fair value accounting.

(d) – Nationalizations

Description and examples of combination

94. Nationalizations occur when governments take (usually private sector) operations or entities into public legal ownership or public control.
95. Nationalizations can occur through different ways:
- (a) Purchase of operations or entities. The government buys operations or entities, either at market price or at a price very close to market price. Normally the purchase is made by mutual agreement, but this might not always be case.
 - (b) Uncompensated seizures. The government takes legal ownership of the operations or entities in a compulsory transaction. The transaction is not made by mutual agreement. There is no payment to the former owners of the operations or entities, or the compensation transferred is significantly below the fair value of the operations or entities. This is an exclusive right of governments due to their sovereign powers. For example, in Portugal, after the April 25th 1974 Revolution, the government nationalized, through legislation, hundreds of private corporations without paying any compensation to their former owners.
 - (c) Bailouts. This term relates to the rescue of entities in financial distress by a public sector entity. The distinctive feature of a bailout is that a government entity, in gaining control of the entity that is being bailed out, assumes net liabilities. Bailouts can occur in different ways. The following (non-exhaustive) list gives examples:
 - (i) Equity financing. For example, in UK the HM Treasury's support to the Royal Bank of Scotland included acquiring 83 per cent of the shares of the bank (but 68 per cent of the voting rights).
 - (ii) Purchase of operations or entities with net liabilities.And
 - (iii) Favorable lending with conditions on operational and financial policies that are sufficient to transfer control. For example, the Bank of England provided liquidity support to Northern Rock plc (a bank). The contractual terms associated with this support were

sufficient to give the Bank of England the power to control Northern Rock plc's general corporate policy. Until the support provided to the company was repaid, Northern Rock plc would require permission from the Bank of England before entering into any corporate restructuring, making substantial changes to the general nature of the business, making dividend payments, and acquiring or disposing of certain types of assets. The UK Office for National Statistics, applying control tests similar to those in IPSAS 35, concluded that the contractual terms were sufficient to give the Bank of England control over Northern Rock³.

Indicators of control in IPSAS 35

96. Staff notes that, from a control perspective, there is little if any difference between the purchase of operations or entities in a nationalization and a combination at fair value. Although a nationalization may not be made by mutual agreement, in all other respects the transactions are similar. Staff considers, therefore, that the analysis of control in respect of combinations at fair value applies equally to nationalizations involving the purchase of operations or entities. Using control as the sole criterion, such nationalizations would meet the definition of an acquisition.
97. Similarly, from a control perspective, there is little if any difference between a nationalization by way of uncompensated seizure and the receipt of a donated operation. The former will usually be imposed by a government whereas the latter will be by mutual agreement, but in all other ways the transaction is the same. The government receives control of an operation or entity without compensating the former owners. Staff considers, therefore, that the analysis of control in respect of donated operations applies equally to nationalizations by way of uncompensated seizures. Using control as the sole criterion, such nationalizations would meet the definition of an acquisition.
98. The following table therefore considers how the indicators of control relate to bailouts only:

The prior entity assessing control can demonstrate:	In all PSCs of this type	In some PSCs of this type	In no PSCs of this type
<i>Power over other entity</i>	✓		
Substantive rights, not protective rights or regulatory control	✓		
Rights to direct relevant activities (whether legislative, administrative, contractual, based on founding documents or voting or similar rights)	✓		
No other party has the right to direct the most significant relevant activities	✓		
<i>Exposure, or rights, to variable benefits from its involvement with the other entity</i>	✓		
<i>Link between power and benefits</i>	✓		
Entity acts as principal, not as agent	✓		

³ See <http://www.ons.gov.uk/ons/guide-method/classifications/na-classifications/classification-articles/northern-rock/classification-of-northern-rock-plc-.pdf>

99. Staff notes that not all support provided to entities in financial distress will result in a bailout arising. A public sector entity may provide equity financing or may provide favorable lending with conditions without gaining control of the entity to which support is being provided. In these circumstances, no public sector combination arises. The above table refers only to those circumstances where the public sector entity gains control, and there is, therefore, a public sector combination.
100. This analysis suggests that bailouts, using control as the sole criterion, meet the definition of acquisitions.

Consideration of a range of factors

101. Staff notes that when a range of factors are taken into account, there may be differences between the purchase of operations or entities in a nationalization and a combination at fair value, and between a nationalization by way of uncompensated seizure and the receipt of a donated operation. Both the purchase of operations or entities in a nationalization and a nationalization by way of uncompensated seizure are likely to occur under compulsion, whereas a combination at fair value and the receipt of a donated operation are likely to be voluntary transactions.
102. It follows that an assessment of the range of factors is required for each type of nationalization, as some factors will suggest differing accounting treatments for the different types of nationalization.
103. The following table considers how the range of factors relate to the purchase of operations or entities in a nationalization:

Factors suggesting fair value accounting	Factors suggesting carrying amount accounting	Factors that are neutral or not relevant
Control; change of sectors; consideration; accountability; decision making; existence of quantifiable ownership interests.	Compulsion.	Citizens' rights; common control.

104. The following table considers how the range of factors relate to nationalizations by way of uncompensated seizure:

Factors suggesting fair value accounting	Factors suggesting carrying amount accounting	Factors that are neutral or not relevant
Control; change of sectors; accountability; decision making; existence of quantifiable ownership interests.	(Absence of) consideration; compulsion.	Citizens' rights; common control.

105. The following table considers how the range of factors relate to bailouts:

Factors suggesting fair value accounting	Factors suggesting carrying amount accounting	Factors that are neutral or not relevant
Control; change of sectors; accountability; decision making; existence of quantifiable ownership interests.	(Absence of) consideration (although the public sector entity may relieve the former owners of the responsibility for repaying the liabilities assumed, which may have similar economic consequences to the transfer of consideration); compulsion.	Citizens' rights; common control.

106. Staff considers that this analysis suggests that, for all nationalizations, the most appropriate accounting treatment is fair value accounting. This is equivalent to classifying a nationalization as an acquisition using control as the sole criterion.

107. Staff notes that the argument could be made that the lack of consideration (in two of the three cases) plus the fact that nationalizations often take place under compulsion may suggest that the most appropriate accounting treatment is carrying amount. However, staff considers that these factors would be outweighed by the fact that the public sector entity gains control; that operations are transferred from the private sector to the public sector; and that the PSC involves a change in quantifiable ownership interests. The change in control from private to public sector would be a dominant factor in assessing these PSCs.

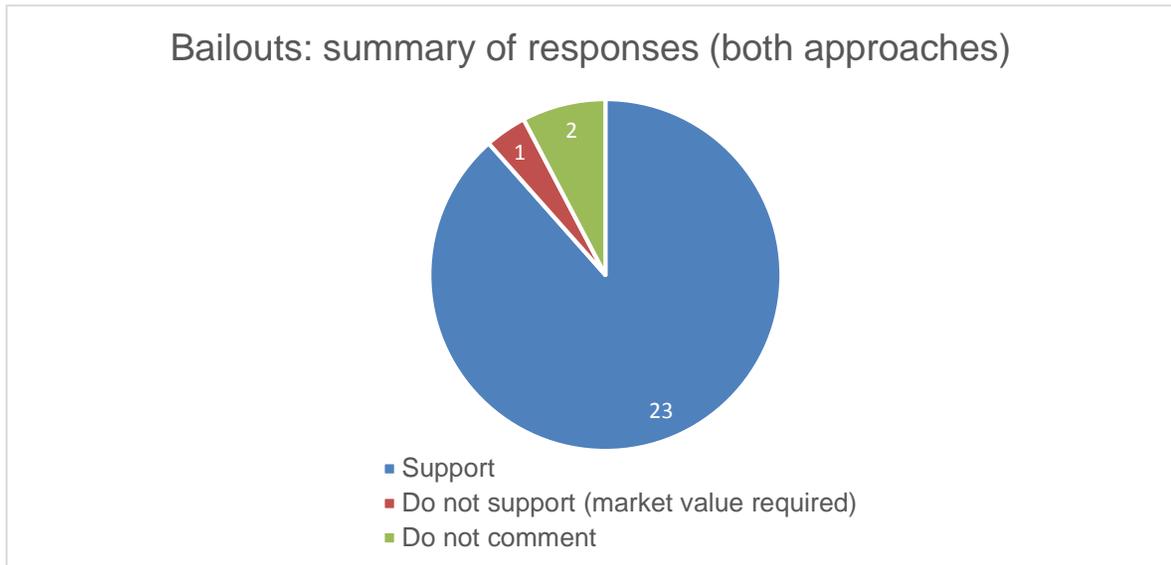
Comparison with responses to CP

108. As noted in paragraphs 96 and 97 above, nationalizations involving the purchase of operations or entities or by way of uncompensated seizure have the same economic substance, using control as the sole criterion, as combinations at fair value or donated operations respectively. The comparison with the responses to the CP for the latter two transactions showed that most respondents would consider these transactions to be acquisitions. This will also apply to the two types of nationalization; although some respondents suggest that the involuntary nature of a combination is an indicator of an amalgamation, this was suggested in the context of two public sector entities rather than a public sector entity receiving operations from a private sector entity.

