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“The commenters’ views on the consultation paper
‘Public Sector Combinations’”

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*To my family, Mag. (FH) Josef Baumüller and my professor Univ.-Prof.
Dr. Otto A. Altenburger who made this Master's thesis possible to me*

*Meiner Familie, dem Mag. (FH) Josef Baumüller und meinen Professor
Univ.-Prof. Dr. Otto A. Altenburger, die mir diese Masterarbeit
ermöglicht haben*

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List of abbreviations

AASB	Australian Accounting Standards Board
ADAA	Abu Dhabi Accountability Authority
ASB	Accounting Standards Board (South Africa)
ACAG	Australasian Council of Auditors-General
cf.	Compare (<i>abbreviation of Latin 'confer'</i>)
CIPFA	the Chartered Institute of Public Finance and Accountancy (UK)
CGU	Cash Generating Unit
CL	Comment Letter
CNOCP	Conseil de normalisation des comptes publics (France)
CP	Consultation Paper
DGFIP	Direction Générale des Finances Publiques (France)
DP	Discussion Paper
EC	European Commission
ED	Exposure Draft
e.g.	for example (<i>abbreviation of Latin 'exempli gratia'</i>)
FASB	Financial Accounting Standards Board
FMSB-AGA	Financial Management Standards Board - Association of Government Accountants (United States)
FRC	Financial Reporting Council (UK)
GASB	Governmental Accounting Standards Board
GBE	Government Business Enterprises
GPFS	General Purpose Financial Statement
GFS	Government Financial Statistics
HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee (Australia)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAS	The Institute of Chartered Accountants of Scotland (UK)
ICAN	Institute of Chartered Accountants of Nigeria
IDW	Institut der Wirtschaftspruefer (Germany)
IFRS	International Financial Reporting Standards
ICPAK	Institute of Certified Public Accountants of Kenya

i.e.	that is (<i>abbreviation of Latin 'id est'</i>)
JAB	Joint Accounting Bodies (Australia)
JICPA	The Japanese Institute of Certified Public Accountants
NUCC	Not Under Common Control
NZASB	New Zealand Accounting Standards Board
p.	page
par.	paragraph
PSAB	Public Sector Accounting Board (Canada)
PSC	Public Sector Combination
UCC	Under Common Control
SPSFRAC	Swiss Public Sector Financial Reporting Advisory Committee
ZICA	Zambia Institute of Chartered Accountants

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1. Introduction

1.1. Aim of the thesis

The consultation paper (CP) “public sector combinations” (PSC) issued by the International Public Sector Accounting Standards Board (IPSASB) in June 2012 builds the basis for this thesis. This topic has been one of the significant projects of the board, where they struggle to capture a new standard for public sector combinations. Currently, there are no International Public Sector Standards (IPSASs) which provide guidance on how to account for a PSC and instead, IPSAS 6, mentions that guidance on accounting for entity combinations can be found in the relevant international or national accounting standard, dealing with business combinations (e.g., International Financial Reporting Standard 3).¹

Since the PSC are different in the purpose and the nature from private sector ones (e.g., lack of profit orientation), a new standard capturing accounting requirements of the public sector is required. The CP contains the IPSASB’s opinion on the main components of an accounting model for the PSC. The board gave to the public the possibility to respond on this by integrating into the paper 9 preliminary views (PVs) and 7 specific matters for comment (SMCs). Answers to these questions and general comments are called “comment letters” (CLs).

Meanwhile, the board is further progressing through the project “public sector combinations”, the CP from 2012 is the first and actual up to date step towards building an appropriate standard.² The focus of this thesis is on the consultation paper from 2012. Besides the presentation of the CP’s contents, the focus of the thesis lies on the analysis of the CLs. Therefore, the aim is to summarize the main propositions of the CP and to identify the commenters’ general opinions on these propositions.

¹ cf. Consultation Paper Summary PSC, (June 2012), p. 2.

² cf. Consultation Paper Summary PSC, (June 2012), p. 1.

1.2. IPSASB project “Public Sector Combinations”

1.2.1. Overview

The reason for initiation of the project PSCs was that for some entity combinations undertaken in public sector, the accounting requirements of the IFRS 3 (business combinations) are applied, whereas for many other types of public sector entity combinations different rules are being applied.³ Moreover, the accounting practices for PSCs vary among countries and as a result of which the financial statements are difficult to compare and not appropriate according to the board.⁴ Countries which have adopted IAS and IFRS look in to private sector practices in order to proceed in PSC.

In 2008 the IPSASB formerly considered that the project on entity combination will result in 2 standards. In February 2009 they named those projects “entity combinations arising from exchange transactions” – a limited convergence project with IFRS 3 (business combinations) and “entity combinations arising from non-exchange transaction” – a public sector-specific project.⁵

Subsequently, in May 2009, ED 41 (entity combinations from exchange transactions) was issued and the second part of the project was left for the further deliberations. In December 2009, the board issued a draft of IPSAS 32 (entity combinations from exchange transactions), which was based on ED 41. After the board’s meeting in April 2010 it was agreed that the scope of the revised draft could not be made sufficiently clear to enable finalization of the standard.⁶ Since then the board’s purpose was to improve the public sector specific definitions as well as the measurement and recognition methods.

Certainly, one of the most important steps of the project was creation of the CP “public sector combinations”, issued in June 2012. This paper contains the board’s views formed after deciding not to finalize IPSAS 32 and to cover all types of entity

³ cf. IFAC Homepage: Project History, p. 3.

⁴ cf. Consultation Paper Summary PSC, (June 2012), p. 1.

⁵ cf. IFAC Homepage: Project History, p. 3.

⁶ cf. IFAC Homepage: Project History, p. 3.

combinations which occur in the public sector in one standard. The term “public sector combinations” was applied rather than “business combinations” (in IFRS 3) to differentiate between for-profit and PSCs. Since PSCs lack a profit orientation, they are often being conducted by non-exchange transactions, and frequently by law or other authority impositions. For that reason various possible accounting differences arise which are the topics of the CP. The paper was significant because with it the IPSASB introduced a new approach for measuring acquisitions where no or nominal consideration is transferred. This would result in the recipient recognizing acquired assets and liabilities at their carrying amounts in the acquired operation’s financial statements. Analog methods are also proposed for combinations under common control (UCC) and amalgamations.⁷ The board’s new proposal of the board was the application of “control” notion for PSCs.

At the time this thesis was written, the deliberations on the CP by IPSASB were still going on to develop an ED and further a new IPSAS. The board requested the public to comment on the CP until October 2012. After the deadline 26 CLs were received, which made a total of 173 pages. The CLs are responses to the CP. In March 2013, the IPSASB had an initial discussion of the responses received to the CP. Finally, the IPSASB has partly analyzed the responses to the SMCs and PVs at its June 2013 meeting.⁸

1.2.2. Convergence to IFRS 3

IPSASs are based on IFRSs, formerly known as IASs. The IFRSs are published by the international accounting standards board (IASB). The IPSASB adjusts IFRS to the public sector when appropriate. As this is being processed, the IPSASB attempts, where possible, to maintain the accounting treatment and original text of the IFRS, unless there is a significant public sector issue warranting a departure.⁹

The development of an IPSAS for PSCs is a result of extensive deliberations. Commitment to convergence with IFRS, unless there is a public sector specific reason for a departure, was the intention. Within the framework of convergence of

⁷ cf. Deloitte IASPlus Homepage: IPSASB consults on public sector combinations, p. 1.

⁸ cf. IFAC Homepage: Project History, p. 1.

⁹ cf. *Marques Berger*, (2012), p. 1025.

IPSAS to IFRS, the IPSASB has published exposure draft ED 41 (entity combinations from exchange transactions), proposing that government and other public sector entities follow the related IFRS requirements. This draft was converged with IFRS 3 (business combinations). Entity combinations that arise from non-exchange transactions were being addressed in a separate public sector-specific project.¹⁰

Furthermore, from the responses to the ED 41 the IPSASB had noted that “it may be difficult to establish a clear demarcation between all exchange and non-exchange entity combinations.”¹¹ In addition, cases where no party gains control of the other parties in the combination were not clear whether to be included in the scope of ED 41. As a result of this uncertainty, the IPSASB renounced development of ED 41 into an IPSAS.¹²

Afterwards, the IPSASB determined to produce a paper which covers more broadly the approaches to accounting for PSCs in various situations. “Therefore, the CP considers the wide range of combinations that may occur in the public sector, and, consequently, this project is not an IFRS convergence project.”¹³

1.3. Allocation of questions to the chapters of the consultation paper

In the CP the IPSASB used two methods to discuss and develop the standard. That is done by PVs and SMCs, which were allocated to the chapters in the paper. CLs partly answer to PVs but respond to almost every SMCs. General comments mainly refer to PVs or exceptionally may also refer to SMC. The following summary should make it easier for the reader to allocate the questions to the chapters of the CP.

¹⁰ cf. Deloitte IASPlus Homepage: IPSASB proposes convergence with IFRS 3 and IAS 38, p. 1.

¹¹ CP, par 1.7, p. 11.

¹² cf. CP, par 1.7, p. 11.

¹³ CP, par 1.8, p. 11.

Figure 1: Overview – chapters and questions of the CP

Chapters	Chapter 1 Introduction	Chapter 2 Definitions and Scope	Chapter 3 The Boundary between Acquisitions and Amalgamations	Chapter 4 Accounting for PSCs	Chapter 5 Accounting for Acquisitions not under Common Control (NUCC)	Chapter 6 Accounting for Acquisitions under Common Control (UCC)	Chapter 7 Accounting for Amalgamations
Main Content	<ul style="list-style-type: none"> • History of the Project • Approach taken in this CP 	<ul style="list-style-type: none"> • Definitions • Scope • Scope exclusions 	<ul style="list-style-type: none"> • Are there other factors to consider in distinguishing an acquisition from an amalgamation 	<ul style="list-style-type: none"> • Methods of accounting • Other issues relating to PSCs • Summary of methods of accounting 	<ul style="list-style-type: none"> • Introduction • When to recognize an acquisition • What is the appropriate measurement basis or approach? • What is the appropriate treatment of the difference arising? • Summary 	<ul style="list-style-type: none"> • Introduction • Recipient accounting • Transferor accounting 	<ul style="list-style-type: none"> • Introduction • Resulting entity— what is the appropriate method of accounting? • Accounting treatment in the combining operations in the period leading up to the amalgamation
Preliminary View		PV 1-2	PV 3		PV 4-5	PV 6-7	PV 8-9
Specific Matter for Comment		SMC 1-2	SMC 3		SMC 4-5	SMC 6-7	

Source: own illustration

1.4. The comment letters on the consultation paper

1.4.1. General information about the comment letters

The IPSASB invited the public to comment and state their opinion on the CP. The deadline for review was 30 October 2012. Thus, the commenters had about 4 months to respond. The respondents were asked to comment on all matters of the CP (PVs and SMCs). But especially, they were asked to answer to the SMC, on which the board has not reached a PV, posed in each chapter of the CP. To make their letters most helpful, the board also encouraged the commenters to indicate the specific paragraph or group of paragraphs to which they relate their opinion.¹⁴ A total of 26 comment letters arrived. There were 2 CLs that were not submitted in time, but were taken into consideration when the board analyzed the comments.¹⁵ For the purpose of this thesis, all 26 comment letters are considered to reflect the submitters' opinion on the CP. The comments were split into groups, so that responses could be analyzed with more precision. The groups relate to different kinds of submitters of the letters.

1.4.2. Procedure of grouping the commenters

In this thesis, the evaluation method that is used follows the model which was applied by Thomas Höglinger in his master's thesis titled "The Commenters' Views on the First Half of the Discussion Paper 'Insurance Contracts'". However, the grouping had to be redeveloped in order to suit a particular field of public sector. The new group "governmental bodies" is named to combine government departments, institutions and organizations, which do not fall under groups of "accounting profession" and "standard setters" but are involved in development and usage of IPSASs. As a result, following 4 groups are identified:

1. Accounting profession;
2. Standard setters;
3. Governmental bodies; and
4. Others.

¹⁴ cf. CP – Guide for respondents, p. 3.

¹⁵ cf. IFAC PSC Homepage

Details and analysis of the groups are given in the next chapter. Non-classifiable letters were consolidated under the group called others.¹⁶ Method and analysis in the following chapters mainly follows Elfriede Ehmayer's master's thesis titled "The commenters' views on the second half of the discussion paper 'Insurance Contracts'".¹⁷

1.4.3. Analysis of the comment letters

1.4.3.1. Analysis with respect to the group of commenters

The first formal analysis gives an overview to the groups of commenters and the quantity of CLs sent per group.

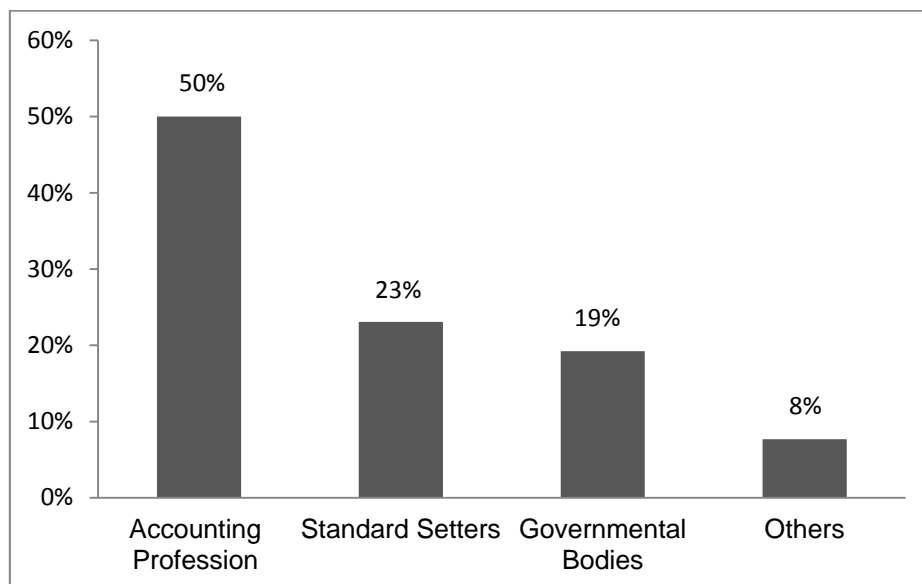


Figure 2: Number of comment letters per group in percentage
Source: own illustration

Altogether 26 CLs were received. Figure 2 shows that the highest number of commenters is from the accounting profession group. Representatives of the standard setters and governmental bodies have 4 percent difference in the amount of CLs (i.e., 1 CL). But this does not mean that these groups handed in the least extensive comments. The next graph shows relative distribution of total amount of pages that were submitted per group:

¹⁶ cf. Höglinger (2010), p. 25.

¹⁷ cf. Ehmayer (2011), p. 10.

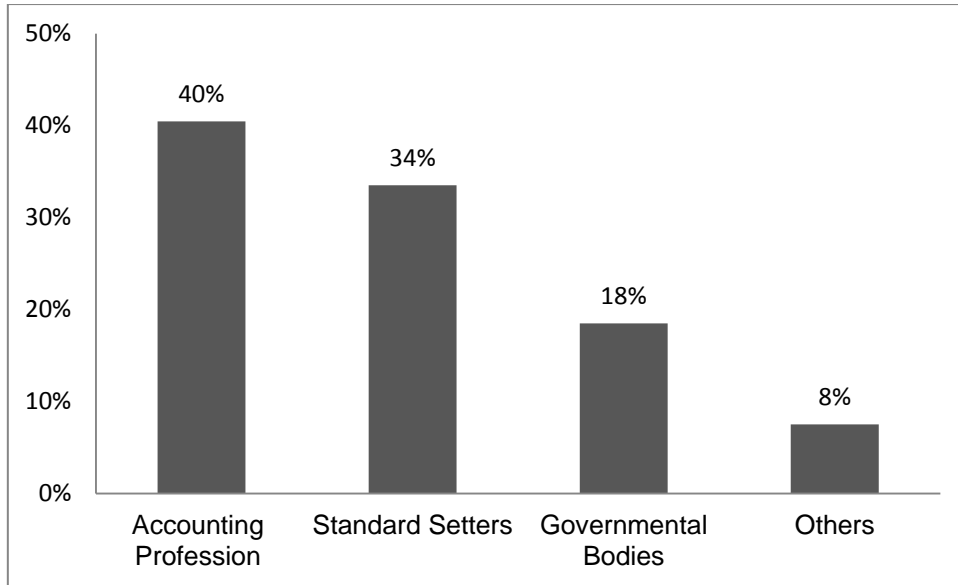


Figure 3: Number of pages per group
Source: own illustration

Figures do differ a bit. 40 percent of the 173 pages in total were handed in by representatives of accounting profession. Although, governmental bodies have 1 CL less than standard setters, they have fewer pages of total CLs than standard setters. Furthermore, despite the fact that the accounting profession group received two times more CLs than the standard setters group, the difference in the pages of CLs is only 6 percent. The difference between the number of letters sent per group and the number of pages written per group becomes clearer when comparing the average number of pages per letter received between the groups:

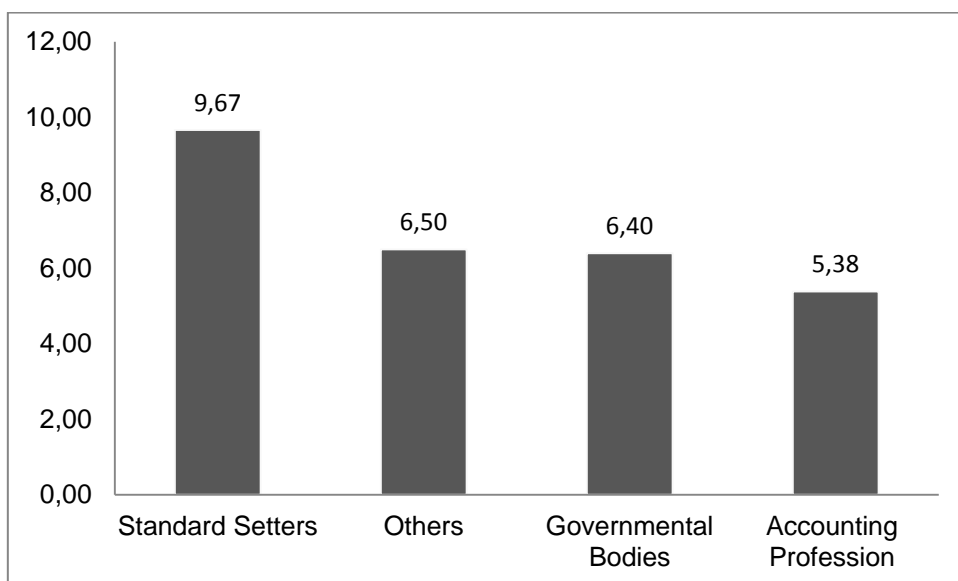


Figure 4: Average number of pages per letter per group
Source: own illustration

Although accounting profession group members submitted the most comment letters, their comments were not that extensive. In average, a letter from a representative of the group of standard setters had 9 pages, which is the highest of all. The total amount of comment letters sent by standard setter is only 6. In this group also the letter with the most pages can be found (i.e., CL number 3 with 18 pages by Conseil de Normalisation des Comptes Publics (CNOCP)).

