



Accounting Standards Board

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Stephenie Fox,
Technical Director,
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International Federation of Accountants,
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28 July 2009

Dear Stephenie

Exposure Draft 41 'Entity Combinations from Exchange Transactions'

1. The UK Accounting Standards Board's Committee on Accounting for Public Benefit Entities (CAPE) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB) proposals in Exposure Draft 41 'Entity Combinations from Exchange Transactions'. CAPE supports the IPSASB's policy to develop a set of accrual based International Public Sector Accounting Standards that are convergent with IFRSs issued by the International Accounting Standards Board, where appropriate for public sector entities.

2. We agree with IPSASB that, in the absence of any specific public reasons for departure, ED 41 should be a converged standard, ie it should maintain the requirements, structure and text of IFRS 3 'Business Combinations'. We also agree with the changes that are proposed in deleting material from IFRS 3 that is not relevant to public sector entities.

3. Two areas where preparers may welcome further guidance is (i) on the distinction between the acquisition of an operation and the acquisition of a collection of assets and (ii) on the boundary between a non-exchange and an exchange transaction. On the former, IPSASB may care to consider the guidance in the Statement of Recommended Practice (SORP): Accounting by Registered Social Landlords, 2008. This includes key indicators for social landlords to consider when determining whether the transfer of social housing stock represents a business combination or the acquisition of a series of assets (and liabilities). On the latter, there may be useful material in IPSAS 23 'Revenue from Non-Exchange Transactions (Taxes and Transfers)'.

4. We note the significant impact the proposed standard will have with regard to the need for amendments to extant IPSASs, in particular IPSAS 26 *'Impairment of Cash Generating Assets'*. We accept the need for these amendments and note the text being inserted into IPSAS 26 is largely text from IAS 36 *'Impairment of Assets'*. We also consider the additional Implementation Guidance for IPSAS 26, again taken straight from IAS 36, will be helpful.

5. The proposals will result in goodwill from entity combinations from exchange transactions falling within the scope of IPSAS 26, although goodwill from non-exchange transactions will continue to remain outside the scope of IPSAS 26. This change (to paragraph 2(i) of IPSAS 26) needs to be included in Appendix C of the proposed standard *'Amendments to other IPSASs'*.

6. We also note the limited scope of the standard means that it will only deal with small percentage of the entity combinations that take place in the public sector. We therefore look forward to IPSASB's further proposals on:

- non-exchange entity combinations, which we hope will consider fresh-start accounting; and
- transactions where the entities are under common control.

7. If you require any further information please contact me or Alan O'Connor (a.oconnor@frc-asb.org.uk or telephone +44 (0)20 7492 2421).

Yours sincerely



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