109. As noted in paragraphs 101 and 102 above, nationalizations involving the purchase of operations or entities or by way of uncompensated seizure have a different economic substance, taking a range of factors into account, to combinations at fair value or donated operations respectively. Nevertheless, staff has concluded that the same accounting treatment would be appropriate.

110. The comparison with the responses to the CP for combinations at fair value or donated operations will, therefore, also apply to nationalizations involving the purchase of operations or entities or by way of uncompensated seizure.

111. Appendix A to this Issues Paper analyses respondents' comments to determine which respondents would support the proposed outcome that bailouts would be classified as acquisitions (using control as the sole criterion) and accounted for using fair value accounting (using a range of factors). This analysis is summarized in the chart below.



Staff comments

112. Staff considers that treating nationalizations as acquisitions, in line with the sole criterion of control, is consistent with a majority of respondents' views. Staff considers that the most significant question in respect of bailouts where support is provided through equity financing or favorable loans with conditions is not whether the public sector combination is an acquisition or an amalgamation, but whether a public sector combination has taken place at all. Where a combination has taken place, it will be an acquisition.
113. Staff considers that concluding that the most appropriate accounting method for nationalizations, in line with the consideration of a range of factors, is fair value accounting is (as above) consistent with a majority of respondents' views
114. Staff also considers that these conclusions are consistent with the IPSASB's previous discussions.

Matter(s) for Consideration

7. The IPSASB is asked **to indicate** whether it supports the staff view that, using control as the sole criterion, nationalizations should be classified as acquisitions.
8. The IPSASB is asked **to indicate** whether it supports the staff view that, considering a range of factors, the most appropriate accounting method for nationalizations is fair value accounting.

(e) – Combinations of operations wholly within the public sector but not under common control

Description and examples of combination

115. Combinations of operations wholly within the public sector but not under common control occur under a wide variety of different circumstances. As a general rule, consideration is not transferred in these types of combination, although there may be exceptions. Common circumstances include:
- (a) The transfer of operations from one level of government to another existing level of government;

- (b) Territorial boundaries being rearranged to create three municipalities out of two original municipalities; and
 - (c) Two municipalities combining to form a single municipality.
- (a) The transfer of operations from one level of government to another existing level of government
116. Where operations are transferred from one level of government to another existing level of government, the entities and their governing bodies will remain otherwise unchanged. For example, a national government may decide to centralize a service previously provided by regional government, and then arrange the transfer of the operations from the regional government bodies to an existing government department. Similarly, a national government may decide to devolve responsibility for a service to regional government, and then arrange the transfer of operations from a government department to the existing regional government bodies.
117. Transfers of operations between different levels of government may be voluntary, or may be imposed by a higher level of government (whether that higher level of government is a party to the combination or not). In some cases, consideration may be paid, but in many cases there will be no transfer of consideration.
- (b) Territorial boundaries being rearranged to create three municipalities out of two original municipalities
118. Where territorial boundaries are changed to create three municipalities out of two original municipalities, this usually involves operations in relation to a particular area being transferred from the original municipalities to the new municipality. The original municipalities and their governing bodies may remain otherwise unchanged, although this is not always the case. When the new municipality is created, this may include the creation of a new governing body (unrelated to the governing bodies of the original municipalities) to manage the operations that will be received from the original municipalities usually after elections takes place.
119. When territorial boundaries are rearranged in this manner, there will usually be no transfer of consideration. Discussions will focus on the operations and its related assets and liabilities to be transferred to the new municipality.
120. Territorial boundaries may be rearranged voluntarily (even if legislation is subsequently required to give effect to that decision) or imposed by a higher level of government even if that higher level of government does not, in accounting terms, control the municipalities.
- (c) Two municipalities combining to form a single municipality
121. There are various circumstances under which two municipalities or regions might combine.
122. Often, legislation establishing the new, combined municipality will specify the arrangements for the municipality's governing body and management. Recent examples in Auckland, New Zealand, and in more wide-ranging reforms in France and Portugal have resulted in a new governing body being formed, with no links to the governing bodies of the previous municipalities or regions (which were extinguished by the legislation). In all these examples, positions on the governing bodies were filled through an election process.

123. In other cases, legislation will give the responsibility for governing the new, combined entity to the governing body of one of the combining municipalities or regions.
124. Combinations of municipalities or regions may be voluntary (even if in some cases subsequent legislation is required to give effect to the decision of the municipalities to combine). In other cases, the combination may be imposed by a higher level of government, even if that higher level of government does not, in accounting terms, control the municipalities or regions.

Indicators of control in IPSAS 35

125. In assessing whether these circumstances result in an existing entity gaining control of an operation, one question that often needs to be considered is whether the entity that emerges from the combination is, in substance, the same as one of the original entities prior to the combination. This will usually require the exercise of professional judgment.
126. In most jurisdictions, lower levels of government (municipalities and regional government) are not controlled entities. These entities also do not have quantifiable ownership interests. An entity's right to direct its own relevant activities rests with its governing body. Consequently, staff considers that the assessment as to whether the entity that emerges from the combination is, in substance, the same as one of the parties to the combination can best be made by considering whether there have been substantive changes to the governing body or not.
127. Staff acknowledges that this will also require the exercise of professional judgment. The addition of, for example, two new members to an existing governing body of, say, 20 members is unlikely to produce a substantive change to the governing body; but as more new members are added, the likelihood of a substantive change increases. Professional judgment will be required to determine the point at which a substantive change has occurred.
128. In the following examples, the assessment as to whether the entity that emerges from the combination is, in substance, the same as one of the one of the parties to the combination is based on the changes (if any) to the governing body and its relationship (if any) to the parties to the combination.
129. The following tables considers how the indicators of control relate to different types of combinations of operations wholly within the public sector but not under common control:

- (a) The transfer of operations from one level of government to another existing level of government

The prior entity assessing control can demonstrate:	In all PSCs of this type	In some PSCs of this type	In no PSCs of this type
<i>Power over other entity</i>	✓		
Substantive rights, not protective rights or regulatory control	✓		
Rights to direct relevant activities (whether legislative, administrative, contractual, based on founding documents or voting or similar rights)	✓		
No other party has the right to direct the most significant relevant activities	✓		
<i>Exposure, or rights, to variable benefits from its involvement with the other entity</i>	✓		
<i>Link between power and benefits</i>	✓		
Entity acts as principal, not as agent	✓		

- (b) Territorial boundaries being rearranged to create three municipalities out of two original municipalities

The prior entity assessing control can demonstrate:	In all PSCs of this type	In some PSCs of this type	In no PSCs of this type
<i>Power over other entity</i>			✓
Substantive rights, not protective rights or regulatory control			✓
Rights to direct relevant activities (whether legislative, administrative, contractual, based on founding documents or voting or similar rights)			✓
No other party has the right to direct the most significant relevant activities			✓
<i>Exposure, or rights, to variable benefits from its involvement with the other entity</i>			✓
<i>Link between power and benefits</i>			✓
Entity acts as principal, not as agent			✓

(c) Two municipalities combining to form a single municipality

The prior entity assessing control can demonstrate:	In all PSCs of this type	In some PSCs of this type	In no PSCs of this type
<i>Power over other entity</i>		✓	
Substantive rights, not protective rights or regulatory control		✓	
Rights to direct relevant activities (whether legislative, administrative, contractual, based on founding documents or voting or similar rights)		✓	
No other party has the right to direct the most significant relevant activities		✓	
<i>Exposure, or rights, to variable benefits from its involvement with the other entity</i>		✓	
<i>Link between power and benefits</i>		✓	
Entity acts as principal, not as agent		✓	

130. This analysis suggests that, using control as the sole criterion, professional judgment will be required to determine the accounting for some PSCs wholly within the public sector but not under common control.
131. Where an operation is transferred between existing entities, which remain otherwise unchanged (as do their governing bodies), it is clear that one entity is gaining control of the operation and that, using control as the sole criterion, the combination meets the definition of an acquisition.
132. Conversely, where operations are separated from existing municipalities and combined to form an additional municipality with a separate governing body, it seems clear that no previously existing entity has gained control of the operations, and that the combination does not meet the definition of an acquisition using control as the sole criterion.
133. However, where two municipalities are combining, professional judgment will be required to determine whether, using control as the sole criterion, an acquisition has occurred.
134. In many cases, it may be clear from the legislation that gives effect to the combination whether one prior entity is gaining control or not. Where legislation specifies the creation of a new governing body, no prior entity will have gained control. Where legislation specifies that the governing body of one municipality takes responsibility over the operations of the other municipality, that first prior entity will have gained control.
135. Where the legislation is silent, or where legislation is not required to give effect to the combination, professional judgment will be required to assess whether a prior entity has gained control or not. In making this assessment, it is the substance of the combination that needs to be assessed, not the legal form. The legal form of one of the prior entities might be retained, but if a new governing body is formed, that prior entity may not have gained control. Conversely, the legal form might involve the creation of a new legal entity, but with the governing body of one of the prior entities given responsibility for that new legal entity. In such circumstances, a prior entity may have gained control.