Representatives of the groups of accounting profession and others have 1 page difference in the average number of pages per CL. As a conclusion, it can be said that the groups with the highest number of CLs sent (accounting profession, standard setters) seem to be very interested in the design of the new IPSAS on PSC. Representatives of the group of standard setters gave the most extensive feedback. Thus, for content analysis not only the number of CLs and pages, but also the number of pages per letter within a group is an indicator of how important the issues of the CP are to a particular group.

1.4.3.2. Analysis with respect to geographical characteristics

The next graph shows the number of CLs sent per country. The label “others” contains countries from where less than 2 letters were hand in. Japan, South Africa, Belgium, Kenya, Nigeria, Zambia, New Zealand, Switzerland, UAE, Brazil and US belong to this group.

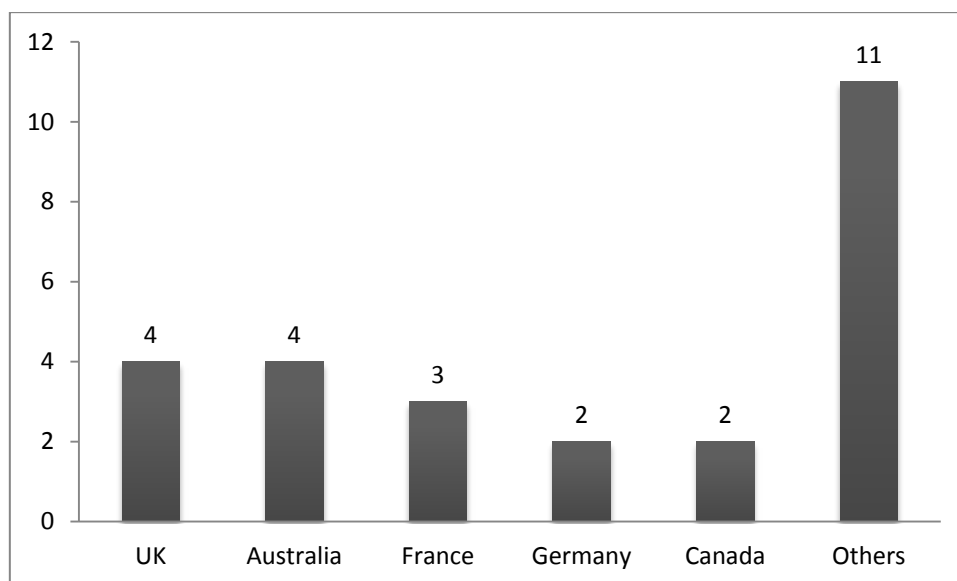


Figure 5: Number of responses per country

Source: own illustration

It can be clearly seen that the European countries commented the most on the CP. Also non-European countries such as Australia and Canada showed big interest and sent a comparable number of CLs. UK and Australia lead in the number of CLs submitted which by 4 letters each. It can be concluded that these countries are most interested in the design of a new IPSAS.

1.4.3.3. Analysis with respect to individual questions

As the aim of this thesis is to evaluate the comments, especially with respect to the PVs and SMCs posed in the CP. It is remarkable to see which of them have often been answered and which have not. The following analysis refers to the whole CP. To be consistent with the content analysis, given in following chapters of this thesis, answers that refer indirectly to a specific question are also taken into consideration.

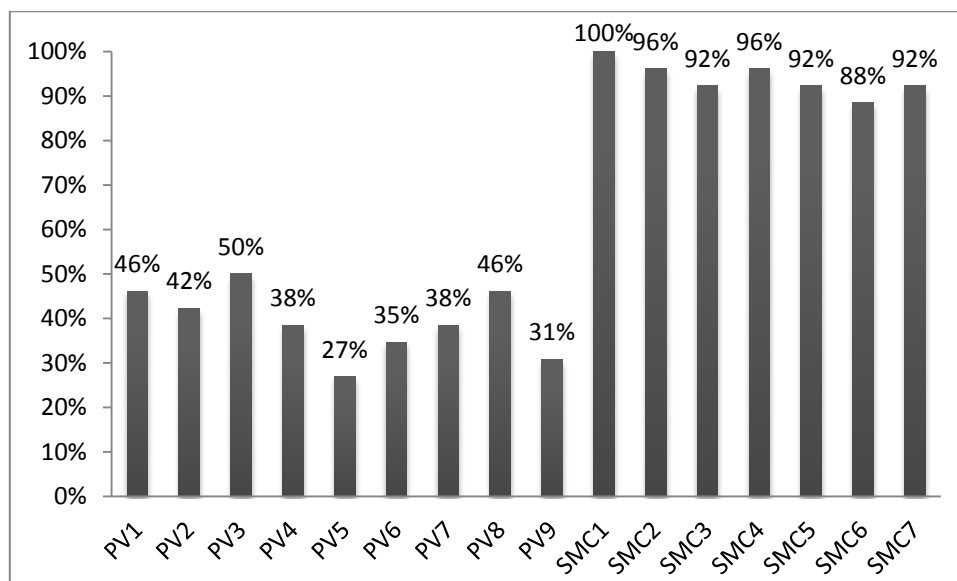


Figure 6: Number of comments referring to specific questions
Source: own illustration

Since the SMCs were open for the primary debate by commenters, they have the highest percentage of replies in comparison to PVs. PV 1, 3, 8 and SMC 1,2 and 4 have the highest percentage of the comments within their corresponding types. Both PV 1 and SMC 1 belong to chapter 2 – “definitions and scope”. Their subject is the definitions used in and the scope of the CP.

SMC 2 and 4 are subsequent in the highest percentage of being answered. Since SMC 1 is only asking commenters if they agree with the scope of CP, this would be only a conceptual point and less important in comparison to further detailed questions. SMC 2 is included in chapter 2 "definitions and scope", SMC 4 and SMC 5 are from chapter 5 "accounting for acquisitions not under common control (NUCC)" which highlights the importance of these matters. PV5 and SMC6 were the most infrequently addressed specific topics. These matters apply to chapter 5 "accounting for acquisitions not under common control (NUCC)" and chapter 6 "accounting for acquisitions under common control (UCC)" of the CP.

2. Focal points of the consultation paper on public sector combinations

2.1. Introduction

The CP “public sector combinations” consists of 7 chapters. In general the CP considers matters such as the timing of recognition and the initial measurement as a basis or approach that could be adopted for the wide range of combinations in the public sector.¹⁸ This covers the main text and the invitation to comment on the paper. The main text has 7 chapters of which 6 contain the board’s PVs and SMCs. There are 3 appendixes at the end of the CP with the summary of the main text. The first chapter is an introductory chapter. For the purpose of this work, in order to fully perform an analysis, all 6 chapters after introduction are included in this thesis. Main ideas proposed in the CP are stated in this part of the thesis. Therefore, titles of this part of the thesis correspond to the headings in the CP.

2.2. Definitions and scope

2.2.1. Definition

The IPSASB defined a **public sector combination** as “[t]he bringing together of separate operations into one entity, either as an acquisition or an amalgamation.”¹⁹ This CP covers all types of PSCs without any limitation to the kind. It treats the financial reporting of a PSC when:

1. “An entity gains control of one or more operations with or without the transfer of consideration (acquisition); and”²⁰
2. “Two or more operations combine, with none of the combining operations gaining control of the other operations (amalgamation).”²¹

The board defined an **operation** as “[a]n integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the

¹⁸ cf. CP – Executive summary, p. 7.

¹⁹ CP, par. 2.1., p. 13.

²⁰ CP, par. 2.2., p. 13.

²¹ CP, par. 2.2., p. 13.

purpose of achieving an entity's objectives, by providing goods and/or services."²² This definition of an "operation" based upon the term "business" from IFRS 3. Therefore, instead of the term "business", the board considered the term "operation" for PSCs. The definition has been amended to include the notion of "by providing goods and/or services"²³ and "activities and related assets and/or liabilities."²⁴

The board defined an **acquisition** as "[a] transaction or other event that results in a recipient gaining control of one or more operations."²⁵ The meaning of **control** is used similarly as in IPSAS 2, which is "the power to govern the financial and operating policies of another entity so as to benefit from its activities."²⁶ The board defined the recipient and the transferor in an acquisition as:

1. "A **recipient** is the entity that gains control of one or more operations in an acquisition,
2. A **transferor** is the entity that loses control of one or more of its operations to another entity (the recipient) in an acquisition."²⁷

The IPSASB defined an **amalgamation** as "[a] transaction or other event where][...][two or more operations combine,][...][none of the combining operations gain control of the other operations, and][...][the transaction or other event is not the formation of a joint venture."²⁸ The parties in an amalgamation are defined as:

1. "A **combining operation** is an operation that combines with one or more other operations to form the resulting entity.
2. A **resulting entity** is the entity that is the result of two or more operations combining where none of the combining operations gains control of the other operations."²⁹

Furthermore, the board distinguished PSCs that are UCC and NUCC. It has proposed different accounting methods in acquisitions UCC and NUCC. The PSC

²² CP, par. 2.4., p. 13.

²³ CP, par. 2.7., p. 14.

²⁴ CP, par. 2.7., p. 14.

²⁵ CP, par. 2.8., p. 14.

²⁶ IPSAS 2, par. 8.

²⁷ CP, par. 2.11., p. 14.

²⁸ CP, par. 2.14., p. 15.

²⁹ CP, par. 2.15., p. 15.

UCC was defined as “[a] public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.”³⁰ This definition derived itself from IFRS 3 (business combinations) and suited for the specific needs of public sector.³¹

2.2.2. Scope

The CP includes in its scope entities that prepare and present general purpose financial statements (GPFs) with the rules of accrual-based IPSASs.³² The parties in the scope of this CP are acquisitions NUCC and UCC, amalgamations NUCC and UCC, and government business enterprises (GBE).

Firstly, for an acquisition NUCC, the CP deemed the accounting treatment in the GPFs of the recipient which is or becomes a controlling entity. Accounting treatment in the GPFs of the entity that loses control of one or more operations (the transferor) excluded from the scope, since accrual-based IPSASs already include requirements on this.³³

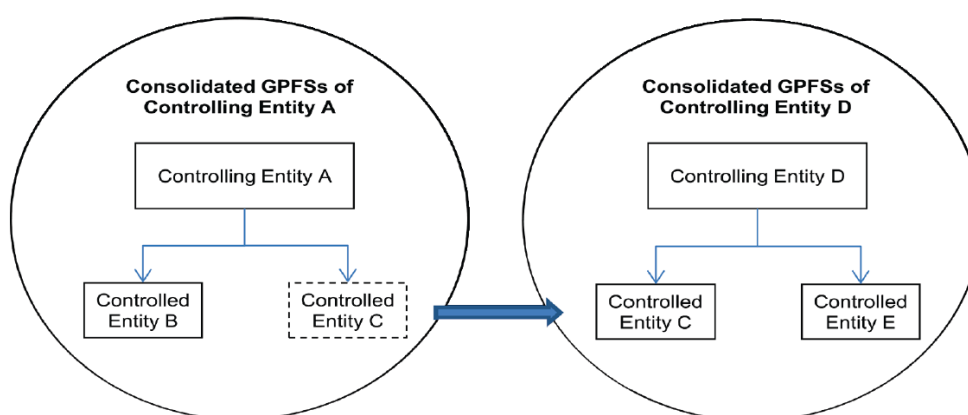


Figure 7: Illustration of an acquisition NUCC
Source: The CP – Scope, par. 2.27., p. 18.

In the Figure 7, the board illustrated an acquisition NUCC with controlling entity A and controlling entity D. In this case controlling entity D (the recipient) gains control

³⁰ CP, par. 2.20., p. 16.

³¹ cf. CP, par. 2.17. – 2.22., p. 16 –17.

³² cf. CP, par. 2.23., p. 17.

³³ cf. CP, par. 2.24.-2.26., p. 17.

of controlled entity C from controlling entity A (the transferor). The CP covers the accounting treatment in the consolidated GPFSS of controlling entity D.³⁴

Secondly, for the acquisition UCC, the CP deemed the accounting treatment in the GPFSS of the recipient. Since all the entities or operations involved in the acquisition UCC are within an ultimate controlling entity, the surpluses and deficits resulting from the acquisition are eliminated in full in the ultimate controlling entity's consolidated GPFSS.³⁵ As a result of that, the CP includes in its scope the accounting treatment in the GPFSS of the intermediate entity and entity that loses control of one or more operations (the transferor), and does not cover accounting in the GPFSS of the ultimate controlling entity.

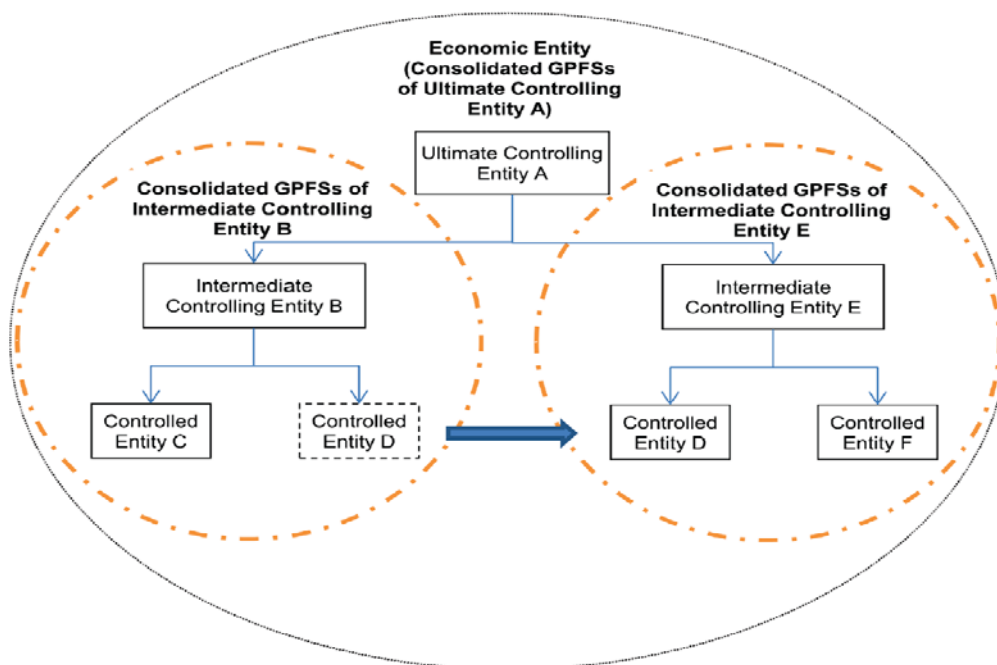


Figure 8: Illustration of an acquisition UCC

Source: The CP – Scope, par. 2.35., p. 19.

In the Figure 8, the board illustrated an acquisition UCC involving entities controlled by ultimate controlling entity A. In this case intermediate controlling entity E (the recipient) gains control of controlled entity D from intermediate controlling entity B (the transferor). Since both entities are controlled by ultimate controlling entity, this

³⁴ cf. CP, par. 2.28., p. 18.

