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Mr John Stanford
Technical director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
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**Re: Response to Exposure Draft ED60 *Public Sector Combinations***

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Exposure Draft ED60 *Public Sector Combinations* published in January 2016.

One of the main objectives of the public sector in France is to enhance cost and public service efficiency. This is achieved through rationalization and restructuring, e.g. mainly mergers of equals. Those combinations are key to modernising the public sector. The recent restructuring in the split of our regions (decreasing from 22 regions to 13 regions) well illustrates that trend. Conversely, the purchase of privately owned entities occurs rather less frequently. This is because obtaining financial benefits such as returns on investments does not fit the primary purpose of the public sector in France.

In that sense, a major public sector difference with the private sector is the absence of quantifiable ownership interest in public sector entities.

From our experience in our jurisdiction, based on the terms used in the ED, we believe that there are far fewer acquisitions in the public sector than there are amalgamations for which no specific accounting requirements currently exist. Therefore, we commend the IPSASB for addressing amalgamations and for taking into account the specificities of combinations in the public sector while remaining consistent with existing IPSASB literature on control. However, while we broadly agree on the proposal to use the carrying amounts to account for amalgamations, we would have addressed the whole issue starting from the perspective of the most frequent instances of public sector combinations that are amalgamations, rather than from an IFRS 3 perspective.

In addition, we would have appreciated that the proposal go a step further and address those combinations that are absorptions of operations by the central government in its individual financial statements. We would therefore suggest that the IPSASB should include guidance on how to account for such combinations within the individual financial statements of the central government. In our jurisdiction, such combinations are amalgamations. The issue revolves around both the measurement of net assets absorbed and the presentation of comparative information in the central government's financial statements, as the central government existed prior to the combination.

Finally, we would also suggest that the standard should address the accounting treatment in the accounts of the entity that disposed of the operation.

Details of our response to the specific matter for comment are set out in the following appendix.

Yours sincerely,

Michel Prada

## APPENDIX

***Specific matter for comment 1***

*Do you agree with the scope of the Exposure Draft? If not, what changes to the scope would you make?*

In our jurisdiction, financial statements are published only on an individual basis: no consolidated financial statements are prepared for the central government. As such, we have a strong interest in the accounting proposals that are developed to reflect combinations within those individual financial statements. However, some of our constituents got confused because the reference to the control notion -key to the approach for classifying combinations- specifically relates to consolidation principles. Therefore, we would suggest that the proposals should clarify as soon as the objective section that the proposal does not reconsider consolidation principles that are already addressed in IPSAS 35 *Consolidated Financial Statements*.

We are also concerned that the ED addresses only amalgamations that involve resulting entities that are in substance "new" entities. We believe that that would exclude combinations under common control where the resulting entity is the central government, e.g. the central government absorbs an operation and reflects the absorption in its individual financial statements. We would therefore suggest that the IPSASB should include guidance on how to account for such combinations within the individual financial statements of the central government. In our jurisdiction, such combinations are amalgamations. The issue revolves around both the measurement of net assets absorbed and the presentation of comparative information in the central government's financial statements, as the central government existed prior to the combination.

In addition, we observe that the proposals do not address the accounting treatment in the accounts of the entity that disposed of the operation. In our jurisdiction, we note differing views as to how to account for the consequences of the disposal: some are of the view that the effect should be recognised in equity while others believe that it should be booked to surplus or deficit. We would therefore suggest that the standard should address the accounting treatment in the accounts of the entity(ies) that disposed of the operation(s). Our view on a relevant accounting treatment would be that the effect of the combination should be booked to equity rather than surplus or deficit. We believe that this would be consistent with the accounting treatment retained in the resulting entity.

In more details, we note that paragraph 1 addresses both the reporting entity and the resulting entity, the resulting entity being defined later in the "Definitions" section. In line with our

above comment aiming to clarify that consolidation principles are not at stake here, we would suggest that the differences between the reporting entity and the resulting entity should be clearly stated at that point, else that the term “resulting” entity should be replaced with that of “reporting” entity in the subparagraphs. Indeed, if we understand correctly, the resulting entity is a reporting entity.

***Specific matter for comment 2***

*Do you agree with the approach to classifying public sector combinations adopted in this Exposure Draft (see paragraphs 7–14 and AG10–AG50)? If not, how would you change the approach to classifying public sector combinations?*

We believe that the introduction of the supplementary indicators, in addition to the notion of control as set out in IPSAS 35, well reflects the public sector specificities on the very specific issue of combinations. Therefore, based on our experience of the recent combinations of regions in France, the proposed approach seems to us appropriate for the classification and the ensuing accounting treatment.

We welcome the decision tree and the related requirements as proposed in that they leave room eventually (i.e. after applying the various steps for the approach) to the use of sound judgement to decide on the classification of the combination in those exceptional instances where the result of the analysis is inconclusive.