Consideration of a range of factors

136. The following tables consider how the range of factors relate to different types of combinations of operations wholly within the public sector but not under common control:

(a) The transfer of operations from one level of government to another existing level of government

Factors suggesting fair value accounting	Factors suggesting carrying amount accounting	Factors that are neutral or not relevant
Control; (absence of) compulsion; decision making (if economic reasons); existence of quantifiable ownership interests.	(Absence of) consideration; (presence of) compulsion; decision making (if other reasons); citizens' rights.	Change of sectors; accountability; common control.

(b) Territorial boundaries being rearranged to create three municipalities out of two original municipalities

Factors suggesting fair value accounting	Factors suggesting carrying amount accounting	Factors that are neutral or not relevant
	Control; (Absence of) consideration; compulsion.	Change of sectors; accountability; decision making; citizens' rights; quantifiable ownership interests; common control.

(c) Two municipalities combining to form a single municipality

Factors suggesting fair value accounting	Factors suggesting carrying amount accounting	Factors that are neutral or not relevant
(Presence of) control; (absence of) compulsion; decision making (if economic reasons).	(Absence of) control; consideration; (presence of) compulsion; decision making (if other reasons); citizens' rights.	Change of sectors; accountability; quantifiable ownership interests; common control.

137. This analysis suggests that, taking a range of factors into account, professional judgment will be required to determine the accounting for many PSCs wholly within the public sector but not under common control.

138. Where territorial boundaries being rearranged to create three municipalities out of two original municipalities, it seems clear that, taking a range of factors into account, it is appropriate to use carrying amount accounting when accounting for the creation of the new municipality. However, in the other examples identified, the decision is less certain.

139. Staff notes that professional judgment would be required to determine the appropriate accounting for the transfer of operations from one level of government to another existing level of government. Although one party to the combination clearly gains control of the operations in these circumstances, some respondents and TBG members consider that it may still be appropriate to account for the PSC using carrying amount if the PSC is mandated by a higher level of government, and if no consideration is transferred. They consider the economic substance of the transaction to be a rearrangement of the public sector, and do not consider it appropriate to use fair value accounting in such circumstances. This provides a clear contrast with the control approach, where, based on the analysis above, such transactions would always apply fair value as the measurement basis.

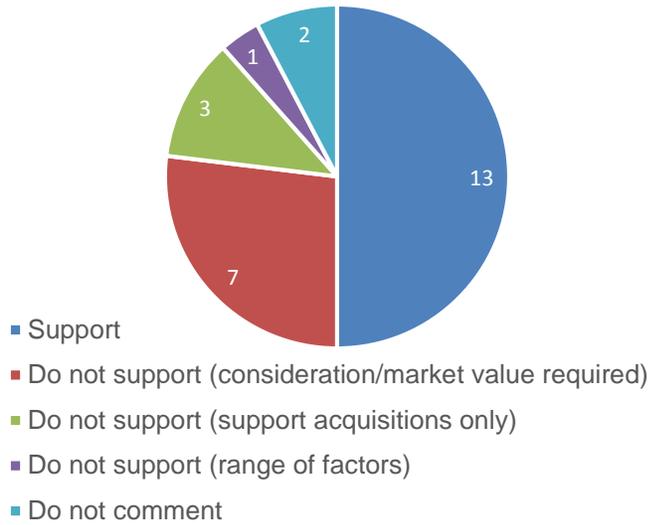
140. Similar differences could arise when determining the appropriate accounting where two municipalities combining to form a single municipality. Although professional judgment is required under both approaches, an assessment that one municipality has gained control would not be sufficient to determine the appropriate accounting where a range of factors are taken into account. The gaining of control would suggest that fair value accounting might be appropriate, but other factors, such as the PSC being imposed by a higher level of government for no consideration may lead to a different conclusion, for the reasons explained earlier.
141. The need to exercise professional judgment when assessing these PSCs may result in the different accounting treatments being used for these transactions and similar transactions where operations are transferred from the private sector to the public sector (discussed above).
142. Those who consider that a range of factors should be assessed in determining the appropriate accounting treatment consider that differences in accounting treatments would reflect the different economic substance of the transactions:
- **Change of sector** – where the PSC occurs wholly within the public sector, the parties to the combination will have the same nature as political bodies. This is not the case where private sector entities are involved in the PSC.
 - **Citizens' rights** – where the PSC takes place wholly within the public sector, it is often the case that the substance of the combination is that the same resources are being applied to provide the same services to the same constituents. This might not be the case where operations are transferred from the private sector to the public sector. On the other hand, sometimes the operations are provided to same citizens and what changes is its control over the resources.
 - **Quantifiable ownership interests** – where the PSC involves the transfer of operations from the private sector to the public sector, shareholders lose their quantifiable ownership interests (shareholdings) in the operations. Not all PSCs wholly within the public sector involve a similar loss of quantifiable ownership interests (for example, the combining of two municipalities). The changing of control of quantifiable ownership rights suggests that an acquisition has taken place, while not having quantifiable ownership might not be conclusive that an acquisition occurred.

Comparison with responses to CP

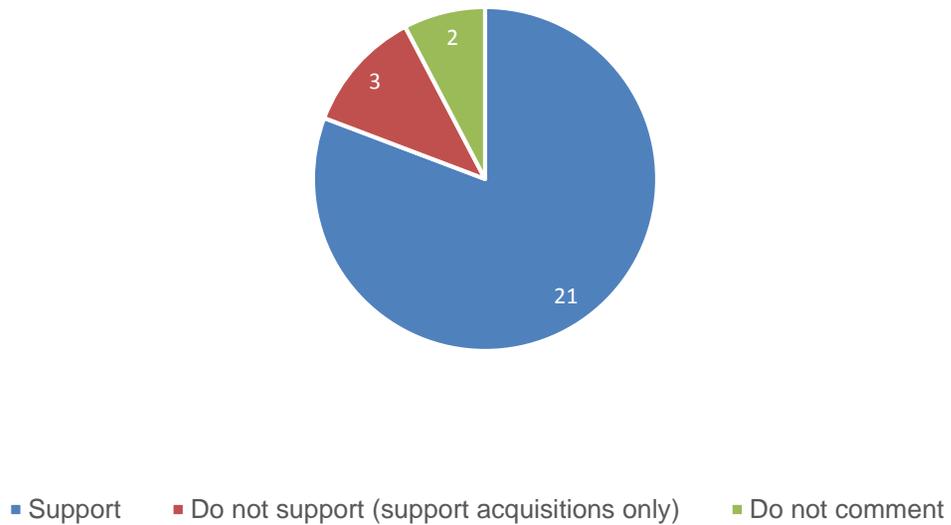
143. Appendix A to this Issues Paper analyses respondents' comments to determine which respondents would support the proposed outcomes (using control as the sole criterion) that:
- The transfer of operations from one level of government to another existing level of government would be classified as an acquisition;
 - Territorial boundaries being rearranged to create three municipalities out of two original municipalities would be classified as an amalgamation; and
 - Professional judgment is required to determine whether an acquisition arises where two municipalities combine to form a single municipality.