³⁵ cf. CP, par. 2.30. – 2.31., p. 18.

CP covers the accounting treatment of the acquisition in the consolidated GPFSS of intermediate controlling entity B and intermediate controlling entity E.³⁶

Thirdly, the scope of the CP includes the accounting treatment in the GPFSS of the entity that is the result of the amalgamation (the resulting entity) NUCC or UCC. Depending on the case (whether economic or single entity), the resulting entity means the consolidated GPFSS of that economic entity or of that single entity.³⁷ This CP does not consider the accounting treatment in the GPFSS of the economic entity, because in an amalgamation within an economic entity, no change in the economic resources of that economic entity takes place. In the case of an amalgamation UCC within a single entity, the GPFSS of the resulting entity mean the GPFSS of the components of that entity which form the resulting entity.³⁸ Accounting treatment for the parties involved in an amalgamation who continue to prepare GPFSS in the period between the announcement of the amalgamation and the date of the amalgamation are also within the scope this CP.³⁹

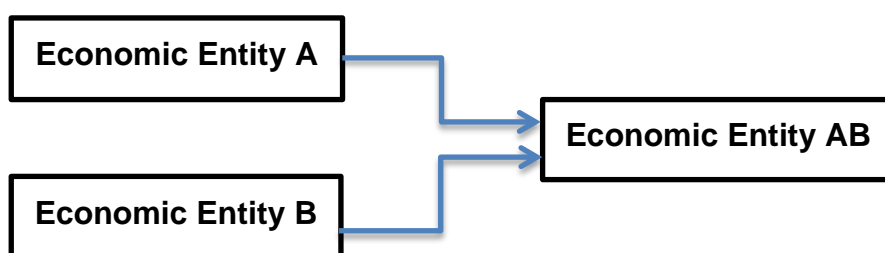


Figure 9: Illustration of an amalgamation
Source: The CP – Scope, par. 2.38., p. 20.

The Figure 9 illustrates an amalgamation where 2 economic entities combine operations together to form the economic entity AB. Created entity AB is the resulting entity. The board included in the scope of the CP the accounting treatment in the consolidated GPFSS of the economic entity AB at the date of the amalgamation, and the accounting treatment in the consolidated GPFSS of economic entity A and economic entity B in the period between the announcement of the amalgamation and the date of the amalgamation.⁴⁰

³⁶ cf. CP, par. 2.34., p. 19.

³⁷ cf. CP, par. 2.35., p. 19.

³⁸ cf. CP, par. 2.36., p. 19.

³⁹ cf. CP, par. 2.37., p. 19.

⁴⁰ cf. CP, par. 2.39., p. 20.

Finally, as the CP discusses the accounting treatment for the recipient, the cases where public sector entities are entering in an acquisition or amalgamations with government business enterprise (GBE) are also included in the scope of this CP.⁴¹

		Definition	NUCC	UCC
Acquisition	Recipient	The entity that gains control of one or more operations in an acquisition	Yes	Yes
	Transferor	The entity that loses control of one or more of its operations to another entity (the recipient) in an acquisition	No	Yes
Amalgamation	Resulting Entity	The entity that is the result of two or more operations combining where none of the combining operations gains control of the other operations	Yes	Yes
	Combining Operations	An operation that combines with one or more other operations to form the resulting entity	Yes	Yes

Figure 10: Summary of parties to a PSC within the scope of this CP
Source: The CP – Scope, par. 2.42., p. 21.

2.2.3. Scope exclusions

The board has excluded acquisitions of assets, the assumption of liabilities and the formation of a joint venture from the scope of this CP.⁴² The reason behind skipping these topics was that IPSASs already include requirements for the accounting treatment of these types of transactions or other events. Joint control issue is treated in the IPSAS 8.⁴³

2.3. Acquisitions and amalgamations

The IPSASB proposed composition of PSCs either as acquisitions or amalgamations. An amalgamation is chosen for public sector entities because, in comparison to profit-oriented entities, they are not competing with each other to maximize returns to equity holders and therefore involved in a combination in which no acquirer can be identified. Furthermore, for the first time the board differentiated between acquisitions and amalgamations based on the control criteria. Where the recipient gains control of an operation is considered as an acquisition whereas in an

⁴¹ cf. CP, par. 2.41., p. 20.

⁴² cf. CP, par. 2.43., p. 21.

⁴³ cf. CP, par. 2.47., p. 22.

amalgamation none of the combining operations gained control of the others operations.⁴⁴

The IPSASB discussed possible characteristics of differentiation between acquisitions and amalgamations by reference to IAS 22 (business combinations issued in October 1998) which “distinguished acquisitions and uniting of interests.”⁴⁵ IFRS 3, which requires all business combinations within its scope to be accounted for as acquisitions replaced IAS 22 in March 2004. According to IAS 22 a uniting of interests occurred where it was not possible to identify an acquirer. Shareholders of the combining entities join with a substantially equal stakes to share control over the whole of the net assets and operations of the combined entity, instead of a dominant entity emerging. The board concluded that the differentiation based on IAS 22 is not suitable, since the standard’s context is different than public sector context.⁴⁶

Other characteristic that the board proposed in order to differentiate between amalgamations and acquisitions is the availability of the transfer of a consideration. In this case consideration is transferred to reimburse the former owners of an entity for their loss of control of that entity. If no consideration is transferred, that may indicate that there is no acquirer. However, the board noted that “many acquisitions in the public sector also occur without the transfer of consideration.”⁴⁷ For that reason, a lack of consideration may not be suitable in determining whether a PSC is an acquisition or an amalgamation.⁴⁸

Another characteristic, proposed by the board for differentiation, is “whether the PSC is imposed on one level of government by another level of government even though, for financial reporting purposes, that level of government does not control the other level of government.”⁴⁹ If such an entity combination occurs, then it may result in an amalgamation.

⁴⁴ cf. CP, par. 3.1. – 3.4., p. 23.

⁴⁵ CP, par. 3.5., p. 23.

⁴⁶ cf. CP, par. 3.5. – 3.10., p. 23 – 24.

⁴⁷ CP, par. 3.11., p. 24.

⁴⁸ CP, par. 3.11., p. 24.

⁴⁹ CP, par. 3.12., p. 24.

Finally, the board analyzed options as “whether one of the combining operations to a PSC dominates the decision-making processes”⁵⁰ or else “whether one of the combining operations appoints significantly more of the governing board of the resulting entity”⁵¹ Based on one or both of these characteristics it may be determined that “the dominating combining operation has in fact gained control over the other combining operations, and therefore the combination would meet the definition of an acquisition.”⁵²

2.4. Accounting for public sector combinations

2.4.1. Accounting methods

The IPSASB considered 3 methods of accounting for combinations which can be used in PSCs:⁵³

1. the acquisition method;
2. the pooling of interests method, including a possible modification to this method; and
3. the fresh start method.

The first method is **the acquisition method** of accounting, which is used in IFRS 3. Under this method, “one entity (the acquirer) obtains control of a business (the acquiree) from another entity in exchange for cash or other consideration.”⁵⁴ The identifiable assets acquired and liabilities assumed, including the ones which have not been previously recognized by the acquiree, are recognized and measured at their fair value on the date of an acquisition. The goodwill is calculated “indirectly as the excess of the aggregate of consideration transferred and the amount of non-controlling interests (if any), over the acquisition date amounts of the fair value of the acquiree’s net identifiable assets and liabilities.”⁵⁵ Where the fair value of the

⁵⁰ CP, par. 3.13., p. 24.

⁵¹ CP, par. 3.13., p. 24.

⁵² CP, par. 3.13., p. 24.

⁵³ cf. CP, par. 4.1.

⁵⁴ CP, par. 4.4., p. 26.

⁵⁵ CP, par. 4.4., p. 26.

acquired identifiable assets and liabilities exceeds the consideration transferred, the acquirer recognizes a gain from a bargain purchase.⁵⁶

Under this method the acquirer recognized an item in case it meets the definition of an element in a balance sheet (i.e., it is probable that there will be an inflow or outflow of resources embodying economic benefits or service potential and the item can be measured reliably).⁵⁷

The measurement in the acquisition method of accounting is based on the fair value. The definition of “fair value” according IPSAS is “[t]he amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.”⁵⁸ The definition and use of “fair value” concept will be further clarified through the public sector conceptual framework project.⁵⁹

The second accounting method stated by the board is **the pooling of interests method**, also known as the uniting of interests’ method. This method was used in business combinations where an acquirer cannot be identified and was prescribed in IAS 22, which afterwards was outdated by IFRS 3. The IASB believed that “combinations where an acquirer could not be identified were so rare as not to permit a separate accounting method.”⁶⁰ Pooling of interests accounting method directed that the combined entity recognizes the assets, liabilities and equity of the combining entities at their existing carrying amounts, adjusted only as a result of aligning the combining entities’ accounting policies, and applying those policies to all periods presented.⁶¹ As a result of that no new goodwill or negative goodwill was recognized.

“IAS 22 required that the pooling of interests method would recognize a uniting of interests by accounting for the combining entities as though the separate businesses were continuing as before, although now jointly owned and managed.”⁶² The previous financial statements of the combining entities before the combination are

⁵⁶ cf. CP, par. 4.4., p. 26.

⁵⁷ cf. CP, par. 4.5., p. 26.

⁵⁸ CP, par. 4.6., p. 27.

⁵⁹ cf. CP, par. 4.8., p. 27.

⁶⁰ CP, par. 4.9., p. 27.

⁶¹ cf. CP par. 4.11., p. 27.

⁶² CP, par. 4.12., p. 27.

restated and presented after the combination as if those entities have been combined from the beginning of the earliest period presented.⁶³ The IPSASB mentioned that “the pooling of interests method could be modified to require the combined entity to combine the items in the statement of financial position as at the date of the amalgamation.”⁶⁴ A modified version of the pooling of interest method was named as the **modified pooling of interests method** by the board.⁶⁵ Both methods rely on the carrying amounts of items recognized in the financial statements of the combining entities.⁶⁶ The difference is in the date from which the combined entity recognizes the assets, liabilities and equity of the combining entities at their existing carrying amounts in its financial statement.

The last accounting method proposed by the board is the **fresh start method**. The principle of the fresh start method is that the combined entity is a new entity, hence its history starts on the day the combination is initiated. This accounting method requires recognition of all of the identifiable assets and liabilities of all the combining entities at a fair value, as at the date of the combination. Also recognition covers identifiable assets and liabilities that were not previously recognized by the entities.⁶⁷

2.4.2. Other issues relating to public sector combinations

The IPSASB left several matters to be developed after reviewing the responses to this CP. Firstly, in the presence of non-controlling interests, issues that will need to be discussed are the measurement basis or bases to apply and the accounting treatment of the non-controlling interest. Secondly, for the PSC-related costs, it also must be identified who will incur them and how this should be accounted.⁶⁸

2.4.3. Summary of accounting methods

Figure 11 demonstrates the summary of the board’s proposals in regards to accounting methods.

⁶³ cf. CP, par. 4.12., p. 27.

⁶⁴ CP, par. 4.13., p. 28.

⁶⁵ cf. CP, par. 4.13. – 4.14., p. 28.

⁶⁶ cf. CP, par. 4.15., p. 28.

⁶⁷ cf. CP, par. 4.16., p. 28.

⁶⁸ cf. CP, par. 4.17. – 4.22., p. 28 – 29.

	Point of Recognition	Measurement Basis or Approach	Surplus or deficit in year of combination	Accumulated surplus or deficit	Comparatives in the year of combination	Consideration transferred
Acquisition Method	On the date the acquirer gains control of the acquiree (the date of acquisition)	Remeasures the acquiree's identifiable assets and liabilities to fair value	Remeasures the acquiree's identifiable assets and liabilities to fair value	The acquirer's accumulated surplus or deficit and the acquiree's surplus or deficit from date of acquisition is recognized in net assets/equity	Not restated	Can be cash or other assets including shares
Pooling of Interests Method	On the date which is the beginning of the earliest period presented	Combining entities financial statement items are recognized without remeasurement at carrying amount, with amounts adjusted to align the accounting policies of the combining entities to those of the combined entity	All the combining entities' surplus or deficit from beginning of reporting period is recognized in the Statement of Financial Performance	All the combining entities' accumulated surplus or deficit from beginning of reporting period is recognized in net assets/equity	Restated	Exchange of shares only
Modified Pooling of Interests Method	On the date of the combination	Combining entities financial statement items are recognized without remeasurement at carrying amount, with amounts adjusted to align the accounting policies of the combining entities to those of the combined entity	The surplus or deficit from date of combination is recognized in the Statement of Financial Performance	Surplus or deficit commences from date of combination, so that accumulated surplus or deficit doesn't arise until the end of the first reporting period	None	Exchange of shares only
Fresh Start Method	On the date of the combination	Remeasures all the combining entities' identifiable assets and liabilities to fair value	The surplus or deficit from date of combination is recognized in the Statement of Financial Performance	Surplus or deficit commences from date of combination, so that accumulated surplus or deficit doesn't arise until the end of the first reporting period	None	Can be cash or other assets including shares

Figure 11: Summary of accounting methods
Source: *The CP – Accounting for PSCs, par. 4.23., p. 30.*

2.5. Accounting for acquisitions NUCC

2.5.1. Introduction

The IPSASB defined an acquisition as “a transaction or other event that results in a recipient gaining control of one or more operations.”⁶⁹ An acquisition NUCC takes place when a recipient gains control of one or more operations, and the recipient and transferor are not controlled by the same ultimate controlling entity.⁷⁰

2.5.2. Recognition

The board proposed that an acquisition NUCC should be recognized in the financial statements of the recipient on the date when the recipient gains control of one or more operations.⁷¹ This date is called the acquisition date. In case the terms and conditions of an acquisition specify other effective day for the acquisition, the board noted that the facts and circumstances of the particular acquisition need to be assessed to determine when the recipient gains control of the acquired operation, as that is the date when the acquisition is recognized.⁷²

2.5.3. Measurement basis or approach

The IPSASB discussed the use of fair value as the measurement basis for acquisitions in the public sector. The reason behind the discussion is the difference in the purpose of acquisitions in public sector (i.e., lack of profit orientation) and the private sector (i.e., generation of economic benefits for equity holders). Furthermore, the board introduced two approaches for the measurement:⁷³

1. “Applying fair value measurement to the identifiable assets acquired and liabilities assumed in the acquired operation at the date of acquisition for all acquisitions (**Approach A**); or”⁷⁴
2. “Distinguishing between different types of acquisitions (**Approach B**) so that:

⁶⁹ CP, par. 5.1., p. 31.

⁷⁰ cf. CP, par. 5.1., p. 31.

⁷¹ cf. CP, par. 5.4., p. 31.

⁷² cf. CP, par. 5.4. – 5.5., p. 31.

⁷³ cf. CP, par. 5.7., p. 32.

⁷⁴ CP, par. 5.7., p. 32.

- (a) 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
- (b) For acquisitions where consideration is transferred, fair value measurement is applied to the identifiable assets acquired and liabilities assumed in the acquired operation at the date of acquisition."⁷⁵

The recipient's subsequent financial statements will differ depending on the chosen approach.⁷⁶

Approach A is based on the fair value as the measurement basis for all acquisitions. Usage of fair value as a measurement for assets acquired and liabilities assumed satisfies users' needs for information, for accountability and decision-making purposes, by better revealing if consideration transferred reflects the value of the net assets acquired.⁷⁷ This approach is consistent with the measurement basis adopted in IPSASs when acquiring assets or incurring liabilities individually in an exchange or non-exchange transaction. Using the same measurement basis (i.e., fair value), regardless to the ways by which those assets and liabilities are obtained, promotes comparability between acquisitions of individual assets and acquisitions of operations that have similar assets.⁷⁸ Proponents of the fair value also state that it meets the qualitative characteristics of relevance and provides a faithful representation of the consequences of an acquisition.⁷⁹ Moreover, this measurement basis satisfies the other qualitative characteristics of financial reporting (e.g., information needs to be presented in a timely way and in a manner that is understandable).⁸⁰

⁷⁵ CP, par. 5.7., p. 32.

⁷⁶ cf. CP, par. 5.8., p. 31.

⁷⁷ CP, par. 5.9., p. 31.

⁷⁸ cf. CP, par. 5.10. – 5.11., p. 31.

⁷⁹ cf. CP, par. 5.12. – 5.13., p. 31.

⁸⁰ cf. CP, par. 5.14., p. 33.

Approach B is based on potential distinction between acquisitions in respect to whether or not consideration is transferred. The board proposed it as:⁸¹

1. acquisitions where no or nominal consideration is transferred; and
2. acquisitions where more than nominal consideration is transferred.

