

20 August 2009

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Email: edcomments@ifac.org

Dear Stephenie

Exposure Draft: ED 41 Entity Combinations from Exchange Transactions

CPA Australia, the Institute of Chartered Accountants in Australia (the Institute), and the National Institute of Accountants (the Joint Accounting Bodies) are pleased to respond to the Exposure Draft ED 40 *Entity Combinations from Exchange Transactions*.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The Joint Accounting Bodies welcome the International Public Sector Accounting Standards Board's (IPSASB) policy to converge accrual basis International Public Sector Accounting (IPSASs) with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities. We agree with the IPSASB policy position that departures from the equivalent IFRS should only occur when there is a public sector specific reason for a departure.

The Joint Accounting Bodies note that IFRS 3 *Business Combinations* is the IFRS equivalent. The Joint Accounting Bodies' examination of the ED has identified two substantive departures. We are not convinced that there is a sufficient public sector reason for departure. Other comments are provided. Our support for the [proposed] Standard is dependent on rectification of the departures.

Representatives of the Australian Accounting Profession



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The Institute of
Chartered Accountants
in Australia

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Substantive Departures

- *Scope*

The scope of the [proposed] Standard is limited to entity combinations from exchange transactions. The Joint Accounting Bodies do not support the decision that the scope of the [proposed] Standard be limited in this way. We are not aware of any public sector reason to justify the decision. Instead, we strongly suggest that the scope be expanded to enable the [proposed] Standard to apply to entity combinations from both exchange and non-exchange transactions, and that the common control scope exclusion in IFRS 3 be retained. We note that the Australian Accounting Standards Board's equivalent Standard to IFRS 3, AASB 3 *Business Combinations*, excludes from its scope a restructure of administrative arrangements.¹

- *Application Guidance*

The Application Guidance is an integral part of the [proposed] Standard. This is consistent with the approach in IFRS 3. The Joint Accounting Bodies note that guidance on reverse acquisitions and transitional provisions for business combinations by contract alone has been omitted from the Application Guidance to the [proposed] Standard. The Basis for Conclusions paragraph BC8 states the reason for the omission of the reverse acquisitions guidance is the absence of the usual drivers for a reverse acquisition in the public sector. We do not think this is sufficient public sector reason for the omissions.

Other Comments

- *Paragraph 19 of the [proposed] Standard*

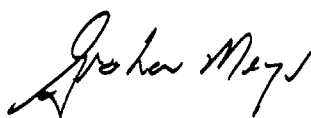
Paragraph 19 of the [proposed] Standard states, "Where the acquirer acquires the power to grant rights or the power to tax, this power does not satisfy the specified criteria for recognition as an intangible asset. Accordingly, these powers are not recognised by the acquirer.". Our response to ED 40 *Intangible Assets* noted our support for the departure from IAS 38 *Intangible Assets*, and our disagreement with the reason articulated in the Basis for Conclusions to the [proposed] Standard *Intangible Assets* in the absence of the IPSASB's final decisions on its conceptual framework. The Joint Accounting Bodies strongly suggest that the IPSASB remove these words from the [proposed] Standard *Entity Combinations from Exchange Transactions*.

If you require further information on any of our views, please contact Mark Shying, CPA Australia via email at mark.shying@cpaaustralia.com.au, Kerry Hicks, the Institute via email at kerry.hicks@charteredaccountants.com.au or Tom Ravlic, the National Institute of Accountants via email at tom.ravlic@nia.org.au.

Yours Sincerely



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¹ A restructure of administrative requirements is defined as the reallocation or reorganisation of assets, liabilities, activities and responsibilities amongst the entities that the government controls that occurs as a consequence of a rearrangement in the way in which activities and responsibilities as prescribed under the legislation or other authority are allocated between the government's controlled entities.