144. This analysis is summarized in the charts below.

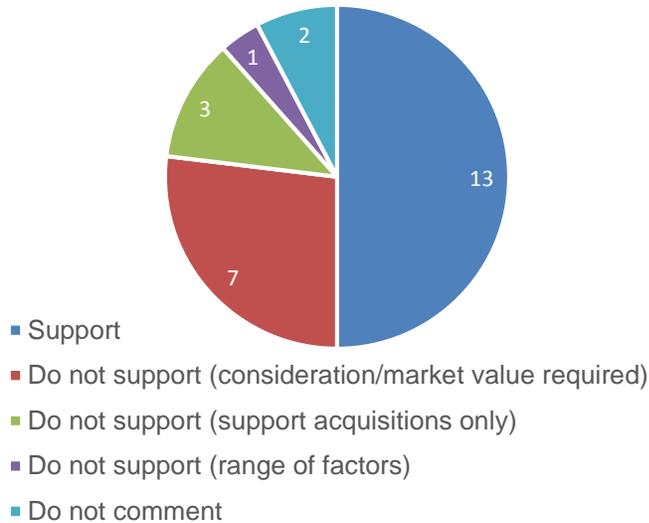
Transfer of operations from one level of government to another: summary of responses (control approach)



Rearranging boundaries to create new entity: summary of responses (control approach)



Two municipalities combine to form one municipality:
summary of responses (control approach)

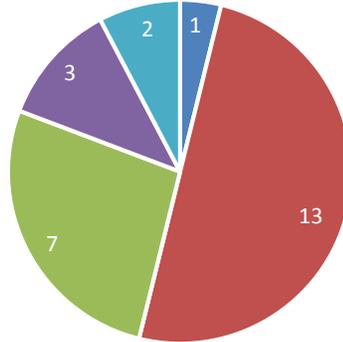


145. Appendix A to this Issues Paper analyses respondents' comments to determine which respondents would support the proposed outcomes (using a range of factors) that:

- Professional judgment is required to determine whether a transfer of operations from one level of government to another existing level of government would be accounted for at fair value or at carrying amount;
- Territorial boundaries being rearranged to create three municipalities out of two original municipalities would be accounted for at carrying amount; and
- Professional judgment is required to determine whether an acquisition arises where two municipalities combine to form a single municipality would be accounted for at fair value or at carrying amount.

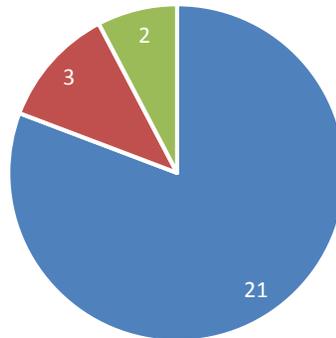
146. This analysis is summarized in the charts below.

Transfer of operations from one level of government to another: summary of responses (range of factors)



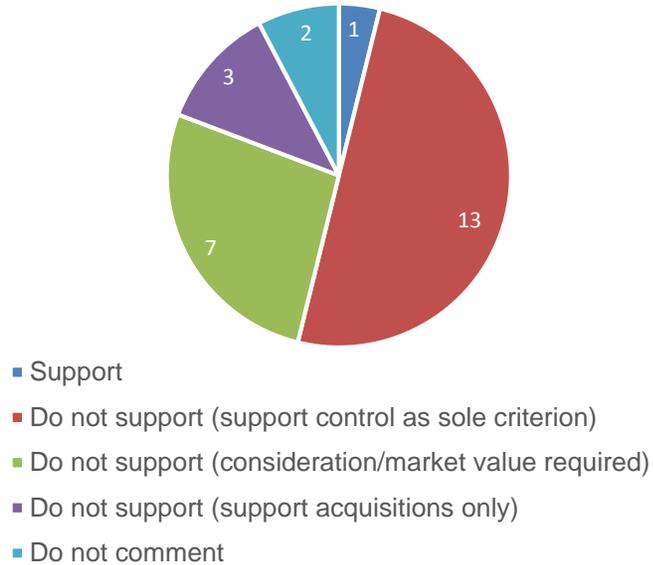
- Support
- Do not support (support control as sole criterion)
- Do not support (consideration/market value required)
- Do not support (support acquisitions only)
- Do not comment

Rearranging boundaries to create new entity: summary of responses (range of factors)



- Support
- Do not support (support acquisitions only)
- Do not comment

Two municipalities combine to form one municipality:
summary of responses (range of factors)



Staff comments

147. Staff notes that, for the example whereby boundaries are rearranged to create a new municipality, there is strong support for classifying the PSC as an amalgamation (control approach) or accounting for the PSC at carrying amount (range of factors). Staff considers that this is in line with the IPSASB's previous discussions.
148. For the other examples (a transfer of operations between different levels of government, and the combination of two municipalities) staff considers that respondents' views do not suggest a clear way forward.
149. Considering the control approach first, 50% of respondents support an approach to PSCs not under common control based on control as the sole criterion. An equal number either do not support or do not comment. Of those who do not consider that control should be the sole criterion, one respondent holds the view that control is necessary, but that other factors also need to be taken into account, while ten respondents propose alternative classification approaches (either basing the classification on the sole criteria or consideration, significant consideration or market value) or proposing all PSCs should be acquisitions.
150. Only one respondent explicitly supports the range of factors approach, although staff acknowledges that this may be influenced by the fact that the CP did not discuss the range of factors approach. Other respondents do not support this approach in respect of a transfer of operations between different levels of government, and the combination of two municipalities. Those who support control as the sole criterion would not support an approach that might override control. Similarly, those who support alternative criteria would not support an alternative approach that might lead to those criteria being overridden. In both cases, the PSC could be accounted for at carrying amount under the range

of factors approach, something that those respondents who consider all PSCs should be accounted for at fair value (i.e., as acquisitions) would not support.

151. Staff considers that neither approach carries significant support, although a greater number support the outcomes using the control approach than the range of factors approach. The control approach is also consistent with the IPSASB's previous views as set out in the CP.

Matter(s) for Consideration

9. The IPSASB is asked **to indicate** whether it supports the staff view that, using control as the sole criterion:
- The transfer of operations from one level of government to another existing level of government would be classified as an acquisition;
 - Territorial boundaries being rearranged to create three municipalities out of two original municipalities would be classified as an amalgamation; and
 - Professional judgment is required to determine whether an acquisition arises where two municipalities combine to form a single municipality.
10. The IPSASB is asked **to indicate** whether it supports the staff view that, considering a range of factors:
- Professional judgment is required to determine whether a transfer of operations from one level of government to another existing level of government would be accounted for at fair value or at carrying amount;
 - Territorial boundaries being rearranged to create three municipalities out of two original municipalities would, considering a range of factors, be accounted for at carrying amount; and,
 - Professional judgment is required to determine whether an acquisition arises where two municipalities combine to form a single municipality would be accounted for at fair value or at carrying amount.

(f) – Public sector combinations under common control

Description and examples of combination

152. The CP defined a *public sector combination under common control* as “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.”
153. Public sector combinations under common control include:
- (a) The transfer of operations between controlled entities;
 - (b) The transfer of operations from controlled entities to a newly formed controlled entity; and
 - (c) A combination of controlled entities.
154. Combinations under common control occur frequently in the public sector, for example when government ministries or departments are reorganized.

Indicators of control in IPSAS 35

155. The following table considers how the indicators of control relate to combinations under common control:

The prior entity assessing control can demonstrate:	In all PSCs of this type	In some PSCs of this type	In no PSCs of this type
<i>Power over other entity</i>		✓	
Substantive rights, not protective rights or regulatory control	✓		
Rights to direct relevant activities (whether legislative, administrative, contractual, based on founding documents or voting or similar rights)	✓		
No other party has the right to direct the most significant relevant activities		✓	
<i>Exposure, or rights, to variable benefits from its involvement with the other entity</i>	✓		
<i>Link between power and benefits</i>		✓	
Entity acts as principal, not as agent		✓	

156. This analysis suggests that professional judgment is required to determine whether, using control as the sole criterion, an acquisition arises in a combination under common control.
157. The focus of control indicators is on the reporting entity. This means that the reporting entity will need to assess whether it has the power over the entity, is exposure, or rights, to variable benefits or acts as a principal, not as agent.
158. Staff considers that in most cases, an acquisition will not arise. This is because the entity assessing control will be an intermediate controlling entity. Although the entity may have substantive rights to direct relevant activities in order to affect its variable benefits, staff considers that in most cases:
- (a) The intermediate controlling entity will be acting as an agent for the ultimate controlling entity; or
 - (b) The ultimate controlling entity will have the right to direct the most significant relevant activities.
159. In such circumstances, the intermediate controlling entity would not be able to demonstrate that all the elements of control were in place. No acquisition would have occurred.
160. However, in some circumstances an intermediate controlling entity may be able to demonstrate that it has gained control of operations.
161. One example could arise in the United Kingdom. In the UK, local government is under the control of central government. That control derives from legislation that enables central government to, for example, limit local government's ability to raise taxes, restrict the investments that local government can make, and direct local government to undertake certain functions. However, the legislation does not extend to companies owned by local government. This is similar to a situation whereby contractual terms so limit an entity's ability to undertake some significant relevant activities

independently that the counterparty has control; but where the contractual terms do not limit the entity's ability to undertake other relevant activities.