The first case of an acquisition is where **no or nominal consideration is transferred** (i.e., when the recipient acquires an operation without fully paying the transferor).⁸² “Those who advocate a distinction between different types of acquisitions consider that, for these types of acquisitions, the recipient should recognize and measure the net assets acquired on the date of an acquisition at the carrying amount in the acquired operation’s financial statements, with amounts adjusted to align the acquired operation’s accounting policies to those of the recipient.”⁸³ The supporters of this view claim that carrying amounts satisfy users’ needs for information, qualitative characteristic of financial reporting (e.g., relevance and faithful representation) and save cost, because the data is already available and reflects the amounts recognized in the financial statements of the operation before it was acquired by the recipient.⁸⁴

The second case of the **approach B** for acquisitions is where **more than nominal consideration is transferred**. Supporters claim that if “an acquisition involves the transfer of consideration, this type of acquisition is similar in nature to a business combination because the recipient acquires an operation and compensates the transferor for the loss of control of that operation.”⁸⁵ Therefore, they argue that the measurement basis applied should be similar to that applied in the approach A (i.e., recognize and measure identifiable elements at fair value).⁸⁶

2.5.4. The appropriate treatment of the difference arising

The IPSASB discussed accounting treatments for the difference arising when the consideration transferred plus the amount of any minority interest in the acquired

⁸¹ cf. CP, par. 5.15., p. 33.

⁸² cf. CP, par. 5.18., p. 34.

⁸³ CP, par. 5.18., p. 34.

⁸⁴ cf. CP, par. 5.18. – 5.23., p. 34 – 35.

⁸⁵ CP, par. 5.24., p. 35.

⁸⁶ cf. CP, par. 5.24. – 5.25., p. 35.

operation and minus the amount of net assets acquired.⁸⁷ If the recipient assumes net liabilities the difference arising is calculated as the total of the recipient's share of the net liabilities assumed plus the amount of any minority interest in the acquired operation and plus the consideration transferred.⁸⁸

Firstly, the board deliberated on the treatment of difference arising where the recipient acquires net assets and no or nominal consideration is transferred. This will result in an increase of the net assets or equity in the financial statements of the recipient during that reporting period. Therefore, the recipient in an acquisition NUCC will receive an economic gain. The board claims that as the gain in an acquisition where no or nominal consideration is transferred meets the definition of revenue in IPSAS 1, it should be recognized in surplus or deficit in the reporting period in which it occurs.⁸⁹

Secondly, the board discussed the treatment of difference arising where recipient assumes net liabilities. This will result in a decrease in net assets or equity in the financial statements of the recipient. That means the recipient has suffered an economic loss by the acquisition of an operation from the transferor. In contrast to the gain as in the previous discussion, the decrease in net assets or equity should be recognized as a loss in surplus or deficit in the reporting period in which it occurs.⁹⁰

Thirdly, the board explored the treatment of the difference arising where consideration transferred is in excess of net assets acquired. In the private sector the definition for the corresponding difference is stated in IFRS 3, which names it as goodwill.⁹¹ The public sector entities usually do not intend for profit generation when meeting their objectives, thus the focus on future cash flows is unlikely to meet the definition of goodwill in IFRS 3. Consequently, the definition of goodwill (IFRS 3) in private sector is not suitable for public sector. However, some are of view that in case a recipient acquires a cash-generating operation, such as a GBE, then the definition of goodwill in IFRS 3 could be met, and therefore the excess should be

⁸⁷ cf. CP, par. 5.26., p. 36.

⁸⁸ cf. CP, par. 5.27., p. 36.

⁸⁹ cf. CP, par. 5.28. – 5.31., p. 36 – 37.

⁹⁰ cf. CP, par. 5.33., p. 37.

⁹¹ cf. CP, par. 5.36., p. 37.

recognized as goodwill⁹². Otherwise, since the definition of goodwill does not exist in IPSAS, the board could develop it for the public sector from private sector, which encompasses the concept of service potentials. As the goodwill is an asset for the entity from which future economic benefits are expected, there exist various opinions whether this concept will suit to non-profit public sector or not. According to proponents of the view that the excess does not meet the definition of an asset, it is simply a loss in surplus or deficit in the reporting period in which it occurs.⁹³

Finally, the board discussed the treatment of the difference arising where net assets acquired are in excess of consideration transferred. In this case, for a private sector practice, IFRS 3 foresees “a gain from a bargain purchase in profit or loss.”⁹⁴ In public sector, paragraph 50 of IPSAS 1 proclaims that “the results of such transactions are presented by netting any revenue with related expenses arising on the same transaction when this presentation reflects the substance of the transaction or other event.”⁹⁵ As a result of that “an acquisition should be recognized in surplus or deficit (in the statement of financial performance) in the reporting period in which it occurs.”⁹⁶

⁹² cf. CP, par. 5.38., p. 38.

⁹³ cf. CP, par. 5.42., p. 38.

⁹⁴ CP, par. 5.44., p. 39.

⁹⁵ CP, par. 5.45., p. 39

⁹⁶ CP, par. 5.44., p. 39.

2.5.5. Summary

Figure 12 demonstrates the board's summary of accounting treatments.

	Approach A		Approach B			
			Acquisition where No or Nominal Consideration is Transferred		Acquisition where Consideration is Transferred	
Point of Recognition	The date the recipient gains control of the acquired operation (the date of acquisition)		The date the recipient gains control of the acquired operation (the date of acquisition)		The date the recipient gains control of the acquired operation (the date of acquisition)	
Measurement Basis or Approach	The recipient recognizes, in its financial statements, the acquired operation's identifiable assets and liabilities at fair value		The recipient recognizes, in its financial statements, the carrying amounts of the assets and liabilities in the acquired operation's financial statements, with amounts adjusted to align the operation's accounting policies to those of the recipient		The recipient recognizes, in its financial statements, the acquired operation's identifiable assets and liabilities at fair value	
Treatment of Difference Arising	Recipient acquires net assets in excess of consideration transferred (if any)	Gain from a bargain purchase	Recipient acquires net assets	Gain	Recipient acquires net assets in excess of consideration transferred	Gain from a bargain purchase
	Recipient assumes net liabilities	Loss	Recipient assumes net liabilities	Loss	Recipient assumes net liabilities	Loss
	Consideration transferred in excess of net assets acquired	Goodwill or Loss	–	–	Consideration transferred in excess of net assets acquired	Goodwill or Loss

Figure 12: Accounting treatment of acquisitions NUCC for the recipient

Source: *The CP – Accounting for PSCs, par. 5.46., p. 40.*

2.6. Accounting for acquisitions UCC

2.6.1. Introduction

The IPSASB distinguished between PSCs UCC from NUCC, where the parties to a PSC UCC are ultimately controlled by the same entity, both before and after the

PSC. For this reason, economic differences between acquisitions NUCC and acquisitions UCC arise. For acquisitions UCC:⁹⁷

1. “[a]cquisitions between entities within an economic entity do not change the economic resources of that economic entity;”⁹⁸
2. “[t]he surpluses and deficits resulting from the acquisition are eliminated in full in the ultimate controlling entity’s consolidated GPFs; and”⁹⁹
3. “[t]he ultimate controlling entity can specify whether any consideration is transferred.”¹⁰⁰

2.6.2. Recipient accounting

The IPSASB proposed that an acquisition UCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation (i.e., the acquisition date). If the terms and conditions of the acquisition specify a different date than the date the recipient gains control of the acquired operation, the facts and circumstances need to be assessed to determine when the recipient gains control, since that is the date when the acquisition is recognized.¹⁰¹

The board’s reasoning on whether to apply carrying amount or fair value as measurement basis is mainly similar to the acquisition NUCC. One additional reason for usage of carrying amount is that in an acquisition UCC “surpluses and deficits arising from the operation are eliminated in full in the ultimate controlling entity’s consolidated GPFs.”¹⁰² Therefore, there is “no economic change in the economic entity”¹⁰³ and “the recipient’s financial statements should only recognize the assets and liabilities of the acquired operation that have already been recognized within the economic entity by the transferor.”¹⁰⁴ However, some think that the measurement basis in an acquisition UCC should be the same as in acquisitions NUCC. Supporters of this opinion claim that the accounting requirements in other related

⁹⁷ cf. CP, par. 6.1., p. 42.

⁹⁸ CP, par. 6.1., p. 42.

⁹⁹ CP, par. 6.1., p. 42.

¹⁰⁰ CP, par. 6.1., p. 42.

¹⁰¹ cf. CP, par. 6.5. – 6.6., p. 42.

¹⁰² CP, par. 6.8., p. 43.

¹⁰³ CP, par. 6.8., p. 43.

¹⁰⁴ CP, par. 6.8., p. 43.

IPSASs does not express difference between “transactions and other events that occur between entities within an economic entity, and transactions and other events that occur between entities that have different ultimate controlling entities.”¹⁰⁵ Therefore, there is no logic for different treatment.¹⁰⁶

Furthermore, the board explored the treatment of the difference arising when an acquisition UCC includes transferred consideration. This type PSC does not have an effect on the consolidated GPFs of the ultimate controlling entity.¹⁰⁷ The board stated following accounting treatments to the statement of financial performance:¹⁰⁸

1. gain or loss recognized in surplus or deficit;
2. contribution from owners or distribution to owners recognized directly in net assets or equity; or
3. gain or loss recognized directly in net assets or equity.

The first option states that the recipient in an acquisition UCC should recognize gain or loss in surplus or deficit, since it is an economic gain or loss. The fact that the increase or decrease is eliminated in the ultimate controlling entity’s consolidated GPFs is not relevant, as the focus is on the GPFs of the recipient, and it has to account for an economic gain or loss.¹⁰⁹ This procedure of treating the difference arising as a gain is also consistent with other IPSASs.¹¹⁰

The second option states that the recipient in an acquisition UCC should account the difference arising directly in net assets or equity as a contribution from or distribution to owners. “Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets or equity of the entity][...]. Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners,

¹⁰⁵ CP, par. 6.9., p. 43.

¹⁰⁶ cf. CP, par. 6.9., p. 43.

¹⁰⁷ cf. CP, par. 6.12., p. 43.

¹⁰⁸ cf. CP, par. 6.10. – 6.12., p. 43 – 44.

¹⁰⁹ cf. CP, par. 6.13., p. 44.

¹¹⁰ cf. CP, par. 6.14., p. 44.

either as a return on investment or as a return of investment.”¹¹¹ Since the recipient and transferor are controlled by the same ultimate controlling entity, the difference arising from an acquisition UCC automatically meets this definition.¹¹²

The third option states that the recipient in an acquisition UCC should recognize gain or loss directly in net assets or equity. The proponents of this view think that the difference arising does not meet the definitions of contributions from owners or distributions to owners.¹¹³ Moreover, as the ultimate controlling entity can specify whether any consideration is transferred, it affects directly the amount of the gain or loss. Therefore it should not be recognized in surplus or deficit. This option creates a new component of net assets or equity and will need a specific requirement in any resulting IPSAS.¹¹⁴

2.6.3. Transferor accounting

The board discussed the possible accounting treatment between recipient and transferor in an acquisition UCC. It stated that in case it is decided that the recipient recognizes in its GPFs on the date of an acquisition the difference arising as gain or loss in surplus or deficit, then the accounting treatment between the recipient and the transferor would be symmetrical (i.e. mirror image).¹¹⁵ In case it is decided that the recipient recognizes in its GPFs on the date of an acquisition the difference arising as either a contribution from owners or distribution to owners or as a separate component of net assets or equity, then the accounting treatment between the recipient and the transferor would not be identical.¹¹⁶

2.7. Accounting for amalgamations

2.7.1. Introduction

One of the significant conceptual proposals of the IPSASB in this CP is the amalgamation which has been renounced from private sector practice. The board

¹¹¹ CP, par. 6.19., p. 44 – 45.

¹¹² cf. CP, par. 6.20., p. 45.

¹¹³ cf. CP, par. 6.24., p. 45.

¹¹⁴ cf. CP, par. 6.26., p. 46.

¹¹⁵ cf. CP, par. 6.30., p. 46.

¹¹⁶ cf. CP, par. 6.30.-6.31., p. 46 – 47.

supported the view that both amalgamations UCC and NUCC should have same accounting treatment. They also underlined that there will be no difference in the future cash flows and service potentials of the resulting entity depending on the method. However, this will affect the presentation of the financial performance and financial position of the resulting entity, as well as changes therein and consequential activities of the amalgamation.¹¹⁷

2.7.2. Resulting entity – what is the appropriate method of accounting

The CP introduces three methods of accounting for amalgamations UCC and NUCC, which are:¹¹⁸

1. the pooling of interests method;
2. the modified pooling of interests method; and
3. the fresh start method.

Both the pooling of interests method and the modified pooling of interests method make use of carrying amount as the measurement approach or basis. Only in case of the fresh start method, fair value is used.

The supporters of **the pooling of interests method** claim that this method satisfies users' needs for information for decision-making purposes and better accounts the usage of recourses by the resulting entity. They also consider that this method satisfies the qualitative characteristics of relevance and faithful representation, because it reflects the amounts recognized in the financial statements of the combining operations before the amalgamation. Thus, subsequent performance of the resulting entity may be assessed on the same bases as was used before the amalgamation.¹¹⁹ The proponents also believe that this method is the least costly to apply, since it is based on carrying amounts and do not require identifying, measuring and recognizing assets or liabilities not previously recognized before the amalgamation.¹²⁰

¹¹⁷ cf. CP, par. 7.1. – 7.3., p. 48.

¹¹⁸ cf. CP, par. 7.2., p. 48.

¹¹⁹ cf. CP, par. 7.5., p. 49.

¹²⁰ cf. CP, par. 7.6., p. 49.

The supporters of **the modified pooling of interest method** claim the same arguments as with the pooling of interests method. Moreover, they believe that this method is superior to the pooling of interest method, since “it portrays the amalgamation as it actually is, by recognizing the financial statement items of the combining operations at the date of the amalgamation in the resulting entity’s GPFSS.”¹²¹ That is a faithful representation instead of portraying the combining operations as if they had always been combined. Furthermore, the history of the combining operations may help in assessing the performance of the resulting entity.

The supporters of **the fresh start** method of accounting hold it conceptually enhanced to both previous methods of accounting, because the resulting entity is accounted for the current value of the resources of the combining operations. Furthermore, this method provides more complete information of the amalgamation, because it recognizes every element of balance sheet, regardless of whether they were recognized prior to the amalgamation.¹²² This method satisfies users’ needs for information for decision-making purposes and better accounts the use of resources by the resulting entity.¹²³ Moreover, this method is an extension of the fair value concept in the acquisition method of accounting. Consequently, if the acquisition method is adopted for acquisitions, there is no reason not to adopt it for amalgamations.

The IPSASB argue that the modified pooling of interests method of accounting is the suitable method to apply because:¹²⁴

1. users’ are able to assess the performance and accountability of the resulting entity without remeasurment of its assets and liabilities; and
2. it recognizes the amalgamation on the date it takes place.

¹²¹ CP, par. 7.7., p. 49.

¹²² cf. CP, par. 7.9., p. 49.

¹²³ cf. CP, par. 7.10., p. 49.

¹²⁴ cf. CP, par. 7.12., p. 50.

2.7.3. Accounting treatment in the combining operations in the period leading up to the amalgamations

The IPSASB considered the guidance on how to apply accrual-based IPSASs in the period between the announcement of the amalgamation and the date of the amalgamation. The amalgamation process may take more than one period. The board considers whether for the transit period GPFs should be prepared on a going concern basis or not. The board referred to 2 views on this matter:¹²⁵

1. IPSAS 1 requires that financial statements are prepared on a going concern basis, unless there is an intention to liquidate or to cease operating, or if otherwise there is no realistic alternative.¹²⁶
2. The fact that the combining operations will cease to exist on the date of the amalgamation may affect the basis of preparation of the financial statements, and may suggest that the financial statements should not be prepared on a going concern basis.¹²⁷

However, the resulting entity will continue to undertake the same activities as the combining operations, because it needs to fulfill the responsibilities it has assumed from the combining operations. Therefore, the combining operations should continue to prepare their financial statements on a going concern basis (i.e., continue to measure assets and liabilities in accordance with applicable IPSASs until the date of the amalgamation).¹²⁸

¹²⁵ cf. CP, par. 7.13. – 7.14., p. 50.

¹²⁶ cf. CP, par. 7.14., p. 50.

¹²⁷ cf. CP, par. 7.14., p. 50.

¹²⁸ cf. CP, par. 7.15., p. 50.

3. The comments on preliminary views

3.1. Introduction

The CLs were split into groups in order to accelerate the analysis of PVs and SMCs. For that reason, initially a table of all CLs was set up, where respondents groups' were identified. This table included information about the consecutive number of the CL, number of pages, submitter, land and group.¹²⁹ At the beginning of analysis all comments in the CLs were sorted first, according to groups and after according to answers to PVs and SMCs in one table. In a statistical analysis, it was found that all PVs were answered with an average of 40 percent of intensity (i.e., approximately 10 commenters for PV). That was clear after noting whether a certain commenter had replied to a certain question or not. In this evaluation, comments that refer to a PV specifically enough were considered, even if the commenter had not stated their opinion explicitly under a title referring to a certain PV, which was mainly the case.¹³⁰ For that purpose the CL of each respondent was further divided in two parts. First part was named as an "introductory part", where the commenter expressed its general opinion and responded on the matter indirectly without referring to a particular PV. The second part was called as a "comment part", where the respondent directly referred to the board's PV or SMC. Afterwards, comment's content was analyzed and conclusion was written in the table. The responses with the same view were marked and then summarized in order to see how many agreed or not with the board's view. "Frequently mentioned or striking comments are used in the analysis to point out the commenters' views."¹³¹ The method of the analyses is the same for PVs and SMCs. First, the matter of discussion is stated. Then the responses from the groups are recapitulated in the following order: standard setters, accounting profession, governmental bodies, and others.¹³² At the end, overall trend of comments identified and summarized for the corresponding question. If a CL is not numbered, its pages are simply counted starting from the covering letter.

