The Canadian Institute of Chartered Accountants
277 Wellington St. West
Toronto, ON M5V 3H2

L'Institut Canadien des Comptables Agréés
277, rue Wellington Ouest
Toronto (Ontario) M5V 3H2

Tel/Tél. : 416 977.3222 Fax/Téléc. : 416 977.8585
www.frascanada.ca / www.nifccanada.ca

PSAB PUBLIC SECTOR ACCOUNTING BOARD
CONSEIL SUR LA COMPTABILITÉ DANS LE SECTEUR PUBLIC CCSP

October 31, 2012

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 CANADA

Re: PSAB Staff Comments on Consultation Paper Public Sector Combinations

Thank you for the opportunity to comment on the Public Sector Combinations Consultation Paper (CP).

We agree with the preliminary views in the CP. However, we recognize the challenge of developing practical guidance to help determine whether a combining operation gains control of the other operation(s) in an amalgamation of operations of different sizes.

Based on the question asked in Specific Matter for Comment 4, it seems that IPSASB is opened to consider whether the presence or absence of consideration in public sector combinations can make a difference in accounting. We encourage IPSASB to further explore this possibility as it may lead to accounting for public sector combinations that would better represent the economic substance of the nature of combinations. Combinations that are of a purchase nature would be appropriately accounted for following acquisition accounting. Combinations that are of a non-purchase nature would be accounted for differently regardless of the combining operations' relative size and power or ability to control the resulting operation.

Please note that the views expressed in this letter and the specific comments in the Appendix are those of PSAB staff and not the Public Sector Accounting Board.

Lastly, we would like to congratulate IPSASB on achieving the first milestone of this project.

Sincerely,

Lydia So

Lydia P. So, CA
Principal
Public Sector Accounting

APPENDIX: RESPONSES TO IPSASB SPECIFIC MATTERS FOR COMMENT CONSULTATION PAPER: PUBLIC SECTOR COMBINATIONS

Specific Matter for Comment 1

In your view, is the scope of this CP appropriate?

The scope of the Consultation Paper (CP) appears appropriate. The clarification about government business enterprise in paragraph 2.41 and the examples in Appendix B help illustrate the scope. However, the scope discussion around consolidated general purpose financial statements (GPFSs) of an economic entity, GPFSs of a single entity, GPFSs of an intermediate economic entity, and separate GPFSs of an economic entity under the sub-section "The Parties to a Public Sector Combination (PSC) which are in the Scope of the CP" (paragraphs 2.24 to 2.40) appears unnecessarily complicated. IPSASB may consider summarizing/generalizing them at a higher level that would make the key message more understandable. For example, one or two sentences like footnotes 34 and 35 on page 30, and/or incorporating them in Table 1 on page 21.

Specific Matter for Comment 2

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?

Using whether and how control has changed as a result of public sector combination (PSC) to distinguish between acquisitions and amalgamations and between not under common control (NUCC) and under common control (UCC) appear reasonable. The challenge is in defining what gaining control means in PSC, particularly in amalgamations which combine operations of different sizes.

An alternative would be to develop a public sector approach to categorize PSCs. Instead of following the traditional private sector approach of drawing a line between acquisitions and mergers, consider classifying PSCs based on whether they are of a purchase nature, i.e., whether an exchange of consideration is involved.

Specific Matter for Comment 4 implies IPSASB's acknowledgement that PSCs that involve consideration may be different from those that do not. Many combinations of operations with related assets and liabilities in the public sector involve no or nominal consideration. The economic substance of combinations with or without (or with nominal) consideration is fundamentally different. The accounting should fairly represent the nature of a combination.

Specific Matter for Comment 3

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?

We recognized this challenge and suggested an alternative approach in our comments to Specific Matter for Comment 2 above.

Determining whether one party has gained control of one or more operations based on whether the public sector combination is imposed on one level of government by another level of government is not useful as a government can also impose one government to transfer operations to another government.

Specific Matter for Comment 4

In your view, should the recipients 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?

Please explain why you support Approach A, Approach B or another approach.

We support Approach B because, in our view, the consideration provided in a public sector combination establishes a new cost basis for the assets and liabilities acquired. It is similar to the purchase cost of an asset becoming its new cost. Carrying amounts would be more appropriate in the absence of consideration as there is no basis to establish a new cost for the assets and liabilities transferred.

Specific Matter for Comment 5

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 recipients' 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).

We support (a) because we consider goodwill can and only exist in acquisitions of government business enterprises (GBEs). Goodwill based on service potential would be too subjective and difficult to estimate or substantiate. Not recognizing goodwill in acquisitions may not result in fair representation of the transaction.

Specific Matter for Comment 6

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).

We support (a) because:

- *We do not believe the difference arising meets the definitions of contribution from owners or distribution to owners.*

- *From the perspective of the recipient entity, the acquisition is an in-year transaction that would normally be reflected in its statement of financial performance.*

- *We do not see the justification for reporting the difference arising as, and for creating, a new component of net assets just because the acquisition is a transaction between entities under common control.*

- *The fact that the gain or loss reported by the recipient will be eliminated upon consolidation can be disclosed in the notes to its financial statements to inform users of its nature and effect at the controlling entity level.*

Specific Matter for Comment 7

In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?

Our view is that they should be symmetrical for better transparency and understandability. Both transferor and recipient should disclose in their notes to the financial statements the gain or loss arising from an acquisition UCC and the fact that it will be eliminated upon consolidation by their controlling entity.