162. In the UK, the legislation gives central government control over most of the relevant activities of a local government group, but not all. Local government companies (GBEs) could transfer operations without central government being able to exercise control. These transfers would, using control as the sole criterion, meet the definition of an acquisition and would be reported as such in the local government body's consolidated financial statements. The local government body would have the power to direct relevant activities in order to affect the variable benefits it received from its involvement with the GBEs.
163. At the whole of government level, there would be no change. The operations would form part of the consolidated financial statements both before and after the combination. At the intermediate reporting level (local government bodies), the operations would be reported as part of different consolidated entities before and after the combination.
164. Staff considers that the appropriate classification for such transactions can be determined by reference to the indicators of control in IPSAS 35. The question to be answered is whether one of the parties to the combination has gained control over operations through the PSC. The party to the combination would be the reporting entity. Staff considers that focusing on the reporting entity is the most appropriate way to assess control. The fact that the entity is a controlled entity, and that its controlling entity may be able to direct the relevant activities of the operations subject to the PSC will influence that assessment.

Consideration of a range of factors

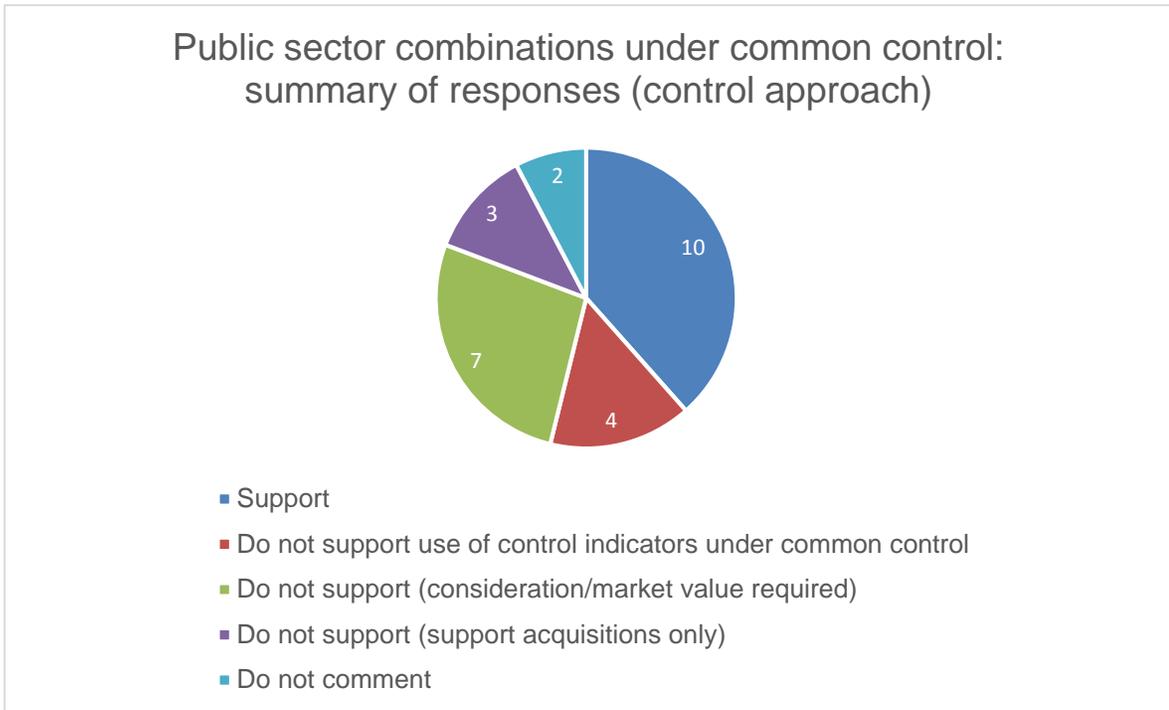
165. The following table considers how the range of factors relate to PSCs under common control:

Factors suggesting fair value accounting	Factors suggesting carrying amount accounting	Factors that are neutral or not relevant
(Presence of) control; (presence of) consideration (absence of) compulsion; decision making (if economic reasons).	(Absence of) control; (absence of) consideration; (presence of) compulsion; decision making (if other reasons); citizens' rights.	Change of sectors; accountability; quantifiable ownership interests; common control (does not of itself suggest a particular accounting treatment, but may affect the weight given to other factors).

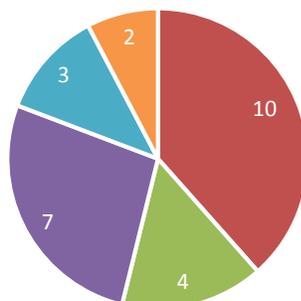
166. This analysis suggests that, taking a range of factors into account, professional judgment may be required to determine the accounting for PSCs under common control.
167. Staff notes that, although the balance of factors is similar to those shown above for the combination of two municipalities, the weighting given to those factors may be different. Under common control, the fact that consideration is transferred, or the fact that one entity is given control over the operations may be less important if these factors are dictated by the ultimate controlling entity.
168. As with the control approach above, staff considers that the use of fair value accounting for PSCs under common control will not normally be appropriate as the economic substance of the PSC will usually be that the ultimate controlling entity is rearranging its operations. However, in some cases, fair value accounting may best reflect the economic substance of the PSC.

Comparison with responses to CP

169. Appendix A to this Issues Paper analyses respondents' comments to determine which respondents would support the proposed outcomes that professional judgment is required to determine whether a combination under common control should be classified as an acquisition or amalgamation (control approach) or accounted for at fair value or carrying amount (range of factors).



Public sector combinations under common control: summary of responses (range of factors)



- Support (none)
- Do not support (support control as sole criterion)
- Do not support use of control indicators under common control
- Do not support (consideration/market value required)
- Do not support (support acquisitions only)
- Do not comment

Staff comments

170. Staff notes that neither approach produces outcomes that would command the support of the majority of respondents. Staff notes that the outcome under the control approach has greater support than the outcome under the range of factors approach, but acknowledges that this may be influenced by the fact that the CP did not discuss the range of factors approach.
171. Under the control approach, staff considers that distinguishing between acquisitions and amalgamations under common control by applying the control indicators in IPSAS 35 is likely to produce appropriate accounting. This would also be in line with the largest (albeit a minority) group of respondents' comments.
172. In previous discussions, the IPSASB has debated whether intermediate controlling entities can operate independently of the ultimate controlling entity, and whether this should be considered in classifying the combination. Staff concluded in the analysis above that the appropriate classification for such transactions can be determined by reference to the indicators of control in IPSAS 35. Staff notes that a number of respondents commented that acquisitions under common control are unlikely to arise. Staff considers that in some cases, these comments may reflect jurisdictional factors.
173. Under the range of factors approach, staff notes that the analysis in Appendix A does not indicate any support for the proposed outcome that professional judgment may be required to determine the accounting for PSCs under common control.
174. Staff considers that, had the range of factors approach been discussed in the CP, the responses may have been different. For example, a number of respondents suggested that all combinations UCC should be accounted for at carrying amount because acquisitions were likely to be rare or non-

existent. It is possible that some of these respondents would have supported the outcome under the range of factors approach, which considers acquisitions UCC to be rare but possible. However, it is not possible to identify these respondents from their comments to the questions that were asked.

175. Staff also notes that those respondents who support control as the sole criterion would not support the range of factors approach, as combinations UCC in which one entity gained control might still be accounted for at carrying amount, depending on other factors. However, given the rarity of such transactions, it is likely that most combinations UCC would not involve one entity gaining control. The range of factors approach would account for these PSCs at carrying amount, an outcome that those who support control as the sole criterion would also support. It is only at the margins that this group would disagree with the range of factors approach.
176. That being said, and bearing in mind that the disagreements may be marginal, staff considers that, as with the control approach, there will be no outcome under the range of factors approach that commands the support of a majority of respondents.