¹²⁹ cf. *Ehmayer* (2011), p. 37.

¹³⁰ cf. *Ehmayer* (2011), p. 37.

¹³¹ *Ehmayer* (2011), p. 37.

¹³² cf. *Ehmayer* (2011), p. 37.

3.2. Commenters' views on definitions used for PSCs

3.2.1. Preliminary view 1

"A **public sector combination** is the bringing together of separate operations into one entity, either as an acquisition or an amalgamation.
The key definitions are as follows:
(a) An **acquisition** is a transaction or other event that results in a recipient gaining control of one or more operations.
(b) An **amalgamation** is a transaction or other event where (a) two or more operations combine, (b) none of the combining operations gain control of the other operations, and (c) the transaction or other event is not the formation of a joint venture.
(c) A **combining operation** is an operation that combines with one or more other operations to form the resulting entity.
(d) An **operation** is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.
(e) A **recipient** is the entity that gains control of one or more operations in an acquisition.
(f) A **resulting entity** is the entity that is the result of two or more operations combining where none of the combining operations gains control of the other operations.
(g) A **transferor** is the entity that loses control of one or more of its operations to another entity (the recipient) in an acquisition."¹³³

3.2.2. Standard setters

Out of 6 members of this group 4 commented on this PV. 2 made their comments directly referring to this view and 2 commenters mentioned some concern in the introductory part of their CLs. The direct commenters agreed with the board's proposals on definitions. However, they have included some corrections and improvements to them:

1. The New Zealand Accounting Standards Board (NZASB) included a correction in regards to the definition of amalgamation. It proposed to remove a part of the definition of a PSC, which is "either as an acquisition or an amalgamation."¹³⁴ Moreover, it deemed that in the development of a definition more emphasis should be put on the outcome of a combination, rather than on the process.¹³⁵
2. The Accounting Standards Board (ASB) proposed changes to the definitions for amalgamation, combining operation and resulting entity. It suggested that for the definition of a combining operation sufficient explanatory guidance should be included to explain that an operation can either be a unit of an

¹³³ CP, par. 2.16., p. 15.

¹³⁴ CP, par. 2.14., p. 15.

¹³⁵ cf. CL 23, p.

entity or a transfer of the entire entity. Furthermore, it should be clarified how entities should distinguish between an acquisition and an amalgamation if both these transactions can involve the transfer of an integrated set of activities and related assets and/or liabilities. Finally, the definition of resulting entity could be précised by deleting the last part of the definition.¹³⁶

1 of the 2 indirect commenters (Public Sector Accounting Board Staff further as PSAB Staff) stated its agreement with all PVs in the CP and therefore was counted as a supporter of this PV. The CNOCP stated that “for the public-sector entities, the definition of control will have to be adapted in the various standards (i.e., control of an asset, control of one entity over another, control of special-purpose entities and etc.) once the conceptual framework is finalized.”¹³⁷ Their argument for this is that “control necessarily has a different meaning for public-sector entities than that provided in private-sector accounting standards, mainly due to the nonmarket character of the transactions and the particular nature of certain assets.”¹³⁸

3.2.3. Accounting profession

Out of 13 members of this group only 2 commented directly on this view and 2 mentioned some concern in the introductory part of their CLs. Both of the direct commenters agreed with the definitions stated without any further additions.

1 indirect commenter has agreed with all PVs stated in the CP. The second indirect commenter (Financial Management Standards Board – Association of Government Accountants further as FMSB-AGA) noted that including the issue of control in the definition of an amalgamation may be may be problematic.¹³⁹

3.2.4. Governmental bodies

PV 1 was discussed by 3 out of the 5 members of this group. All respondents stated their attitude indirectly in the introductory part of their CLs. 2 commenters agreed

¹³⁶ cf. CL 10, p.3 – 4.

¹³⁷ CL 3, p. 2.

¹³⁸ CL 3, p. 2.

¹³⁹ cf. CL 1, p. 1.

with the board's view and expressed new ideas. 1 commenter stated its disagreement with the definitions stated in the CP.

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) noted that terms such as “recipient” and “transferor” have been derived from IPSAS 23 (revenue from non-exchange transactions), rather than “acquirer” and “acquiree” as used in IFRS 3, without a good argument in support. It recommended the inclusion of definitions for control and fair value, and/or reference to these terms defined in other IPSAS or IPSASB's glossary of terms.¹⁴⁰ The Government of Canada stated its general agreement with all PVs, however noted that “further clarity could be gained by separately defining public sector combinations that involve an exchange of consideration and those that do not, rather than using the umbrella term acquisitions.”¹⁴¹

Being an opponent of the PV 1, the Direction Générale des Finances Publiques (DGFIP) stated that the CP is inadequately suited to the specific characteristics of PSCs. The commenter found definitions to be “unclear, particularly with regards to the notion of amalgamations, which is nevertheless a central concept of the proposed standard, given that the standard deals with public-entity combinations that are acquisitions and those that are amalgamations.”¹⁴²

3.2.5. Others

From 2 group members only 1 commented on this PV. Denise Silva Ferreira Juvenal stated directly referring to the PV1 that the definitions are clear. The second respondent (Charity Commission) did not include any comments for all PVs. Since this group has only 2 commenters, no generalization is done for the analysis.

3.2.6. Summary

Among all groups, there is a clear tendency towards agreeing with the IPSASB's definition proposals. As the response rate to this PV as well as to others is low,

¹⁴⁰ cf. CL 8, p. 1 – 2.

¹⁴¹ cf. CL 15, p. 2.

¹⁴² CL 13, p. 2.

generalization is done carefully. Overall, one commenter in the group of governmental bodies found the board's definitions unclear. One commenter in the group of standard setters noted that definition of control should be adopted once the IPSASB's project on the "conceptual framework" is finalized. Only in the group "others" there were no new ideas or proposals. Main proposals for the amendments are to the definition of:

1. an amalgamation;
2. the combining operation;
3. the resulting entity;
4. the notion of control; and
5. the recipient and transferor.

Generally, the board's effort was appreciated by the respondents.

3.3. The commenters' views on a definition used for public sector combination UCC

3.3.1. Preliminary view 2

"A **public sector combination under common control** is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination."¹⁴³

3.3.2. Standard setters

Out of 6 members of this group 4 commented on this PV. 2 replied directly, where they agreed with the board's PV and 2 mentioned comments in the introductory part of their CLs. The NZASB stated consistency of this view with the explanations of a business combination of entities UCC in paragraph B1 of IFRS 3.¹⁴⁴ The second direct commenter stated that entities should apply own judgment in determining whether a transaction or event has occurred between entities UCC or NUCC.¹⁴⁵

One of the indirect commenters (PSAB Staff) stated its support for all of the PVs included by the board. The other indirect commenter mentioned that PSCs UCC is

¹⁴³ CP, par. 2.22., p. 117.

¹⁴⁴ cf. CL 23, p. 3.

¹⁴⁵ cf. CL 10, p. 3 – 4.

as aspect of accounting that has yet to be fully addressed by the IASB and for that reason encourage the IPSASB to undertake further research into combinations of public sector entities UCC.¹⁴⁶

3.3.3. Accounting profession

Out of the 13 group members only 3 commented on this issue. 2 commenters replied directly referring to the PV 2 and 1 respondent just supported all PVs of the IPSASB. The Institute of Chartered Accountants of Nigeria (ICAN) agreed with this PV, but stated a small modification. It proposed that using the word “before” is not appropriate as entities or operations could be brought in the combining entities that were not UCC before the combinations took place. For that reason, they suggested to change the sentence to exclude “both before and” from the definition.¹⁴⁷ The second direct commenter (Abu Dhabi Accountability Authority further as ADAA) only stated its agreement with the view. Finally, Institute of Chartered Accountants of Scotland (ICAS) concurred with all PVs of the IPSASB including PV 2.

3.3.4. Governmental bodies

3 out of 5 group members commented on the PV 2. 2 respondents (HoTARAC and European Commission further as EC) stated in their introductory part of the CLs that differentiation in regards to transactions UCC and NUCC is appropriate in or order to understand possible transactions in the public sector.¹⁴⁸ The Government of Canada stated its agreement with all PVs.

3.3.5. Others

From 2 commenters of this group only 1 commented on this PV, where it found the board’s arguments and suggestions in this regard clear and rationale, and suggested the board to consult local regulators for knowledge about entities or operations with common control in the public sector. In the CL it was also mentioned that in some

¹⁴⁶ cf. CL 6, p. 1.

¹⁴⁷ cf. CL 18, p. 2.

¹⁴⁸ cf. CL 14, p. 2.

countries the public sector has diverse types of companies that may have influence on the development of this standard.¹⁴⁹

3.3.6. Summary

Among all groups a clear tendency in a direction towards an agreement with the board's view could be observed, despite the response rate being low. The commenters agree with the proposal that a PSC UCC is a combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the PSC. One commenter noted that this view is consistent with the IFRS 3 (business combinations) regulations for entities UCC. There is only one proposal by the ICAN for a modification in the definition of a PSC UCC to remove "both before and".

3.4. The commenters' views on how to distinguish amalgamation from acquisition

3.4.1. Preliminary view 3

"The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations."¹⁵⁰

3.4.2. Standard setters

PV 3 was discussed by 4 commenters out of 6 members of this group. 2 direct comments came from the ASB and the NZASB, whereby the former agreed and the latter disagreed with the board's view. Although, the ASB found the PV 3 purposeful, it mentioned that other criteria that could be considered to explain when control could or could not exist, should be further developed and discussed.¹⁵¹ The NZASB submitted the longest comment for this PV, whereby they did not agree that the sole definitive criterion for distinguishing an amalgamation from an acquisition should be that in latter, none of the combining operations gains control of the other operations.¹⁵² According to them, control is necessary condition but is not sufficient

¹⁴⁹ cf. CL 24, p. 2.

¹⁵⁰ CP, par. 3.13., p. 25.

¹⁵¹ cf. CL 10, p. 4-5.

¹⁵² cf. CL 23, p. 9.

alone for this definition and the IPSASB should provide more detail to the definition and explore other proposals.¹⁵³

The 2 indirect commenters who implied their opinions in introductory text supported the board's approach. The CNOCP pointed out that in absolute terms, the approach by which acquisitions at market price are distinguished from public-sector amalgamations is justified, insofar as the majority of combinations in the public sector differ, by their nature, from those conducted at market price in the private sector.¹⁵⁴ The second indirect commenter (PSAB staff) stated its support for all PVs included by the board.¹⁵⁵

3.4.3. Accounting profession

Out of 13 members of this group only 5 commented on this PV. 2 commenters stated their opinions directly referring to the PV and 3 discussed the issue in the introductory part of their CLs. Both direct commenters (ICAN and ADAA) stated their agreement with the view that the sole criterion for distinguishing an amalgamation from an acquisition should be control.¹⁵⁶

2 indirect commenters stated their concern for the notion of control. The FMSB-AGA noted that the key aspects of the definition of an amalgamation will be dealing with the issue of control and that using control to classify transactions may be problematic.¹⁵⁷ Secondly, Ernst & Young Gmbh pointed out that from a conceptual perspective, it is reasonable to distinguish between an acquisition and an amalgamation. However, the CP should include more guidance and discussion to help entities to make this distinction. This distinction needs to be made strongly, because of availability of various accounting treatments.¹⁵⁸ Finally, ICAS concurred with all PVs of the IPSASB including the PV 3.

¹⁵³ cf. CL 23, p. 5.

¹⁵⁴ cf. CL 3, p. 3.

¹⁵⁵ cf. CL 20, p. 1.

¹⁵⁶ cf. CL 5, p. 2.

¹⁵⁷ cf. CL 1, p. 1.

¹⁵⁸ cf. CL 7, p. 1.

3.4.4. Governmental bodies

Out of 5 members of this group 3 commented on this PV. All comments were done indirectly referring to this mater and included various points. Firstly, the EC stated that distinguishing between acquisitions and amalgamations, based on the control criterion and further in transactions UCC and NUCC, is appropriate for the understanding of possible transactions in the public sector. However, the concept of the four sub-cases is difficult to understand and leads to the situation that the public sector standard becomes more difficult than the private sector standards.¹⁵⁹ Secondly, the HoTARAC supported the distinctions between PSCs NUCC and UCC, however the majority of its members did not support the distinctions between acquisitions and amalgamations. According to it, the CP does not provide any public sector characteristics that justify this distinction on a conceptual basis (e.g., the IFRS previously removed the concept of mergers in the superseded IAS 22, on the basis that they rarely occurred).¹⁶⁰ Finally, the Government of Canada stated its agreement with all PVs.

3.4.5. Others

PV 3 was answered by one member of this group. Denise Silva Ferreira Juvenal agreed that the sole definitive criterion for distinguishing an amalgamation from an acquisition is that in an amalgamation, none of the combining operations gains control of the other operations.¹⁶¹ Charity Commission did not respond to any PV included by the IPSASB.

3.4.6. Summary

Among all groups, there are common points, however a clear tendency towards agreeing with the board's view cannot be observed. All groups have similarities in their responses where they note that using control to classify transactions may be difficult. The group of standard setters generally agreed with the control criterion for distinction, but stated that it alone is not enough. The group of accounting

¹⁵⁹ cf. CL 14, p. 2.

¹⁶⁰ cf. CL 8, p. 1.

¹⁶¹ cf. CL 24, p. 3.

profession, in the same manner, agreed with the control criterion but stated its insufficiency on its own. In the group of governmental bodies 1 commenter stated its disagreement with distinguishing between acquisitions and amalgamations at all, however the rest confirmed the board's view.

3.5. The commenters' views on the recognition date of an acquisition NUCC

3.5.1. Preliminary view 4

"An acquisition NUCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation."¹⁶²

3.5.2. Standard setters

Out of 6 members of this group half commented on PV 4. 2 respondents submitted their concern directly referring to the view and 1 stated its opinion in the introductory part of its CL. All respondents agreed with the board's view that an acquisition NUCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation. The ASB, as a direct commenter, noted that this date can be different than the date specified in the binding arrangement that governs the acquisition.¹⁶³ Therefore, it suggested that the CP should discuss the concept of substance over form (i.e., although the legal acquisition date is specified in legislation, actual control over the assets acquired and liabilities assumed might be obtained at a later or an earlier date).¹⁶⁴ Furthermore, the NZASB supported the board's view with the argument that PV 4 is in line with IFRS 3 and appropriate for an acquisition.¹⁶⁵ Finally, the PSAB Staff noted their support to all the PVs in its introductory part of the text.

3.5.3. Accounting profession

PV 4 was commented by 3 members of this group. 2 commenters referred their opinions directly and 1 respondent stated his opinion in the introductory part of its

¹⁶² CP, par. 5.5., p. 31.

¹⁶³ cf. CL 10, p. 5.

¹⁶⁴ cf. CL 10, p. 5.

¹⁶⁵ cf. CL 23, p. 9.

CL. Both of the direct commenters (ADAA and ICAN) agreed with IPSASB's view that an acquisition NUCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation. The indirect commenter, the ICAS agreed with all PVs in the CP.

3.5.4. Governmental bodies

Out of 5 members of this group only 3 commented on this view. 1 commenter responded directly referring to the view and the other 2 indirectly referring to the matter in the introductory part of their CLs. All responses were homogeneously agreeing that an acquisition NUCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation. The EC stated that this reflects the substance of the transaction best and that it corresponds with the concept of the acquisition method.¹⁶⁶

From the indirect commenters, the HoTARAC supported this PV because of its alignment for the application of the principles of IFRS 3 for acquisitions NUCC.¹⁶⁷ The HoTARAC suggested this view also in response to IPSASB's ED 41 (entity combinations from exchange transactions).¹⁶⁸ Finally, as the Government of Canada emphasized its agreement with the direction taken in all PVs, they are also counted as a supporter of this view.¹⁶⁹

3.5.5. Others

PV 4 was answered only by 1 group members. Denise Silva Ferreira Juvenal mentioned that it is very important to consult local regulators, but agreed that an acquisition NUCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation.¹⁷⁰ Charity Commission did not respond to any PVs included by the IPSASB.

¹⁶⁶ cf. CL 14, p. 2.

¹⁶⁷ cf. CL 8, p. 1.

¹⁶⁸ cf. CL 8, p. 1.

¹⁶⁹ cf. CL 15, p. 2.

¹⁷⁰ cf. CL 24, p. 3.

3.5.6. Summary

Among all groups, there is a clear tendency towards agreeing with the board's view. All groups have similarities in expressing their opinion. Supporting arguments for this view are that it is in line with the principles of IFRS 3 and best reflects the substance of the transaction.

