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Ms Stephenie Fox
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International Federation of Accountants
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Dear Ms Fox

ED 41 – ENTITY COMBINATIONS FROM EXCHANGE TRANSACTIONS

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board on Exposure Draft 41 – *Entity Combinations from Exchange Transactions*.

HoTARAC supports the proposed IPSAS in that it does not differ too significantly from IFRS 3 *Business Combinations*.

HoTARAC views the scope of the proposed IPSAS to be limited for the Australian public sector as most entity combinations are non-exchange and this is excluded from the scope. HoTARAC considers Paragraph 5 of the proposed IPSAS to be disconcerting in that, in the absence of a specific IPSAS on non-exchange combinations, it refers preparers to IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* to determine an appropriate accounting treatment. Given the significance of public sector non-exchange entity combinations, HoTARAC is of the opinion that such an approach perpetuates the potential for inconsistent treatments of such combinations across jurisdictions. HoTARAC looks forward to the IPSASB releasing for comment its proposed IPSAS for entity combinations from non-exchange transactions.

HoTARAC considers the exclusion of common control from the scope to be consistent with IFRS 3. However, HoTARAC also considers that common control is still an issue that needs to be resolved. HoTARAC notes that common control is currently on the IASB's work plan.

HoTARAC is of the opinion that the use of goodwill, although consistent with IFRS 3, lacks meaning in the not-for-profit public sector context. HoTARAC considers that the difference between consideration transferred (and other interests in the acquiree) and net identifiable assets acquired is unlikely to reflect anticipated future economic benefits or even service potential in a not-for-profit public sector context. As goodwill is subject to impairment testing, HoTARAC's concerns in regards to goodwill is to some extent mitigated, however, HoTARAC is of the view that the IPSASB should consider undertaking a project to review accounting for goodwill in the public sector. In HoTARAC's opinion, a goodwill project would complement IPSASB's current project on accounting for intangible assets.

Additional comments by HoTARAC on the Exposure Draft are attached.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on +61 2 6215 3551.

Yours sincerely

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

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Encl

Contact: Amy Huxley
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Additional Comments to IPSASB ED 41 Entity Combinations from Exchange Transactions

Paragraph 5 of ED 41

Paragraph 5 of ED 41 refers to distinguishing between exchange and non-exchange components of relevant entity combinations. It is questionable how this can be reliably done, especially as goodwill may be recognised in respect of an exchange component. Therefore, HoTARAC considers guidance on how you would separate exchange and non-exchange components and treat goodwill would be beneficial. A minority view held by a HoTARAC constituent is that it would be more practical that only one classification be given to an entity combination, as suggested by the final sentence of Paragraph 5.

Further, HoTARAC believes that, especially with public sector entities, there may be elements of an entity combination that substantively represent contributions by owners/distributions to owners.

Paragraph AG 32 of ED 41

The new sentence proposed to be added refers, amongst other things, to determining impairment of goodwill in accordance with IPSAS 21 *Impairment of Non-Cash Generating Assets*. However, as indicated by Paragraph IN12, IPSAS 21 does not appear to allow recognition of goodwill in connection with non-cash generating assets. Therefore, HoTARAC recommends that the reference to IPSAS 21 in Paragraph AG 32 be deleted or this issue clarified.

Appendix C – Amendments to Other IPSASs

Proposed amendments to IPSAS 17 Property, Plant and Equipment.

HoTARAC strongly recommends that the proposed additional sentence in Paragraph 60 of IPSAS 17 be deleted for the following reasons:

- no justification is provided for the additional sentence;
- there does not appear to be any corresponding IFRS requirement;
- it is not necessary to support the other proposals re entity combinations;
- it appears to take the componentisation approach too far; and
- it is unclear how such a requirement would be reliably applied in practice.

Editorial matters

HoTARAC considers the issues in the following paragraphs need to be corrected:

Paragraph 30 refers to requirements in Paragraph 28; however, there is confusion amongst some HoTARAC constituents as to whether this reference should instead be to the requirements in Paragraph 29. Therefore, HoTARAC would like the IPSASB, before issuing a Standard, to confirm if it refers to Paragraph 28 or Paragraph 29.

Appendix C – Amendments to Other IPSASs

Within the proposed amendments to IPSAS 26 "Impairment of Cash-Generating Assets", proposed new Paragraph 127A appears incomplete, based on the planned amendments to IPSAS 26 detailed earlier in Appendix C. HoTARAC is of the view that it should read:
"IPSAS XX (ED 41) inserts paragraphs 90A – 90O, 111A, 111B, 122A, 125A, Appendix C, Appendix D and examples 7 and 8... IPSAS XX (ED 41) also amends Paragraphs 23, 76, 91, and 123, 124 and 125. ..."

Within new Paragraph IG48, it is HoTARAC's view that Schedule 3 should really be Schedule 1, as it appears to be separate to the previous example.