Matter(s) for Consideration

11. The IPSASB is asked **to indicate** whether it supports the staff view that, using control as the sole criterion, professional judgment is required to determine whether a PSC under common control should be classified as an acquisition or an amalgamation.
12. The IPSASB is asked **to indicate** whether it supports the staff view that, considering a range of factors, professional judgment is required to determine whether a PSC under common control should be accounted for at fair value or at carrying amount.

Summary of approaches

177. The following table summarizes how the different approaches would treat the different scenarios:

	Control (as a single criterion or with other factors in support)	Control and other independent factors
Combinations at fair-value	Acquisition	Fair value
Bargain purchase	Acquisition	Fair value
Donated Operations	Acquisition	Fair value
Nationalizations	Acquisition	Fair value
Bailouts	Acquisition	Fair value
PSCs wholly in the public sector but not under common control		
<ul style="list-style-type: none"> • The transfer of operations from one level of government to another existing level of government. 	Acquisition	Fair value or carrying amounts
<ul style="list-style-type: none"> • Territorial boundaries being rearranged to create three municipalities out of two original municipalities. 	Amalgamation	Fair value or carrying amounts
<ul style="list-style-type: none"> • Two municipalities combining to form a single municipality. <ul style="list-style-type: none"> ➤ New municipality is created ➤ An existing municipality receives the operations 	Amalgamation	Fair value or carrying amounts
	Acquisition	Fair value or carrying amounts
Public sector combinations UCC	Acquisition reorganization	or Fair value or carrying amounts

178. Staff notes that the two approaches would require different accounting approaches for some PSCs. This reflects the different views of the economic substance of a PSC that are implicit in the two approaches.

179. The approach that adopts control as the sole criterion (whether or not other factors are used to help assess control) focuses on the reporting entity and considers whether, as a result of the PSC, a party to the combination has gained control of operations in that resulting reporting entity. This approach views the economic substance of the combination as being found in the outcome of the combination – did an entity gain control or not? The process by which that outcome was arrived at does not affect the economic substance of the combination.

180. Because this approach focuses on the outcome of the combination, it will be possible to develop definitions of the different types of combination for inclusion in a future Exposure Draft (ED). This is consistent with the IPSASB's approach to date on this project.

181. The approach that considers control as one of a number of independent factors to be considered in determining the appropriate accounting treatment for a combination has a wider focus. As well as considering the reporting entity, this approach considers the wider context such as the sector in which the reporting entity can be found, and whether the reporting entity is part of an economic group. Other

factors such as consideration and compulsion are also taken into account. This approach views the economic substance of the combination as being found in the process of the combination. The outcome of the combination – whether an entity has gained control or not – is only one factor to be considered alongside a number of others.

182. Because this approach focuses on the process of the combination rather than the outcome, it may not be possible to develop clear definitions of the different types of PSC. Instead, a future ED would specify the different accounting treatments that could be applied. The ED would also provide descriptions of the most common PSCs and indicate which accounting treatment was most likely to be appropriate, noting that each combination would need to be assessed on its individual circumstances.
183. Because of the differences between the two approaches, they are mutually exclusive. The IPSASB is asked to decide which approach best reflects the economic substance of a PSC and should, therefore, be included in a draft ED.
184. Staff has provided an analysis of respondents' comments to inform this decision, but notes that, because the range of factors approach was not discussed in the CP, these comments may not fully reflect respondents' views of that approach. Staff also notes that both approaches give the same outcomes for PSCs involving the transfer of operations from the private sector to the public sector, and that these outcomes have the support of respondents.
185. The two approaches produce different outcomes where PSCs take place wholly within the public sector (whether under common control or not), and staff notes that, while some outcomes receive more support than others, there is no outcome that commands majority support. As such, staff considers that respondents' views can only provide limited input into the decision.

Matter(s) for Consideration

13. The IPSASB is asked **to decide** whether the control approach or range of factors approach should be included in a future ED.

APPENDIX A

ANALYSIS OF RESPONSES

- A.1. The CP set out an approach for classifying public sector combinations as either acquisitions or amalgamations, using control as the sole definitive criterion for this distinction. The CP proposed distinguishing between public sector combinations under common control and those combinations not under common control. The CP also asked respondents whether the transfer of consideration should be taken into account in determining the accounting requirements.
- A.2. Preliminary View (PV) 3 gave the IPSASB's view that:
"The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations."
- A.3. Related to PV 3, Specific Matter for Comment (SMC) 2 asked the following question:
"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?"
- A.4. SMC 3 asked the following question:
"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?"
- A.5. A full review of responses was reported to the IPSASB at its meeting in June 2014. The Issues Paper can be downloaded [here](#). In the June 2014 Issues Paper, staff concluded that, whilst the use of control as the sole criterion had support, none of the detailed approaches described in the CP commanded the support of a majority of respondents.
- A.6. This Appendix analyses stakeholders' responses to PV 3, SMC 2 and SMC 3, along with other comments made where necessary, to determine whether respondents would support the proposed outcome for each scenarios discussed in the Issues Paper. This analysis is performed for both approaches discussed in the Issues Paper. Staff notes that the CP did not ask respondents to comment on particular transactions, nor did it ask specific questions about an approach in which control was not the sole definitive criterion. Staff has therefore exercised its professional judgment in considering whether the principles proposed by respondents would give rise to the same outcome as the proposals in this Issues Paper. Staff also acknowledges that respondents might have responded differently has they been asked about the specific transactions or about the alternative approach set out in the Issues Paper. As such, the analysis in this appendix should be treated as indicative only, and should not be relied on to fully reflect respondents' views.
- A.7. Because this analysis focuses on support for a particular outcome rather than the rationale used to achieve this outcome, some respondents are shown as supporting a particular outcome even though they may not support the rationale used in determining that classification or accounting treatment.
- A.8. For example, two respondents considered that all combinations should be considered as acquisitions. These respondents would not support the use of control to determine whether a combination is an acquisition, but would support a proposed outcome in the CP that considers that a particular scenario (for example, bargain purchases) will always give rise to an acquisition (control approach) or be accounted for using fair value (range of factors approach).

A.9. The following paragraphs provide staff's detailed analysis of respondents' views. Summaries of staff's view of the proposed outcomes each respondent would support under each approach are provided on the final two pages of this Appendix.

Support control as sole criterion

A.10. Ten respondents (4, 7, 9, 10, 16, 18, 21, 22, 24 and 25) support the approach in the CP of using control as the sole definitive criterion for distinguishing between acquisitions and amalgamations. Most of these respondents also support the distinction between combinations under common control and combinations not under common control, although respondents 4, 24 and 25 do not comment on this distinction. Respondent 7 also comments that, if there are difficulties in drawing a robust distinction between acquisitions and amalgamations, all combinations UCC could be treated as amalgamations.

A.11. Six of these respondents (7, 9, 10, 21, 22 and 26) do not identify any other factors that need to be taken into account. Respondents 4, 16 and 24 either identify additional factors or consider all factors need to be considered when determining control, but do not consider these factors to be independent of control. Respondent 25 links control to citizens' rights.

A.12. Staff considers that these respondents would support all the proposed outcomes in the Issues Paper *where the outcomes are based on control as the sole criterion*:

- Combinations at fair value classified as acquisitions;
- Bargain purchases classified as acquisitions;
- Donated operations classified as acquisitions;
- All nationalizations classified as acquisitions;
- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government, rearrangement of boundaries to create a new municipality and combinations of municipalities) classified as either acquisitions or amalgamations depending on whether the indicators of control are satisfied in a particular combination; and
- Combinations of public sector entities under common control generally being classified as reorganizations, but classified as acquisitions where the indicators of control are satisfied in a particular combination.

A.13. Staff considers that these respondents would support the following proposed outcome in the Issues Paper *where the outcomes are based on consideration of a range of factors*. These outcomes are the same as those that arise from considering control as the sole criterion.

- Combinations at fair value accounted for at fair value;
- Bargain purchases accounted for at fair value;
- Donated operations accounted for at fair value;
- All nationalizations accounted for at fair value; and
- Combinations not under common control where boundaries are rearranged to form additional entities accounted for at carrying amount.

A.14. Staff considers that these respondents would not support the following proposed outcome in the Issues Paper *where the outcomes are based on consideration of a range of factors*. These outcomes may differ from those that arise from considering control as the sole criterion.

- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government or combinations of municipalities) accounted for at either fair value or carrying amount depending on professional judgment applied to a range of factors in relation to a particular combination; and
- Combinations of public sector entities under common control generally being accounted for at carrying amount, but accounted for at fair value where indicated by professional judgment applied to a range of factors in relation to a particular combination.