We are of the opinion, that applying paragraphs 7 to 14 allows for the coverage of such situations as, for instance, a voluntary transfer of operations from the central government to a local authority, with no consideration. In that case, we believe that the use of fair value for the initial measurement of identifiable assets and liabilities would not be relevant to the information of public sector users, mainly because of the absence of quantifiable ownership interests in the net assets of the operations transferred. More generally, we believe that the absence of quantifiable ownership interest is a key factor in the analysis of combinations in the public sector that could be usefully mentioned as a factor of its own. We believe that it is more than just a reason why no consideration is transferred (as explained in BC28(c)) as it is the essence of most public sector entities as opposed to private sector entities.

In addition, we would suggest that the indicators in paragraphs 12 and 13 should be reordered so that the most frequent situation would appear first (i.e. so as to show (c), (a), (b) in both paragraphs).

Going into further detail, we note that, in the illustrative examples provided in scenario 9 and scenario 13[1], where the indicators relating to the decision-making process[2] are considered, it would be useful to clarify[3] that the party that imposes the combination is a party to the combination. As it currently stands, we believe that the proposal reads that because the combination is not voluntary, it should be classified as an acquisition which sounds contrary to the indicator set out in paragraph 13(a). Conversely, our understanding is that it is actually because there is no third party that imposes the combination that the presumption should not be rebutted (e.g., in IE105, the central government imposes the combination, but is a party to the combination).

***Specific matter for comment 3***

*Do you agree that the modified pooling of interests method of accounting should be used in accounting for amalgamations? If not, what method of accounting should be used?*

We broadly agree on the accounting treatment for amalgamations where they involve a resulting entity that is in substance a new entity. In our opinion, the use of carrying amounts of assets and liabilities for the initial recognition and measurement in the resulting entity's set of accounts is the approach that best reflects the economic substance of an amalgamation.

However, with respect to our earlier comment regarding amalgamations that are absorptions of operations by the central government, we are more specifically concerned about the application of paragraph 49 on the presentation of comparative information. We understand that in this instance, though the central government existed before the combination, the resulting entity would not produce primary financial statements for the period prior to the combination, other than information in the notes to the financial statements of the resulting entity. We would strongly disagree with such guidance; we would rather suggest that, in such instances, primary financial statements for the period prior to the combination should be published, non-restated. In addition, for the sake of simplification in those specific situations, we believe that the amalgamation date should be the start of the accounting period rather than the date on which the amalgamation takes place.

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[1] Please note that these are examples that we picked out, but we did not review all the illustrative examples for completeness purposes.

[2] See ED60 paragraph 13(a)

[3] More specifically, in paragraphs IE105 and IE146.

Additionally, with respect to the exceptions to both the recognition and measurement principles[4], we would suggest that the provision that allows not recognising taxation items that are forgiven as a result of the amalgamation[5] should be clarified to permit the exception only where forgiveness is explicitly/officially granted by the tax authority and well documented.

***Specific matter for comment 4***

*Do you agree to adjustments being made to the residual amount rather than other components of net assets/equity, for example the revaluation surplus? If not, where should adjustments be recognized?*

*Do you agree that the residual amount arising from an amalgamation should be recognized:*

*(a) In the case of an amalgamation under common control, as an ownership contribution or ownership distribution; and*

*(b) In the case of an amalgamation not under common control, directly in net assets/equity?*

*If not, where should the residual amount be recognized?*

We broadly agree that the adjustments resulting from an amalgamation should be made to the residual amount as it simplifies the accounting. With respect to the proposed accounting treatment for the residual amount, we would rather retain recognition directly in net assets/equity only. This is because we find it difficult in practice to distinguish between combinations under common control and those that are not.

We also observe that the computation for the residual amount is not fully consistent with the fact that indicators in paragraph 12 refer to the possible existence of consideration in an amalgamation. We would therefore suggest that the articulation between the computation for the residual amount and the consideration paid, if any, should be clarified in paragraph 37. To enhance consistency, we would for instance add that in an amalgamation there would usually be no consideration intended to compensate the party entitled to the net assets transferred.

[4] See paragraphs 33 and 34

[5] In paragraph 33, we note that the term « acquisition » should be replaced with that of amalgamation.

***Specific matter for comment 5***

*Do you agree that the acquisition method of accounting (as set out in IFRS 3, Business Combinations) should be used in accounting for acquisitions? If not, what method of accounting should be used?*

We broadly agree with the requirements to account for acquisitions, as we do not see any reasons to depart from IFRS 3 in those instances where public sector combinations are similar to business combinations. At present in the public sector in our jurisdiction, combinations that should be classified as acquisitions are unlikely.

However, we would express the same concern as above with respect to the exception to the recognition of income tax forgiven as a result of an acquisition for the same reason as those set out for amalgamations.