CIPFA The Chartered Institute of Public Finance & Accountancy

IPSASB Consultation Paper

Public Sector Combinations

response to consultation

31 October 2012

the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/121031 SC0187

Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto
Ontario M5V 3H2
CANADA
Submitted electronically to: stepheniefox@ipsasb.org

Dear Stephenie Fox

IPSASB Consultation Paper - *Public Sector Combinations*

CIPFA is pleased to present its comments on this Consultation Paper, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

As noted in successive responses, CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's project to develop and maintain IFRS converged IPSASs or through wholly public sector specific IPSASs.

Specific Matters for Comment

CIPFA responses to the Specific Matters on which IPSASB would particularly value comment are set out in an attached annex.

I hope this is a helpful contribution to the development of the Board's guidance in this area.

Yours sincerely

Paul Mason

Assistant Director
Professional Standards and Central Government
CIPFA
3 Robert Street
London WC2N 6RL
t: 020 7543 5691
e:paul.mason@cipfa.org.uk
www.cipfa.org.uk

ANNEX

Specific Matters for Comment

Specific Matter for Comment 1 (following paragraph 2.49) **In your view, is the scope of this CP appropriate?**
CIPFA agrees that the scope of the Consultation Paper, which covers all public sector combinations, is appropriate.
Specific Matter for Comment 2 following paragraph 2.49) **In your view, is the approach used in this CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC, appropriate? If you do not support this approach, what alternatives should be considered? Please explain your reasoning.**
CIPFA is content with the proposed distinction between acquisitions and amalgamations, and between PSCs NUCC and UCC. In line with our reading of section 3 on the borderline between acquisitions and amalgamations, we are not sure whether acquisitions UCC will arise in practice, or that this would warrant a different accounting treatment to amalgamations.
Specific Matter for Comment 3 (following paragraph 3.13) **In your view, are there other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations?**
CIPFA agrees with the analysis set out in paragraphs 3.1 to 3.13, which explains that certain private sector characteristics cannot be straightforwardly applied to the generality of public sector combinations. We note and agree with the discussion of other indicative factors. We are not aware of any further public sector characteristics which could be used in testing for transfer of control.

Specific Matter for Comment 4 (following paragraph 5.25) **In your view, should the recipient in an acquisition NUCC recognize in its financial statements, the acquired operation's assets and liabilities by:** **(a) Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the operation at the date of acquisition for all acquisitions (Approach A);** **(b) Distinguishing between different types of acquisitions (Approach B) so that:** **(i) For acquisitions where no or nominal consideration is transferred, the carrying amounts of the assets and liabilities in the acquired operation's financial statements are recognized, with amounts adjusted to align the operation's accounting policies to those of the recipient, at the date of acquisition; and** **(ii) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the operation, at the date of acquisition;** **or (c) Another approach?**
CIPFA supports Approach B, mainly to promote comparability between mainstream public sector, GBEs and private sector IFRS appliers. For 'business like' combinations per b (ii) there may be some benefit from consistent treatment with IFRS and in these cases the information may be important or useful.
Specific Matter for Comment 5 (following paragraph 5.46) **In your view, where the consideration transferred is in excess of the net assets acquired, should the difference arising in an acquisition NUCC (for both Approach A and Approach B, acquisitions where consideration is transferred) be recognized in the recipient's financial statements, on the date of acquisition, as:** **(a) Goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions;** **(b) Goodwill for all acquisitions (which would require development of a definition of goodwill that encompasses the notion of service potential);** **or** **(c) A loss for all acquisitions?** **Please explain why you support (a), (b), or (c).**
The amounts involved will often not be material in the mostly revaluation-based accounts in the UK public sector. On balance CIPFA supports approach (c).

Specific Matter for Comment 6 (following paragraph 6.26) **In your view, should the recipient in an acquisition UCC recognize in its financial statements, on the date of acquisition, the difference arising as:** **(a) A gain or loss recognized in surplus or deficit (in the statement of financial performance);** **(b) A contribution from owners or distribution to owners recognized directly in net assets/equity (in the statement of financial position); or** **(c) A gain or loss recognized directly in net assets/equity (in the statement of financial position), except where the transferor is the ultimate controlling entity and then the gain or loss meets the definition of a contribution from owners or distribution to owners?** **Please explain why you support (a), (b), or (c).**
As noted in our response to SMC 2 we are not sure whether acquisitions UCC will arise: CIPFA's view on this may reflect the specifics of the public sector arrangements within the UK and other jurisdictions where we have reviewed public sector financial reporting. At this stage of discussion we have no strong view on the representation and placement of this difference, except that there should be clear disclosure and explanation of this item which links it to the Public Sector Combination.
Specific Matter for Comment 6 (following paragraph 6.31) **In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?**
CIPFA agrees that the accounting treatment for the recipient and transferor of an acquisition UCC should be symmetrical.