Would not use control as criterion for combinations under common control

A.15. Three respondents (11, 12 and 26) support the approach in the CP of using control as the sole definitive criterion for distinguishing between acquisitions and amalgamations. These respondents also support the distinction between combinations under common control and combinations not under common control. However, the respondents either:

- Consider that all combinations under common control should be accounted for as amalgamations (i.e., reorganizations as this Issues Paper defines them) (respondent 12); or
- Propose an alternative basis for classifying combinations under common control (voluntary/involuntary nature of the combination for respondent 11 and whether the combination has commercial substance for respondent 26).

A.16. Staff considers that these respondents would support all the proposed outcomes in the Issues Paper *where the outcomes are based on control as the sole criterion* with the exception of:

- Combinations of public sector entities under common control generally being classified as reorganizations, but classified as acquisitions where the indicators of control are satisfied in a particular combination.

A.17. Staff considers that these respondents would support all the proposed outcomes in the Issues Paper *where the outcomes are based on consideration of a range of factors*, with the exception of

- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government or combinations of municipalities) accounted for at either fair value or carrying amount depending on professional judgment applied to a range of factors in relation to a particular combination; and
- Combinations of public sector entities under common control generally being accounted for at carrying amount, but accounted for at fair value where indicated by professional judgment applied to a range of factors in relation to a particular combination.

Would not use control as sole criterion

A.18. Respondent 23 does not consider that control should be the sole definitive criterion for distinguishing between an acquisition and an amalgamation. This respondent considers that control is a necessary condition, but not in itself sufficient, and that all facts and circumstances need to be considered together with the substance of the transaction.

- A.19. Respondent 23 also holds the view that that all combinations of entities UCC should be accounted for as an amalgamation/reorganization.
- A.20. Staff considers that this respondent would support all the proposed outcomes in the Issues Paper *where the outcomes are based on control as the sole criterion* with the exception of:
- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government and combinations of municipalities) classified as either acquisitions or amalgamations depending on whether the indicators of control are satisfied in a particular combination; and
 - Combinations of public sector entities under common control generally being classified as reorganizations, but classified as acquisitions where the indicators of control are satisfied in a particular combination.
- A.21. Staff considers that these respondents would support all the proposed outcomes in the Issues Paper *where the outcomes are based on consideration of a range of factors*, with the exception of
- Combinations of public sector entities under common control generally being accounted for at carrying amount, but accounted for at fair value where indicated by professional judgment applied to a range of factors in relation to a particular combination.

Consider all combinations should be acquisitions

- A.22. Three respondents (6, 8 and 19) do not consider that the CP provided sufficient justification for recognizing amalgamations in the public sector. These respondents would treat all public sector combinations as acquisitions (staff notes that, for respondent 8, this was the view of the majority but not all of its members).
- A.23. Staff considers that these respondents would only support those outcomes in the Issues Paper (*where the outcomes are based on control as the sole criterion*) which would result in all combinations within a scenario being classified as acquisitions. Consequently, these respondents would not support the proposed outcomes (*where the outcomes are based on control as the sole criterion*) in respect of:
- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government, rearrangement of boundaries to create a new municipality or combinations of municipalities) classified as either acquisitions or amalgamations depending on whether the indicators of control are satisfied in a particular combination; and
 - Combinations of public sector entities under common control generally being classified as reorganizations, but classified as acquisitions where the indicators of control are satisfied in a particular combination.
- A.24. Similarly, staff considers that these respondents would only support those outcomes in the Issues Paper (*where the outcomes are based on consideration of a range of factors*) which would result in all combinations within a scenario being classified as acquisitions. Consequently, these respondents would not support the proposed outcomes (*where the outcomes are based on consideration of a range of factors*) in respect of:

- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government, rearrangement of boundaries to create a new municipality or combinations of municipalities) accounted for at either fair value or carrying amount depending on professional judgment applied to a range of factors in relation to a particular combination; and
- Combinations of public sector entities under common control generally being accounted for at carrying amount, but accounted for at fair value where indicated by professional judgment applied to a range of factors in relation to a particular combination.

A.25. Staff considers these respondents would support the remaining proposed outcomes in the Issues Paper.

Consider acquisitions involve the transfer of consideration

A.26. Four respondents (5, 14, 15 and 20) consider that the transfer of consideration is a defining feature of an acquisition. Staff considers that these respondents would only support those outcomes in the Issues Paper that would classify combinations involving a transfer of consideration as acquisitions, and all other combinations as amalgamations (or reorganizations).

A.27. Consequently, staff considers these respondents would support the outcomes in the Issues Paper *where the outcomes are based on control as the sole criterion* in respect of:

- Combinations at fair value classified as acquisitions;
- Bargain purchases classified as acquisitions;
- Nationalizations (purchase of operations and bailouts only) classified as acquisitions; and
- Combinations of operations wholly in the public sector but not under common control (rearrangement of boundaries to create a new municipality only) classified as amalgamations.

A.28. Staff considers these respondents would not support the following proposed outcomes in the Issues Paper *where the outcomes are based on control as the sole criterion* as these outcomes could give rise to combinations not involving a transfer of consideration being classified as acquisitions:

- Donated operations classified as acquisitions;
- Nationalizations (uncompensated seizures only) classified as acquisitions;
- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government or combinations of municipalities) classified as either acquisitions or amalgamations depending on whether the indicators of control are satisfied in a particular combination; and
- Combinations of public sector entities under common control generally being classified as reorganizations, but classified as acquisitions where the indicators of control are satisfied in a particular combination.

A.29. Staff considers that these respondents would support the following proposed outcome in the Issues Paper *where the outcomes are based on consideration of a range of factors*:

- Combinations at fair value accounted for at fair value;
- Bargain purchases accounted for at fair value;

- Nationalizations (purchase of operations and bailouts only) accounted for at fair value; and
- Combinations of operations wholly in the public sector but not under common control where boundaries are rearranged to form additional entities accounted for at carrying amount.

A.30. Staff considers that these respondents would not support the following proposed outcome in the Issues Paper *where the outcomes are based on consideration of a range of factors* as these outcomes could give rise to combinations not involving a transfer of consideration being classified as acquisitions:

- Donated operations accounted for at fair value;
- Nationalizations (uncompensated seizures only) accounted for at fair value;
- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government or combinations of municipalities) accounted for at either fair value or carrying amount depending on professional judgment applied to a range of factors in relation to a particular combination; and
- Combinations of public sector entities under common control generally being accounted for at carrying amount, but accounted for at fair value where indicated by professional judgment applied to a range of factors in relation to a particular combination.

Consider acquisitions involve the transfer of significant consideration

A.31. Two respondents (1 and 17) consider that the transfer of significant consideration is a defining feature of an acquisition. Staff considers that these respondents would only support those outcomes in the Issues Paper that would classify combinations involving a transfer of significant consideration as acquisitions, and all other combinations as amalgamations (or reorganizations).

A.32. Consequently, staff considers these respondents would support the outcomes in the Issues Paper *where the outcomes are based on control as the sole criterion* in respect of:

- Combinations at fair value classified as acquisitions;
- Nationalizations (purchase of operations and bailouts only) classified as acquisitions; and
- Combinations of operations wholly in the public sector but not under common control (rearrangement of boundaries to create a new municipality only) classified as amalgamations.

A.33. Staff considers these respondents would not support the following proposed outcomes in the Issues Paper *where the outcomes are based on control as the sole criterion* as these outcomes could give rise to combinations not involving a transfer of significant consideration being classified as acquisitions:

- Bargain purchases classified as acquisitions; and
- Donated operations classified as acquisitions;
- Nationalizations (uncompensated seizures only) classified as acquisitions;
- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government or combinations of municipalities) classified as either acquisitions or amalgamations depending on whether the indicators of control are satisfied in a particular combination; and

- Combinations of public sector entities under common control generally being classified as reorganizations, but classified as acquisitions where the indicators of control are satisfied in a particular combination.
- A.34. Staff considers that these respondents would support the following proposed outcome in the Issues Paper *where the outcomes are based on consideration of a range of factors*:
- Combinations at fair value accounted for at fair value;
 - Nationalizations (purchase of operations and bailouts only) accounted for at fair value; and
 - Combinations of operations wholly in the public sector but not under common control where boundaries are rearranged to form additional entities accounted for at carrying amount.
- A.35. Staff considers that these respondents would not support the following proposed outcome in the Issues Paper *where the outcomes are based on consideration of a range of factors* as these outcomes could give rise to combinations not involving a transfer of significant consideration being classified as acquisitions:
- Bargain purchases accounted for at fair value;
 - Donated operations accounted for at fair value;
 - Nationalizations (uncompensated seizures only) accounted for at fair value;
 - Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government or combinations of municipalities) accounted for at either fair value or carrying amount depending on professional judgment applied to a range of factors in relation to a particular combination; and
 - Combinations of public sector entities under common control generally being accounted for at carrying amount, but accounted for at fair value where indicated by professional judgment applied to a range of factors in relation to a particular combination.