3.6. The commenters' views on the accounting treatment by recipient in an acquisition NUCC

3.6.1. Preliminary view 5

"The recipient in an acquisition NUCC recognizes in its financial statements on the date of acquisition, the difference arising as:
(a) A gain where the recipient acquires net assets in excess of consideration transferred (if any); and
(b) A loss where the recipient assumes net liabilities."¹⁷¹

3.6.2. Standard setters

Out of 6 members of this group 1 direct and 1 indirect commenter responded on this PV. The direct commenter (the ASB) supported that the difference arising in an acquisition NUCC should be recognized in the statement of financial performance as either a gain or a loss.¹⁷² The PSAB Staff stated their support to all PVs developed by the IPSASB in their introductory part of the text.

3.6.3. Accounting profession

3 members of this group out of 13 mentioned some concern for this PV. 2 of them referred to the matter directly and 1 in the introductory part of its CL. The ICAN noted that they agree with this PV. The ADAA stated that on a condition that a PSC NUCC applies fair value measurement criteria to the assets and the liabilities acquired then any gain or loss arising should be recognized in the income statement.¹⁷³ Finally, the ICAS concurred with all PVs of the IPSASB including the PV 5.

¹⁷¹ CP, par. 5.46., p. 41.

¹⁷² cf. CL 10, p. 5.

¹⁷³ cf. CL 5, p. 2.

3.6.4. Governmental bodies

This PV was not discussed directly by the members of this group. The reason for this is that none of the members of the governmental bodies group wanted to express their opinion for the treatment of the gain or loss at this point of the project. Only the Government of Canada indicated their agreement with the direction taken in all PVs presented by the board and therefore also counted as a supporter of this view.

3.6.5. Others

Only 1 group member replied to this PV. Denise Silva Ferreira Juvenal in his comment to PV 5, noted his agreement with these definitions and importance, when engaging PSC, to observe and consult local regulators in the application and implementation of business combinations.¹⁷⁴ Charity Commission did not respond to any PV included by the IPSASB.

3.6.6. Summary

Among all groups, except the group of governmental bodies which submitted no comments, tendency in a direction towards an agreement with the board's view could be observed, despite the response rate being low. The respondents agreed that a gain or loss should be recognized in financial statements in an acquisition NUCC, without mentioning arguments in support. 1 commenter stated a condition of the application of fair value measurement criteria, for an agreement with the board's view

3.7. The commenters' views on the recognition date of an acquisition UCC

3.7.1. Preliminary view 6

"An acquisition UCC should be recognized in the financial statements of the recipient on the date the recipient gains control of the acquired operation."¹⁷⁵

¹⁷⁴ cf. CL 24, p. 3.

¹⁷⁵ CP, par. 6.6., p. 42.

3.7.2. Standard setters

3 out of 6 members of this group mentioned some concerns for this PV. 2 commenters expressed their opinion directly referring to the PV and 1 in its introductory text stating support for all PVs. Both of the direct commenters supported PV 6, that an acquisition UCC should be recognized on the date that the recipient gains control of the acquired operation. The ASB noted that this date can be different from the date specified in the binding arrangement that governs the acquisition. The decisive point should be substance over form. In other words, although the legal acquisition date is specified in legislation, actual control over the assets acquired and liabilities assumed might be obtained at a later or an earlier date.¹⁷⁶ The ASB concluded that this matter should be further explored. The NZASB also noted that an acquisition UCC is rare public sector event.¹⁷⁷ The PSAB Staff stated their support for all PVs developed by the IPSASB in the introductory part of their text.

3.7.3. Accounting profession

3 members of this group out of 13 mentioned their opinions with regards to this PV. 2 commenters stated it directly referring to the PV and 1 concurred with all of the board's PVs. Both of the direct commenters (ICAN and ADAA) supported in their CLs that recognition criteria should focus on the date the recipient gains control. Finally, ICAS stated its agreement with all the PVs of the IPSASB including PV 6.

3.7.4. Governmental bodies

For this PV, only 2 commenters out of 5 group members could be identified. One of the group members expressed its opinion directly and the other one commented in the introductory part of its CL. The direct commenter (EC) confirmed that all acquisitions should be recognized in the financial statements of the recipient on that date the recipient gains control. This option indicates the substance of the transaction and it corresponds with the concept of the acquisition method.¹⁷⁸ The

¹⁷⁶ cf. CL 10, p. 5.

¹⁷⁷ cf. CL 23, p. 5.

¹⁷⁸ cf. CL 14, p. 2.

Government of Canada agreed with the direction taken in all PVs presented by the board, and therefore also considered as a supporter of this view.¹⁷⁹

3.7.5. Others

1 out of 2 members of this group made a note on this PV. Denise Silva Ferreira Juvenal in his comment to PV 6 noted his agreement with comments, but questioned possible implementation in others jurisdictions. He suggested to contact other regulators for further application of this view. Charity Commission did not respond to any PV included by the IPSASB.

3.7.6. Summary

Among all groups, there is a clear trend towards an agreement with the board's view, despite the response rate being low. All groups have similarities in expressing their opinion. Main supporting idea is that this view best reflects the substance of the transaction and corresponds to the concept of the acquisition method in IFRS. Several respondents noted that the matter should be further explored.

3.8. The commenters' views on the accounting treatment by recipient in an acquisition UCC

3.8.1. Preliminary view 7

"The recipient in an acquisition UCC recognizes in its financial statements on the date of acquisition the carrying amounts of the assets and liabilities in the acquired operation's financial statements, with amounts adjusted to align the operation's accounting policies to those of the recipient."¹⁸⁰

3.8.2. Standard setters

Out of 6 group members 4 commented on this PV. 2 commenters stated their opinion directly referring to this PV and 2 others mentioned their view in the introductory part of their CLs. From direct commenters, the ASB submitted the longest review of the PV 7, whereby it was supported. The arguments noted that:¹⁸¹

¹⁷⁹ cf. CL 15, p. 2.

¹⁸⁰ CP, par. 6.9., p. 44.

¹⁸¹ cf. CL 10, p. 6.

1. if carrying amounts are used by both parties, no gain or loss can be recognized by them in contrast to fair value application;
2. gains and losses should not be recognized, as the entity that ultimately controls both parties are not transacting with itself; and
3. additional costs are not required for revaluation of assets and liabilities.

However, it also noted that the application of the same accounting bases prior to the PSC, to ensure that the carrying amounts of the assets and liabilities transferred are measured on the same basis, is vital.¹⁸² The NZASB stated that an acquisition amongst entities UCC is uncommon in the public sector and it is recommended that all combinations of entities UCC are treated as amalgamations or some other form of reorganization. Nevertheless, if the IPSASB decides to proceed with treating some combinations of entities UCC as acquisitions, then the NZASB will agree with the proposed approach.¹⁸³

As an indirect commenter, the Financial Reporting Council (FRC) agreed that for some acquisitions UCC, there may be less benefit from using fair value and given the costs of using it, it would be appropriate to permit or require the use of previous carrying amounts. However, if the transaction is in substance for a commercial purpose or is at arm's length, then fair value is appropriate. In other cases where there is no commercial substance to the transaction, the carrying amount may be appropriate.¹⁸⁴ The PSAB Staff stated their support to all the PVs developed by the IPSASB in their introductory part of the text.

3.8.3. Accounting profession

3 members of this group out of 13 mentioned their opinion with regards to this PV. 2 commenters directly referred to the PV and 1 confirmed its agreement with all of the board's PVs. Both direct commenters (ICAN and ADAA) agreed in their CLs that the recipient in an acquisition UCC recognizes in its financial statements on the date of an acquisition the carrying amounts of the assets and liabilities in the acquired operation's financial statements, with amounts adjusted to align the operation's

¹⁸² cf. CL 10, p. 6.

¹⁸³ cf. CL 23, p. 6.

¹⁸⁴ cf. CL 26, p. 1.

accounting policies to those of the recipient. Moreover, the ADAA noted that any gain or loss arising from those adjustments should be recognized in the income statement.¹⁸⁵ Finally, the ICAS has concurred with all the PVs of the IPSASB, including PV 6.

3.8.4. Governmental bodies

For this PV only 2 commenters out of 5 group members could be identified. One of the commenters expressed its opinion directly and the other one commented in the introductory part of its CL on all PVs. The EC stated its understanding for the board's thoughts in the PV 7, that acquisitions UCC should be recognized at carrying amount and supported this view for the same reasons mentioned in the CP (i.e., the resulting surpluses and deficits are eliminated in full in the ultimate controlling entity's consolidated GPFSSs).¹⁸⁶ The Government of Canada in its CL stated its agreement with direction taken in all PVs.¹⁸⁷

3.8.5. Others

1 out of 2 commenters of this group submitted notes on this PV. Denise Silva Ferreira Juvenal in his comment to PV 7 noted his agreement, but questioned possible implementation in others jurisdictions. He suggested contacting other regulators for further application of this view. Charity Commission did not respond to any PV included by the IPSASB.

3.8.6. Summary

Among all groups, tendency in a direction towards an agreement with the board's view could be seen. Except of the group of standard setters, low response rate is observed. The commenters are in line that the recipient in an acquisition UCC should recognize in its financial statements on the date of an acquisition the carrying amounts of the assets and liabilities in the acquired operation's financial statements, with amounts adjusted to align the operation's accounting policies to those of the

¹⁸⁵ cf. CL 5, p. 2.

¹⁸⁶ cf. CL 14, p. 3.

¹⁸⁷ cf. CL 15, p. 2.

recipient. The main supporting arguments for this view are that gains and losses should not be recognized as the entity that ultimately controls both parties is not transacting with itself, avoiding additional costs related to fair value revaluation of assets and liabilities, and lack of commercial orientation for fair value application.

3.9. The commenters' views on a resulting entity's accounting treatment in amalgamation

3.9.1. Preliminary view 8

"A resulting entity in an amalgamation should apply the modified pooling of interests method of accounting."¹⁸⁸

3.9.2. Standard setters

Out of 6 group members 4 commented on this PV. 2 comments were directly on this PV and 2 were stated in the introductory part of the corresponding CLs. As a direct commenter, the NZASB made the longest review of this PV, whereby they supported it on a condition that the financial statements of the combining entities prior to the amalgamation are publicly available and comparative information is not presented under the modified pooling of interests method. This is necessary, because these financial statements provide information for the users of the financial statements of the resulting entity that otherwise is not available. The NZASB noted that guidance on the application of the method should also be included.¹⁸⁹ The ASB in the same way supported this PV. Similar to the NZASB, it also demanded guidance on the adjustment the carrying amounts of the combining operation's assets acquired and liabilities assumed to the accounting basis that is applied by the resulting entity on the date of amalgamation. Moreover, guidance should be provided on the treatment of these adjustments, as well as the party responsible for making these adjustments.¹⁹⁰

From the indirect commenters, the FRC agreed that amalgamations should be accounted for by the modified pooling of interest method. It supported the

¹⁸⁸ CP, par. 7.12., p. 50.

¹⁸⁹ cf. CL 23, p. 5.

¹⁹⁰ cf. CL 10, p. 6 – 7.

modifications proposed to traditional pooling of interest accounting. The FRC noted that the modified pooling of interest method is similar to fresh start accounting, except that assets and liabilities are stated at previous carrying amounts rather than at fair value.¹⁹¹ The PSAB Staff stated their support to all PVs developed by the IPSASB in its introductory part of the text.

3.9.3. Accounting profession

5 members of this group out of 13 have mentioned their opinion with regards to this PV. 2 commenters responded directly referring to the PV and 3 stated their opinion in the introductory parts of their CLs. Firstly, the ICAN as a direct commenter agreed with the PV that a resulting entity in an amalgamation should apply the modified pooling of interests method of accounting. However, they noted that the term “exchange of shares” should be replaced with the words “instruments of assets” in the definition of the modified pooling of interests method of accounting.¹⁹² Secondly, the ADAA considered that an entity does not normally prepare GPFs for an amalgamation. However, if does so, then the ADAA favors the modified pooling of interests method of accounting. It noted that this method is more supportive than other methods, because performance and accountability can still be assessed without the complexity of re-measuring assets and liabilities.¹⁹³

As an indirect commenter, Ernst & Young Gmbh supported the IPSASB's view of using modified pooling of interests method for amalgamations for reasons stated in the CP (i.e., par. 7.12).¹⁹⁴ Secondly, the Institute der Wirtschaftspruefer (IDW) noted that for the accounting for amalgamations the differences between the private and public sectors must be acknowledged. It supported the IPSASB's PV 8. The IDW claimed that mainly due to the tendency for misuse within the profit-oriented private sector, the pooling of interests method of accounting is no longer permitted under IFRS nor it favored in the private sector, but agreed that in the public sector context an approach based on this method may be appropriate.¹⁹⁵ One of the IDW's

¹⁹¹ cf. CL 26, p. 4.

¹⁹² cf. CL 18, p. 3.

¹⁹³ cf. CL 5, p. 3.

¹⁹⁴ cf. CL 7, p. 2.

¹⁹⁵ cf. CL 16, p. 2.

comments was also to replace the term “modified pooling of interests method of accounting” with a more appropriate term (e.g., “predecessor accounting” or similar in order to deflect negative associations with the term pooling of interests).¹⁹⁶ Finally, the ICAS concurred with all PVs of the IPSASB including PV 6.

3.9.4. Governmental bodies

2 out of 5 members of this group commented on this PV. 1 commenter expressed its opinion directly referring to the matter and the second one implied its ideas in the introductory part of the CL. Firstly, the EC fully supported PSCs in the form of amalgamations and the PV 8 of the board to apply the modified pooling of interest method of accounting.¹⁹⁷

The Government of Canada on the contrary stated that the accounting methods described in the CP (i.e., acquisition method, pooling of interests and modified pooling of interests) are relevant when considering a business type combination in which consideration is exchanged. Furthermore, it recommended that a separate term is used to define combinations that do not involve the exchange of consideration. These combinations should be analyzed in the context of non-exchange transactions, rather than the accounting methods described in the CP. Therefore, it argued that the accounting treatment of combinations UCC should be considered separately to those that are NUCC.¹⁹⁸

3.9.5. Others

1 out of 2 members of this group has included notes on this PV. The comment directly referred to the PV8. Denise Silva Ferreira Juvenal in his comment to PV 8 noted his agreement with the view.¹⁹⁹ He also proposed that further work is required in order to develop a quality standard. Charity Commission did not respond to any PVs included by the IPSASB.

¹⁹⁶ cf. CL 16, p. 2.

¹⁹⁷ cf. CL 14, p. 3.

¹⁹⁸ cf. CL 15, p. 2.

¹⁹⁹ cf. CL 24, p. 4.

3.9.6. Summary

Among all groups a clear tendency in a direction towards an agreement with the board's view could be observed. The commenters are in agreement that a resulting entity in an amalgamation should apply the modified pooling of interests method of accounting. The main supporting arguments are that by this method, performance and accountability can be assessed without the complexity of re-measuring assets and liabilities, and in the public sector the application of this method will not result in a misuse as in the private sector practice. In addition there were some proposals for amendments to the wording, such as "exchange of share" to "instrument of assets" and "modified pooling of interests method of accounting" to "predecessor accounting".

3.10. The commenters' views on accounting treatment in the combining operations in the period leading up to the amalgamation

3.10.1. Preliminary view 9

"Where combining operations continue to prepare and present GPFs using accrual-based IPSAs in the period between the announcement of the amalgamation and the date of the amalgamation, these GPFs are prepared on a going concern basis where the resulting entity will fulfill the responsibilities of the combining operations."²⁰⁰

3.10.2. Standard setters

3 out of 6 members of this group commented on this PV. 2 comments were directly referring to the PV and one was made in the introductory part of the CL. The ASB considered that even though the principle of going concern is addressed in other IPSAs, they support the view that the proposed pronouncement dealing with PSC should remind and require the combining operation to continue to prepare and present its financial statements on a going concern basis, where the resulting entity will fulfill that entity's responsibilities following the amalgamation.²⁰¹ The NZASB is

²⁰⁰ CP, par. 7.15., p. 50.

²⁰¹ cf. CL 10, p. 4.

also of the opinion that PV 9 is appropriate.²⁰² The PSAB Staff stated their support for all PVs developed by the IPSASB in their introductory part of the text.

3.10.3. Accounting profession

3 out of 13 members of this group commented on this PV. 2 comments were directly referring to the view and 1 respondent stated its opinion in the introductory part of its CL. Both of the respondents (the ICAN and the ADAA) agreed with the board's PV 9. The ADAA stated that the key point to assess is whether government will continue to provide support to the operations delivering the goods or services and not whether the legal entity itself is going to continue those operations.²⁰³ Finally, ICAS has concurred with all the PVs of the IPSASB including PV 6.

3.10.4. Governmental bodies

This group submitted no direct comments on this PV. The Government of Canada in the introductory part of their CL stated their agreement with direction taken in all PVs. Therefore, they are considered as a supporter of this view. In short, it could be said that commenters find it too early to respond on this PV.

