



August 12, 2009

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Via e-mail: EDComments@ifac.org
stepheniefox@ifac.org

Stephenie Fox, Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ON M5V 3H2

Dear Stephenie Fox:

RE: IPSASB Exposure Draft 41 – Entity Combinations from Exchange Transactions

Thank you for the opportunity to comment on the IPSASB Exposure Draft 41 – Entity Combinations from Exchange Transactions.

The Summary Financial Statements of the Province of British Columbia are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. Because PSAB may be influenced by IPSASB, any changes to IPSASs will affect PSAB guidance in the future.

There are fundamental differences between the objectives of government and the private sector. Government's priorities are stewardship of assets in the delivery of programs or services and strategic decisions in the interest of the jurisdiction, rather than profit maximization. For the Province of British Columbia, an entity combination, whether through an exchange transaction or non-exchange transaction, would be to either acquire necessary assets to deliver services and programs or to effect a policy decision. The Province of British Columbia is not in the business of acquiring operations for profit maximization.

The purpose of government financial reporting is to determine the cost of program delivery and reinvestment in infrastructure. The exposure draft is conceptually inconsistent with the purposes of government financial statements and the needs of the

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users of financial statements. The information requirements of the users of public and private sector financial statements are fundamentally different. The implementation of the proposed standards provides no demonstrable benefits to the users of public sector financial statements who look to financial statements for transparency and accountability rather than to make economic decisions. IPSASB guidance on this topic should be deferred until the work that is currently underway on its conceptual framework is complete. It is imperative that IPSAS standards are first consistent with its final conceptual framework; this will help assure governments that accounting standards are conceptually sound and that they will not be faced with significant revisions to a new standard shortly after adoption.

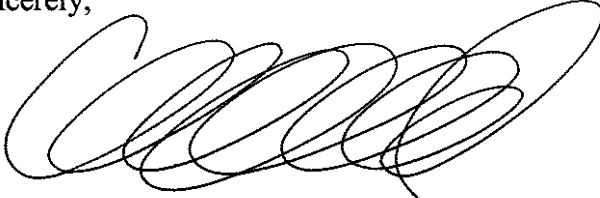
Given the objectives of government, I have several concerns regarding this Exposure Draft:

- Valuation of the entity acquired should be based on cost. The value of the assets acquired in an exchange transaction should be based on the government's cost or the fair value of consideration given. Only if this value is not readily determinable, should the valuation be based on the value of the net assets received.
- Goodwill should not be recognized by government. A purchase premium arising on acquisition of a governmental unit should be charged to expenses in the period of acquisition. The future net cash flows associated with a governmental unit, by definition, are likely to indicate that the purchase premium has been paid for policy reasons. It is highly unlikely that a purchase premium has any future economic benefit to the acquiring government.
- Intangible assets other than software should not be recognized by government. We disagree that the future economic or service benefit to government of intangible assets, such as licences and operating lease benefits, can be objectively valued, and contend that intangible assets should not be recognized in the financial statements of public sector entities.
- The value of intangible assets should not be increased in subsequent reporting periods. We disagree with the revaluation of intangible assets except if the intangible asset has become impaired. Recognition of intangible assets and the option to periodically revalue them at fair market value would artificially inflate government's reported assets, gains and expenses over time when there has been no economic change to government's financial position.

Thank you again for the opportunity to comment on the IPSASB Exposure Draft 41 – Entity Combinations from Exchange Transactions. Should you have any comments or questions concerning this response, please contact me at (250) 387-6692 or by e-mail:

Cheryl.Wenzezenki-Yolland@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at (250) 356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

Sincerely,

A handwritten signature in black ink, appearing to be 'C. Wenezenki-Yolland', written in a cursive style.

Cheryl Wenezenki-Yolland, CMA, FCMA
Comptroller General

cc: Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Graham Whitmarsh, Deputy Minister, Secretary to the Treasury Board
Ministry of Finance

Nick Paul, Deputy Secretary to the Treasury Board
Ministry of Finance