Considers acquisitions involve purchases at market value

- A.36. Respondent 3 considers that a purchase at market value is a defining feature of an acquisition. Staff considers that this respondent would only support those outcomes in the Issues Paper that would classify combinations involving a purchase at fair value as acquisitions, and all other combinations as amalgamations (or reorganizations). In this context, staff considers that this respondent may not support the classification of a bailout as an acquisition as bailouts can occur with the transfer of consideration in excess of the market value of the operation or entity.
- A.37. Consequently, staff considers this respondent would support the outcomes in the Issues Paper *where the outcomes are based on control as the sole criterion* in respect of:
- Combinations at fair value classified as acquisitions;
 - Nationalizations (purchase of operations only) classified as acquisitions
 - Combinations of operations wholly in the public sector but not under common control (rearrangement of boundaries to create a new municipality only) classified as amalgamations.

A.38. Staff considers this respondents would not support the following proposed outcomes in the Issues Paper *where the outcomes are based on control as the sole criterion* as these outcomes could give rise to combinations not involving a purchase at market value being classified as acquisitions:

- Bargain purchases classified as acquisitions; and
- Donated operations classified as acquisitions;
- Nationalizations (uncompensated seizures and bailouts only) classified as acquisitions;
- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government or combinations of municipalities) classified as either acquisitions or amalgamations depending on whether the indicators of control are satisfied in a particular combination; and
- Combinations of public sector entities under common control generally being classified as reorganizations, but classified as acquisitions where the indicators of control are satisfied in a particular combination.

A.39. Staff considers that these respondents would support the following proposed outcome in the Issues Paper *where the outcomes are based on consideration of a range of factors*:

- Combinations at fair value accounted for at fair value;
- Nationalizations (purchase of operations only) accounted for at fair value; and
- Combinations of operations wholly in the public sector but not under common control where boundaries are rearranged to form additional entities accounted for at carrying amount.

A.40. Staff considers that these respondents would not support the following proposed outcome in the Issues Paper *where the outcomes are based on consideration of a range of factors* as these outcomes could give rise to combinations not involving a purchase at market value being classified as acquisitions:

- Bargain purchases accounted for at fair value;
- Donated operations accounted for at fair value;
- Nationalizations (uncompensated seizures and bailouts only) accounted for at fair value;
- Combinations of operations wholly in the public sector but not under common control (transfers of operations between levels of government or combinations of municipalities) accounted for at either fair value or carrying amount depending on professional judgment applied to a range of factors in relation to a particular combination; and
- Combinations of public sector entities under common control generally being accounted for at carrying amount, but accounted for at fair value where indicated by professional judgment applied to a range of factors in relation to a particular combination.

Do not express a view

A.41. Respondents 2 and 13 did not comment on SMC 2. Staff do not consider that it is possible to determine from their other comments which (if any) of the proposed outcomes in this Issues Paper they would support.

Summary

A.42. The tables on the next two page summarize staff's view of the proposed outcomes each respondent would support.

Summary of proposed outcomes that staff consider would be supported by each respondent (control approach)

Respondent #	Combinations at fair value	Bargain Purchases	Donated Operations	Nationalizations (Purchases)	Nationalizations (Seizures)	Nationalizations (Bailouts)	Transfer between levels	Reorganize boundaries	Combine municipalities	Public Sector UCC
4	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
7	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
9	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
10	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
16	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
18	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
21	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
22	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
24	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
25	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
11	✓	✓	✓	✓	✓	✓	✓	✓	✓	
12	✓	✓	✓	✓	✓	✓	✓	✓	✓	
26	✓	✓	✓	✓	✓	✓	✓	✓	✓	
23	✓	✓	✓	✓	✓	✓		✓		
6	✓	✓	✓	✓	✓	✓				
8	✓	✓	✓	✓	✓	✓				
19	✓	✓	✓	✓	✓	✓				
5	✓	✓		✓		✓		✓		
14	✓	✓		✓		✓		✓		
15	✓	✓		✓		✓		✓		
20	✓	✓		✓		✓		✓		
1	✓			✓		✓		✓		
17	✓			✓		✓		✓		
3	✓			✓				✓		
2										
13										
TOTAL	24	21	17	24	17	23	13	21	13	10

Summary of proposed outcomes that staff consider would be supported by each respondent (range of factors approach)

Respondent #	Combinations at fair value	Bargain Purchases	Donated Operations	Nationalizations (Purchases)	Nationalizations (Seizures)	Nationalizations (Bailouts)	Transfer between levels	Reorganize boundaries	Combine municipalities	Public Sector UCC
23	✓	✓	✓	✓	✓	✓	✓	✓	✓	
4	✓	✓	✓	✓	✓	✓		✓		
7	✓	✓	✓	✓	✓	✓		✓		
9	✓	✓	✓	✓	✓	✓		✓		
10	✓	✓	✓	✓	✓	✓		✓		
16	✓	✓	✓	✓	✓	✓		✓		
18	✓	✓	✓	✓	✓	✓		✓		
21	✓	✓	✓	✓	✓	✓		✓		
22	✓	✓	✓	✓	✓	✓		✓		
24	✓	✓	✓	✓	✓	✓		✓		
25	✓	✓	✓	✓	✓	✓		✓		
11	✓	✓	✓	✓	✓	✓		✓		
12	✓	✓	✓	✓	✓	✓		✓		
26	✓	✓	✓	✓	✓	✓		✓		
6	✓	✓	✓	✓	✓	✓				
8	✓	✓	✓	✓	✓	✓				
19	✓	✓	✓	✓	✓	✓				
5	✓	✓		✓		✓		✓		
14	✓	✓		✓		✓		✓		
15	✓	✓		✓		✓		✓		
20	✓	✓		✓		✓		✓		
1	✓			✓		✓		✓		
17	✓			✓		✓		✓		
3	✓			✓				✓		
2										
13										
TOTAL	24	21	17	24	17	23	1	21	1	0

APPENDIX B

**CONSULTATION PAPER, PUBLIC SECTOR COMBINATIONS
LIST OF RESPONDENTS**

Response #	Respondent Name	Country	Function
001	Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA)	USA	Other
002	Cour des comptes	France	Audit Office
003	Conseil de normalisation des comptes publics (CNOCP)	France	Standard Setter/Standards Advisory Body
004	Charity Commission for England and Wales	UK	Other
005	Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA)	United Arab Emirates	Standard Setter/Standards Advisory Body
006	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
007	Ernst & Young	International	Accountancy Firm
008	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
009	The Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
010	Staff of the Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
011	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
012	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
013	Direction Générale des Finances Publiques (DGFIP)	France	Preparer
014	The Accounting Officer of the Commission, European Commission, DG Budget	Europe	Preparer
015	Office of the Comptroller General, Treasury Board of Canada	Canada	Preparer
016	Institut der Wirtschaftsprüfer (IDW)	Germany	Member or Regional Body

Public Sector Combinations
 IPSASB Meeting (June 2015)

Response #	Respondent Name	Country	Function
017	Institute of Certified Public Accountants of Kenya (ICPAK)	Kenya	Member or Regional Body
018	Institute of Chartered Accountants of Nigeria (ICAN)	Nigeria	Member or Regional Body
019	CPA Australia and the Institute of Chartered Accountants in Australia (ICAA)	Australia	Member or Regional Body
020	Staff of the Public Sector Accounting Board (PSAB)	Canada	Standard Setter/Standards Advisory Body
021	Zambia Institute of Chartered Accountants (ZICA)	Zambia	Member or Regional Body
022	The Public Sector Committee of the Institute of Chartered Accountants of Scotland (ICAS)	UK	Member or Regional Body
023	New Zealand Accounting Standards Board (NZASB)	New Zealand	Standard Setter/Standards Advisory Body
024	Denise Silva Ferreira Juvenal	Brazil	Other
025	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Switzerland	Standard Setter/Standards Advisory Body
026	The Committee on Accounting for Public Benefit Entities (CAPE) of the Financial Reporting Council (FRC)	UK	Standard Setter/Standards Advisory Body