3.10.5. Others

1 out of 2 commenters of this group has included notes on this PV. The comment was made directly on the PV 9. Denise Silva Ferreira Juvenal in his comment noted his agreement with the view.²⁰⁴ He also noted that further work is required in order to develop a quality standard. Charity Commission, on the other hand, did not respond to any PVs included by the IPSASB.

3.10.6. Summary

Among all groups a tendency in a direction to agreement with the board's view could be traced, despite the response rate being low. The commenters agreed that where combining operations continue to prepare and present GPFs using accrual-based

²⁰² cf. CL 23, p. 5.

²⁰³ cf. CL 5, p. 1.

²⁰⁴ cf. CL 24, p. 4.

IPSASs in the period between the announcement of the amalgamation and the date of the amalgamation, these GPFs should be prepared on a going concern basis where the resulting entity will fulfill the responsibilities of the combining operations. 1 commenter noted that attention should be given on whether government will continue to provide support to the operations delivering the goods or services and not whether the legal entity itself is going to continue those operations. Overall, commenters appreciate the board's efforts and ask for a further exploration of the topic.

4. The comments on specific matters for comment

4.1. Introduction

The CP contains 7 SMCs which are distributed to the various chapters. The comments on these questions were the primary target of the board. The procedure of evaluation the SMCs is same as for PVs. In comparison to PVs, the SMCs were answered with an average of 95 percent intensity (i.e., 25 commenters per one SMC). The reason behind is that this part was directly open for commenters' response and no indirect answers were received.

4.2. The commenters' views on the scope of the consultation paper

4.2.1. Specific matter for comment 1

"In your view, is the scope of this CP appropriate?" ²⁰⁵

4.2.2. Standard setters

All representatives of this group replied to this question. In their replies all, except of one, confirmed being in line with the board's view. 4 respondents who agreed with the scope of the CP made several notes:

1. The Australian Accounting Standards Board (AASB) proposed to exclude transferor accounting which is already addressed by other IPSASs.²⁰⁶
2. The ASB proposed to include some guidance, specifically about the required disclosure requirements for non-current assets held for sale and discounted operations to be considered by a transferor in a PSC UCC.²⁰⁷
3. The PSAB Staff proposed to exclude from the scope, the discussion around consolidated GPFs of an economic entity, GPFs of a single entity, GPFs of an intermediate economic entity and separate GPFs of an economic entity under the sub-section "the parties to a PSC" within the scope of the CP.²⁰⁸

²⁰⁵ CP – par. 2.49., p. 22.

²⁰⁶ cf. CL 6, p. 3.

²⁰⁷ cf. CL 10, p. 8.

²⁰⁸ cf. CL 20, p. 3.

4. The NZASB proposed that a future ED should be structured differently where initially it should be determined if the entities are UCC or NUCC before addressing the structure of the transaction as an acquisition or amalgamation.²⁰⁹

The CNOCP regarded the scope of the CP to be appropriate, insofar as combinations between public-sector entities do happen and should be examined, in order to propose an accounting method applicable to such transactions. However, it stated that that the CP does not address these issues of combinations and transactions between public-sector entities, because it approaches these subjects from the perspective of commercial transactions, whereby these transactions aim to improve provided services and not the profit margin. Furthermore, the CNOCP suggested supplementing the proposals of the IPSASB with concrete examples that might enlighten the transactions referred to in the draft text. In conclusion, it stated that the subject, as presented in the CP, is not sufficiently addressed and that the text must therefore be revised in its entirety.²¹⁰

4.2.3. Accounting profession

All members of this group replied to this SMC. 8 commenters confirmed that the scope of the CP is appropriate and did not submit any other proposals. 2 respondents took neutral position and stated the importance of further exploring the matter and need for a more guidance on the PSC. 3 commenters stated their agreement with the PV 1, but proposed some changes as follows:

1. The Australasian Council of Auditors-General (ACAG) noted that the guidance should be given to the following areas:²¹¹
 - to the definition of operations;
 - references to the relevant standards, where IPSASB already identified accounting methods for transfers outside the scope of this CP;
 - to situations with one or more private sector parties;

²⁰⁹ cf. CL 23, p. 8.

²¹⁰ cf. CL 3, p. 4 – 5.

²¹¹ cf. CL 11, p. 4 – 5.

- to the accounting for transfers by transferors in PSCs UCC, especially where symmetrical accounting treatment is required;
 - to the definition of nominal consideration and its approximation;
 - to the accounting for adjustments on the transfer of operations; and
 - to the development of additional disclosure requirements to explain why the going concern basis is considered appropriate where a PSC UCC results in a public sector entity to cease being a going concern, as proposed in PV 9.
2. The Joint Accounting Bodies (JAB) advised the IPSASB to work with the IASB to develop principles that have common application and not to develop its own model in isolation.
 3. The IDW also confirmed the scope as well as the scope exclusions at this stage of the project. It mentioned that further consideration for the following matters should be given:²¹²
 - to disclosures;
 - to the treatment of non-controlling interests; and
 - to the costs related to public sector combinations.

2 respondents neither stated their agreement nor disagreement with SMC 1. They claimed that further exploration and more guidance on the PSCs is necessary, in order to elaborate a more adequate accounting standard or guidance. Respondents provided the following comments:

1. The Cour des comptes noted that the CP should emphasize on amalgamations which are more frequent in the public sector and not on exchange acquisitions which seem to be extremely rare.²¹³
2. The Ernst & Young GmbH suggested that more guidance should be provided for differentiating between asset acquisitions, acquisitions and amalgamations.²¹⁴

²¹² cf. CL 16, p. 3.

²¹³ cf. CL 2, p. 1.

²¹⁴ cf. CL 7, p. 3.

4.2.4. Governmental bodies

All members of this group commented on SMC 1 suggesting some more inclusions to the scope proposed by the board. 2 commenters noted their support for the board's view. 3 took neutral position and submitted proposals.

The supporters of the scope of the CP had following proposals:

1. The HoTARAC proposed two inclusions in the scope of this project.²¹⁵
 - Firstly, the IPSASBs should include in the scope of this project the accounting treatment of a combination in the financial statements of non-for-profit GBEs, which are a part of Australian jurisdiction and are also consolidated at the government level.
 - Secondly, the IFRS 3 covers subsequent measurements and accounting, which are topics not addressed in the CP. These topics should be considered by IPSASB.
2. The Swiss Public Sector Financial Reporting Advisory Committee (SPSFRAC) questioned how unions and special purpose associations, that promote cooperation between municipalities and cantons, are to be treated.²¹⁶

3 respondents neither stated their agreement nor disagreement with SMC 1. However, they submitted some concerns with regards to the project as indicated below:

1. The EC stressed the importance of disclosures on PSC transactions as these are often the most important source of information for addressees.²¹⁷
2. The DGFIP stated importance of the project. However, it should have followed the conceptual framework and revision of IPSAS 6. The conceptual framework will enable the IPSASB to draft a standard suited to the specific characteristics of the public sector, both from the perspective of scope of consolidation and nature of the combinations.²¹⁸

²¹⁵ cf. CL 8, p. 2.

²¹⁶ cf. CL 25, p. 2.

²¹⁷ cf. CL 14, p. 2.

²¹⁸ cf. CL 13, p. 4.

3. The Government of Canada stated that additional guidance should be included with respect to accounting for a transfer of an operation by the transferor.²¹⁹

4.2.5. Others

Both members of this group commented on SMC 1. All respondents find the scope, as proposed by the board appropriate. Denise Silva Ferreira Juvenal in his comment to SMC 1 noted that currently it is appropriate.²²⁰ The Charity Commission mentioned that the paper is correctly scoped as it considers acquisitions and combinations that are amalgamations and considers the components or entities that are acquired or amalgamated.²²¹

4.2.6. Summary

Among all groups, a clear tendency towards an agreement with the scope of the CP, as it currently stands, could be observed. This SMC was commented by all respondents. Nevertheless, in every group except “others” there are wide range of proposals for inclusion and exclusion of topics to the scope of CP. One commenter proposed to structure further ED differently, where initially it should be determined if the entities are UCC or NUCC and then decide if it is an amalgamation or an acquisition. Another respondent notes that this CP should have followed “conceptual framework” project and revision of the IPSAS 6. In conclusion, the respondents mainly suggested that the board should:

1. to emphasize more on amalgamations;
2. to include various guidance on disclosures, and on other topics;
3. to include treatment of non-controlling interests;
4. to include concrete examples of the transactions; and
5. to exclude accounting by transferor.

²¹⁹ cf. CL 15, p. 2.

²²⁰ cf. CL 24, p. 4.

²²¹ cf. CL 4, p. 2.

4.3. The commenters' views on the approach used to distinguish between acquisitions and amalgamations, with further distinction for PSCs UCC and NUCC

4.3.1. 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.”²²²

4.3.2. Standard setters

All members of this group commented on this SMC. 5 out of 6 members of this group found the approach stated by the board in this CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC, appropriate. However, 4 of the 5 supporters noted problematic areas that should be further explored, as summarized below:

1. The CNOCP stated that all combinations between public-sector entities that are amalgamations must be addressed in priority. Accordingly, alternative classification to the matter should be considered. Finally, it noted that further work is required on the topic of amalgamations for the purpose of developing a specific accounting standard for the public sector.²²³
2. The PSAB Staff proposed that in order to eliminate the issue of defining what gaining control means in PSC, particularly in amalgamations which combine operations of different sizes, an alternative public sector approach should be developed to categorize PSCs. Instead of following the traditional private sector approach of drawing a line between acquisitions and mergers, classifying PSCs based on whether they are of a purchase nature or not can be considered (i.e., whether an exchange of consideration is involved).²²⁴
3. The NZASB stated that initially it should be determined whether the parties to the combination are UCC or NUCC, before determining whether the combination is an acquisition or an amalgamation. It noted that an acquisition involving entities UCC is uncommon in the public sector and that initially it

²²² CP, par. 2.49., p. 22.

²²³ cf. CL 3, p. 5.

²²⁴ cf. CL 20, p. 3.

should be considered, if a combination is within the scope of the forthcoming IPSAS, is whether the entities to the combination are UCC or not.²²⁵

4. The FRC concurred with the distinction between acquisitions and amalgamations. However, it stated that the accounting for NUCCs and some UCCs should be the same.²²⁶

The AASB indicated that they are not persuaded by the arguments stated by the board and in practice the distinction between an acquisition and an amalgamation is difficult. However, it mentioned that treating PSCs NUCC as acquisitions is likely to address financial reporting issues that arise in such circumstances and encouraged the IPSASB to undertake further research into PSCs UCC.²²⁷

4.3.3. Accounting profession

12 out of 13 representatives of the accounting profession group replied to this question. 4 commenters (The Japanese Institute of Certified Public Accountants further as JICPA, The Zambia Institute of Chartered Accountants further as ZICA, ADAA and IDW) agreed that the approach used in the CP of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC, is appropriate. The respondents did not state any different arguments other than the board's. 5 out of 12 commenters (The Chartered Institute of Public Finance and Accountancy further as CIPFA, ICAN, ICAS, ACAG, and Ernst & Young GmbH) fully or partially agreed with the approach. However, they noted several problematic areas to be clarified.

1. The CIPFA stated its doubt on whether acquisitions UCC will arise in practice or that this would warrant a different accounting treatment to amalgamations.²²⁸
2. The ICAN noted that distinguishing the two methods of combination, ease readers' understanding of the main features and where these two methods are applied in the public sector context. Nonetheless, distinctions may be

²²⁵ cf. CL 23, p. 8.

²²⁶ cf. CL 26, p. 1.

²²⁷ cf. CL 6, p. 3.

²²⁸ cf. CL 12, p. 4.

problematic when public sector moves to adopt the requirements of IFRS, as is the case in some jurisdictions.²²⁹

3. The ICAS mentioned that the definitions appear reasonable, although further clarification is required to identify the circumstances whereby an amalgamation NUCC might happen.²³⁰
4. The ACAG supported the distinction between PSCs UCC and NUCC, whereas disagreed in distinction between an amalgamation and an acquisition in relation to PSCs UCC. It found this distinction to be based more on the form or outcome of the PSC rather than on the substance. Therefore, the ACAG proposed that a more appropriate approach for the accounting treatment is to be based on whether the PSC UCC is voluntary or involuntary in nature.²³¹
5. The Ernst & Young GmbH found it problematic to distinguish between acquisitions and amalgamations based on legal form. It required from the IPSASB a clear view if the legal structure is determinative of whether this combination is an acquisition or an amalgamation. It noted that a convincing reason for the distinction between PSCs UCC and NUCC is only given if it is assumed that acquisitions UCC are not commonly conducted with substance and at fair values. Under this premise, the proposed distinction is meaningful. Therefore, if there are difficulties in drawing a robust distinction between acquisitions and amalgamations, combinations involving entities UCC should be treated as amalgamations and should apply carrying amounts.²³²

2 commenters (FMSB-AGA and Institute of Certified Public Accountants of Kenya further as ICPAK) stated that the IPSASB should consider classifying the transaction as either an acquisition or an amalgamation using criteria similar to that used by Governmental Accounting Standards Board (GASB) in its recent ED on PSCs. This approach is centered on the concept of whether or not the transaction involved the exchange of significant consideration, rather than whether or not one entity obtained control over another entity. This approach also appears to align with the accounting approach suggested in the CP if alternative B for acquisitions is used. In this

²²⁹ cf. CL 18, p. 4.

²³⁰ cf. CL 22, p. 2.

²³¹ cf. CL 11, p. 3.

²³² cf. CL 7, p. 3 – 4.

approach, only transactions that involve the exchange of consideration will result in items being recognized at fair value. In all other instances, the use of carrying value is the suggested method for recording transactions.²³³

Finally, the JAB stated that they do not support making a distinction between acquisitions and amalgamations as no adequate justification for a public sector difference has been advanced to depart from the principle of acquisition accounting, which is the basis of IFRS 3. According to it, acquisition accounting is a suitable basis for a finalised IPSAS.²³⁴

4.3.4. Governmental bodies

All members of this group commented on this SMC. The SPSFRAC agreed with the boards view, but noted that the term “acquisition” tends to be used by the private sector. Therefore, parallel to the difference between “business” and “operation”, another expression for “acquisition” should also be found. 3 commenters partly agreed with the SMC 2. However, they proposed that only two cases need to be differentiated instead of four sub-cases:

1. Acquisitions NUCC where consideration is transferred; and
2. All other PSCs.

They included the following arguments:

1. The EC noted that the four sub-cases is at first sight difficult to understand and leads to the situation that a public sector standard becomes more difficult than the private sector standards. There are many cases where no acquirer can be identified and in the vast majority of past cases no consideration has been transferred.²³⁵
2. The HoTARAC supported the approach taken in the CP to distinguish between PSCs NUCC and UCC, as these may require different accounting treatments. However, the HoTARAC had divided views on whether it useful to consider amalgamations for PSCs as proposed in the CP. Further, it mentioned that the CP uses the same accounting treatment for acquisitions UCC and amalgamations. All other PSCs' proposals should cover any

²³³ cf. CL 1, p. 2.

²³⁴ cf. CL 19, p. 2.

²³⁵ cf. CL 14, p. 2.

combinations under UCC, without the requirement to distinguish between acquisitions or amalgamations, for recognition and measurement purposes.²³⁶

3. The Government of Canada stated that further clarity could be achieved by separately defining PSCs that involve an exchange of consideration and those that do not, rather than using the umbrella term “acquisitions”. A distinguishing feature of PSCs is that many do not include the exchange of consideration. For such combinations, the transaction is usually driven by the senior or higher level of government, in an effort to improve the service potential or efficiency of operations of the entity or government as a whole, rather than focusing on the future cash flows of the combined entity.²³⁷

The DGFIP stated its inability to answer to the SMC 2. As combinations thought acquisitions are rather rare in the public sector, the notion of “acquisition” is very explicit and broadly developed in the proposed standard, whereas the notions of “amalgamation,” which would be directed more towards meeting the needs of the public sector, is unclear in the proposed text.²³⁸

4.3.5. Others

Both members of this group responded to this SMC. They agreed that the approach used in this CP, of distinguishing between acquisitions and amalgamations, is appropriate. However, the Charity Commission stated that differentiation based on control is limited in its application. The reason behind is that control is defined as “the power to govern the financial operating policies of another entity so as to benefit from its activities.”²³⁹ This idea suits the public sector because the state ultimately controls the use of any residual interest. However, it might not fit certain not-for-profit situations.

²³⁶ cf. CL 8, p. 2.

²³⁷ cf. CL 15, p. 4.

²³⁸ cf. CL 13, p. 3.

²³⁹ cf. CL 4, p. 2.

4.3.6. Summary

Among all groups, a clear tendency towards an agreement with the board's view could be observed. However, there are several common propositions and critical points for the IPSASB's consideration, which are stated in each group. Overall, commenters agreed on the distinction between PSCs with regards to UCC and NUCC, but criticized differentiation based on acquisitions and amalgamations. Some respondents found it appropriate to distinguish between PSCs based on whether consideration is transferred or not. Moreover, they proposed the removal of the concept of the acquisition UCC, since its accounting treatment is the same with amalgamations. Finally, most of the commenters concluded that this SMC should be further explored.

4.4. The commenters' views on characteristics of PSCs to define control

4.4.1. 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?"²⁴⁰

4.4.2. Standard setters

All members of this group answered to this question. 2 respondents (FRC and ASB) stated that they are unaware of any further relevant public sector characteristics that should be considered in determining whether one party has gained control of one or more operations. 2 commenters stated that the notion of control is not purposeful and it should be further explored for PSCs as described below:

1. The PSAB Staff stated that determining the controlling party based on whether the PSC is imposed on one level of government by another level of government is not useful, as a government can also impose one level of government to transfer operations to another. For that reason, in its answer to the SMC 2 they proposed, in order to eliminate the challenge of defining what gaining control means in PSC, classifying PSCs based on whether an exchange of consideration is involved or not.²⁴¹

²⁴⁰ CP – par. 3.13., p. 22.

²⁴¹ cf. CL 20, p. 4.

2. The CNOCP stated that after finalization of the framework, the definition of control for public-sector entities must be adapted in the various standards: control of an asset, control of one entity over another, or control of special-purpose entities. Control in public sector has a different meaning than that provided in private sector accounting standards, mainly due to the non-market character of the transactions. Accordingly, the following elements must be taken into consideration in characterizing control in public-sector entities:²⁴²
 - not existence of ownership links between entities;
 - the control issue of projects in the context of co-financing programs; and
 - effect of the steering committees which are distinguished from management committees for the project.

The NZASB stated that although gaining control is a necessary condition for an acquisition to occur, it is not itself sufficient. It noted that a few characteristics should be further explored:²⁴³

1. All facts and circumstances need to be considered together with the substance of the transaction.
2. The other characteristics should be considered in distinguishing between an acquisition and an amalgamation. (e.g., whether all the combining entities are public sector entities, or whether the combination involves a private sector entity being combined with a public sector entity, such that the private sector entity becomes part of the public sector).
3. Any guidance developed to help distinguish an acquisition from an amalgamation needs to ensure that the type of PSC is not determined by the legal form or process of combining the entities or operations involved in the combination.

They concluded that the distinction between acquisitions and amalgamations needs further consideration, in particular to ensure it is based on economic substance rather than legal form.

²⁴² cf. CL 3, p. 6.

²⁴³ cf. CL 23, p. 6.

The AASB disagreed with the distinction between acquisitions and amalgamations, particularly in a NUCC context. It noted that:²⁴⁴

1. the CP did not provide a sufficient conceptual basis, or specific public sector reasons, for distinguishing acquisitions from amalgamations.
2. Such distinction may also be against to the requirements of IFRS 3, which removed the concept of mergers. Therefore, the issues should be in depth analyzed, both in a for-profit and not-for-profit context.

4.4.3. Accounting profession

12 out of 13 representatives of accounting profession replied to the question. 7 respondents (Ernst & Young GmbH, JICPA, CIPFA, ICAN, JAB, ZICA and ICAS) did not identify other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations.

2 commenters (FMSB-AGA and ICPAK) stated that if the IPSASB will focus its classification on the transaction as either an acquisition or an amalgamation on the presence of significant consideration transferred, rather than a matter of control, then the combination is complete.

3 respondents (ADAA, IDW, and ACAG) noted that public sector operations do only acquire or combine with other public sector operations, if they are instructed to do so by government. The characteristics may vary from jurisdiction to jurisdiction, as well as by the type of entity. There might be very different provisions under prevailing laws and regulations for undertaken combination. For that reason, sufficient flexibility needs to be given such that individual circumstances may be taken into consideration in determination of whether control has or has not been gained. The IDW noted that further explanation to indicative circumstances is required on what “control” is and is not deemed to be, for the purposes of distinguishing acquisitions and amalgamations.²⁴⁵ Furthermore, the ADAA mentioned some criteria for control determination:²⁴⁶

1. government decrees;

²⁴⁴ cf. CL 6, p. 3 – 4.

²⁴⁵ cf. CL 16, p. 3 – 4.

²⁴⁶ cf. CL 4, p. 5.

2. the government budget approval process; and
3. government allocation of budget.

The ACAG stated a number of factors that may indicate the existence of control in a public sector environment, which are mentioned in AASB 127 (consolidated and separate financial statements). The factors include:²⁴⁷

1. The entity is accountable to parliament, or the executive or a particular minister as evidenced by:
 - the existence of a ministerial or other government power enabling the government to direct the entity's governing body to achieve the government's policy objectives;
 - ministerial approval for operating budgets;
 - the government's ability to veto entity's operating and capital budgets;
 - the government's ability, under existing regulations, to appoint or remove a majority of the members of the entity's governing body;
2. The government has a remaining financial interest in the entity's net assets.

4.4.4. Governmental bodies

4 out of 5 members of this group responded to this question. There are various opinions available between the group members. The Government of Canada agreed that the characteristics considered to determine whether one party has gained control over the transferred operations are those established in IPSAS 6, which define a controlling entity.²⁴⁸

2 commenters did not agree with the application of control in PSCs. One stated its disagreement on distinction between amalgamations and acquisitions based on control and the second commenter stated its disagreement with the board's presentation of it as described below:

1. Since the HoTARAC disagreed with the distinction between amalgamations and acquisitions, they interpreted this question as beyond the issue of control. In considering control, the HoTARAC stated that examining the authority or

²⁴⁷ cf. CL 11, p. 4.

²⁴⁸ cf. CL 15, p. 4.

sometimes the contract for the combination is important, in particular, the intention of the authority. This is a factor that distinguishes PSCs from private sector combinations.²⁴⁹

2. The DGFIP mentioned that this text takes little account of the characteristics of the public sector and therefore, the publication of this standard should be after the conceptual framework and IPSAS 6 are revised. In defining the scope of consolidation, the notion of control should be supplemented by the concepts of directing and/or executing public policies and engaging in non-market activity mainly financed by public resources.²⁵⁰

The SPSFRAC stated that the issue is not the takeover of control of one unit by another. It is rather the fact that the governing bodies which previously had certain rights (e.g., the citizens) do not lose these rights. In a merger the governing bodies are united as a single body.²⁵¹

4.4.5. Others

Both commenters responded to the SMC 3. 1 commenter stated that every characteristic should be considered in determining whether one party has gained control of one or more operations. However, the public sector has specific laws that can have an impact in this situation and that may not depend on control factor. Charity Commission supported amalgamation as an alternative to acquisition accounting. It noted that the absence of consideration is a factor that does differentiate not-for-profit and public sector accounting from commercial for-profit accounting. Where a combination is ordered and directed by statute or by a higher authority it would seem inappropriate to show such a combination as an acquisition, except where it is described as such in the order.²⁵²

²⁴⁹ cf. CL 8, p. 4.

²⁵⁰ cf. CL 13, p. 4.

²⁵¹ cf. CL 25, p. 3.

²⁵² cf. CL 4, p. 3.

4.4.6. Summary

SMC 3 is a direct question for commenter's review with a huge gap for deliberations in comparison to other questions. Among all groups there are various proposition and opinions to this question. However, there are several common propositions and arguments that could be identified. The majority in the group standard setters and accounting profession stated that they know no other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations. Among all the groups there are respondents that referred to laws, regulations, higher authorities and government decrees as characteristics for control. Some respondents in each group stated that distinguishing between acquisitions and amalgamations based on the notion of control is inappropriate. Therefore, combinations should be divided based on existence of the transfer of consideration.

4.5. The commenters' views on the recognition of the acquired operation's assets and liabilities in an acquisition NUCC

4.5.1. Specific matter for comment 4

"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?

Please explain why you support Approach A, Approach B or another approach."²⁵³

4.5.2. Standard setters

All members of this group commented on this SMC. 4 out of 6 commenters (AASB, ASB, NZASB and FRC) supported the approach A that the recipient in an acquisition NUCC should apply fair value measurement to the identifiable assets acquired and

²⁵³ CP – par. 5.25., p. 36.

liabilities assumed for all acquisitions.²⁵⁴ Respondents stated a few arguments for their preference:

1. Approach A is consistent with the basis used in IPSASs when acquiring assets or incurring liabilities individually, including “non-exchange” transactions (AASB).²⁵⁵
2. Application of different accounting measures in cases where consideration is transferred and in cases where consideration is not transferred may lead to structuring opportunities, especially in combinations UCC (AASB).²⁵⁶
3. Determination when the consideration received is nominal is difficult, as this will require a high degree of judgment which could affect comparability between entities. Agreeable nominal consideration for one may be different to another one due to situation of the arrangement (ASB).²⁵⁷
4. Approach A is consistent with IFRS 3 (business combinations)(NZASB).²⁵⁸
5. If the PSC is an acquisition, approach A should be applied to all acquisitions, regardless of whether the entities involved in the combination are in the public sector or private sector (NZASB).²⁵⁹
6. Where no or nominal consideration is transferred, that does not mean that the combination should be recorded in a different way. If the entity’s net assets are close to zero or the entity has net liabilities, the lack of consideration simply reflects the acquiree’s financial position (NZASB).²⁶⁰
7. For PSCs that are acquisitions, recognizing assets and liabilities acquired at fair value provides more relevant information and thus should be used for all combinations NUCC (FRC).²⁶¹

The PSAB Staff stated its alignment with approach B because the consideration provided in a PSC establishes a new cost basis for the assets and liabilities acquired. Thus, the purchase amount of an asset, after the transaction, is its new

²⁵⁴ cf. CP, par. 5.25., p. 36.

²⁵⁵ cf. CL 6, p. 4 – 5.

²⁵⁶ cf. CL 6, p. 4 – 5.

²⁵⁷ cf. CL 10, p. 8 – 9.

²⁵⁸ cf. CL 23, p. 9 – 10.

²⁵⁹ cf. CL 23, p. 9 – 10.

²⁶⁰ cf. CL 23, p. 9 – 10.

²⁶¹ cf. CL 26, p. 4.

cost. Carrying amounts are more suitable in the absence of consideration, as there is no basis to establish a new cost for the assets and liabilities transferred.²⁶²

The CNOCP agreed neither with approach A nor supported approach B. It stated that acquisitions at the market price are uncommon in public sector. Furthermore, the CP did not clearly differentiate acquisitions NUCC from acquisitions UCC. It noted that an approach that is as close as possible to tracking the economic flows should be preferred in the public sector. Fair value measurement should not be supported insofar as public policy does not refer to the market.²⁶³

4.5.3. Accounting profession

12 out of 13 members of this group responded on this SMC. 6 of them (FMSB-AGA, CIPFA, ICPAK, ICAN, ZICA and ICAS) supported approach B that the recipient in an acquisition NUCC should distinguish between different types of acquisitions for various reasons:

1. The FMSB-AGA and the ICPAK noted that, if significant consideration has been transferred, an acquisition has been executed and the transaction should be treated using a fair value measurement approach. This fits the accounting to the fundamental nature of the transaction.²⁶⁴
2. Approach B promotes comparability between mainstream public sector, GBEs and private sector IFRS appliers. For business-like combinations where consideration is transferred, there may be some benefit from consistent treatment with IFRS for information correctness (CIPFA).²⁶⁵
3. Application of the approach B for acquisitions results in a little distinction between the accounting treatments for most transactions, except for an acquisition where consideration has been exchanged. The accounting for amalgamations and acquisitions without consideration will be on the similar basis (ICPAK).²⁶⁶

²⁶² cf. CL 20, p. 4.

²⁶³ cf. CL 3, p. 7.

²⁶⁴ cf. CL 1, p. 3.

²⁶⁵ cf. CL 12, p. 5.

²⁶⁶ cf. CL 17, p. 2 – 3.

4. Fair value measurement is not appropriate basis for all acquisitions in the public sector. A distinction between different types of acquisitions is required so that the appropriate measurement basis or approach can be applied. A fair value of the asset makes sense only in a commercial transaction, when a price is paid and a cash generating unit (CGU) is taken over (ZICA).²⁶⁷
5. Approach B reveals the true substance of the transaction better, which in some cases will mean that merger accounting needs to be adopted. Approach A suggests there would always be an acquirer and acquiree, which may not be the case in practice (ICAS).²⁶⁸

5 commenters (ADAA, Ernst & Young Gmbh, ACAG, IDW and JAB) supported the approach A that the recipient in an acquisition NUCC should apply fair value measurement to the identifiable assets acquired and liabilities assumed for all acquisitions. Respondents stated a few arguments for their preference:

1. The Approach A for acquisitions NUCC is consistent with IFRSs. It is unusual that no consideration is transferred in acquisitions NUCC, because if it is not, then either the acquirer or the transferor has benefitted economically from the transaction. (ADAA).²⁶⁹
2. The IPSASB in its previous project acknowledged that it may be difficult to distinguish between all exchange and non-exchange entity combinations. Moreover, a different accounting treatment where no (nominal) consideration transferred and where some consideration is transferred (but higher than nominal) may lead to structuring opportunities (Ernst & Young Gmbh).²⁷⁰
3. No or nominal considerations could reflect the fair value of the net assets and liabilities acquired. Therefore, it is not appropriate to differentiate between those where no (or nominal) consideration is paid and those where consideration is paid. If the acquired entity has net assets close to zero or has net liabilities, then it is likely to be economically rational that no consideration was paid (Ernst & Young Gmbh).²⁷¹

²⁶⁷ cf. CL 21, p. 2 – 3.

²⁶⁸ cf. CL 22, p. 2 – 3.

²⁶⁹ cf. CL 5, p. 4.

²⁷⁰ cf. CL 7, p. 5 – 6.

²⁷¹ cf. CL 7, p. 5 – 6.

4. Without fair value application, assets might be overstated and liabilities might be understated, even with the accounting policies of merging entities aligned. Thus, if a PSC is an acquisition (i.e., not an amalgamation), then fair value measurement of assets and liabilities acquired is appropriate (Ernst & Young GmbH).²⁷²
5. Under AASB, an acquisition NUCC would normally be accounted by applying fair value measurement to the assets acquired and liabilities assumed. However, there is an exemption for local governments (ACAG).²⁷³
6. Approach A is consistent with both the approach taken in IFRS 3 and the approach taken in other IPSASs that apply fair value measurement (JAB).²⁷⁴

The IDW stated that, conceptually it aligns with approach B, however, they tend to support approach A from a practicability perspective. Where no or nominal consideration is transferred, the measurement at fair value of net assets acquired is not entirely appropriate, since this kind of transactions have different substance than acquisition scenario transactions with profit purpose. Therefore, political factors need to be taken into account. The difference between the fair value of net assets and consideration transferred in transactions with the lack of true commercial purpose, would not represent a lucky buy or goodwill, but likely to be perceived as an accounting complexity not reflecting reality. In contrast, where corresponding consideration is transferred in a public sector acquisition NUCC the situation will be similar to an acquisition in the private sector (i.e. approach B (ii)). However, it may neither make sense nor be practicable to categorize public sector acquisitions according to approach B. That will lead to problems when consideration transferred is intended to be neither nominal nor commensurate, but is more of in the nature of a token sum, perhaps resulting from adherence to budget, rather than market-driven. Thus, from a conceptual viewpoint, whether it would be appropriate for fair value measurement to be applied to the identifiable assets acquired and liabilities assumed in the operation, depend on the individual circumstances and motives. Finally the

²⁷² cf. CL 7, p. 5 – 6.

²⁷³ cf. CL 11, p. 4 – 5.

²⁷⁴ cf. CL 19, p. 2.

IDW suggested to the IPSASB to consider whether the accounting treatment could be determined based on a rebuttable presumption.²⁷⁵

The JICPA appear indecisive between two options, where some of its members supported approach A, while others supported approach B.²⁷⁶

4.5.4. Governmental bodies

All of the 5 commenters responded to this question. 4 group members believe that approach B should be used. The application of this approach is supported by following arguments:

1. Entity acquisitions are very marginal and the concept of fair value is hardly appropriate to the public sphere. Carrying amounts are best suited to the public sector (DGFIP).²⁷⁷
2. The approach B best reflects the economic reality of both acquisitions UCC and acquisitions NUCC (EC).²⁷⁸
3. The Government of Canada stated that approach B (ii) is consistent with the accounting treatment in IFRS 3 (business combinations), as the exchange of significant consideration provides the justification to establish a new cost base for the assets acquired and liabilities assumed.²⁷⁹
4. The Government of Canada also noted that a transaction should be accounted at fair value if there is significant consideration exchanged, since payments may be made to the transferring entity as a form of compensation rather than consideration. In that case, the assets and liabilities should be transferred at their carrying amounts rather than at fair value, since there is no justification to establish a new cost base for the items transferred.²⁸⁰
5. A revaluation to fair value of the taken over asset makes sense only in a commercial transaction, when a price is paid and a CGU is taken over (SPSFRAC).²⁸¹

²⁷⁵ cf. CL 16, p. 6 – 7.

²⁷⁶ cf. CL 9, p. 3.

²⁷⁷ cf. CL 13, p. 4 – 5.

²⁷⁸ cf. CL 14, p. 2.

²⁷⁹ cf. CL 15, p. 3 – 4.

²⁸⁰ cf. CL 15, p. 3 – 4.

²⁸¹ cf. CL 25, p. 3.

The HoTARAC supported approach A for the measurement of acquisitions NUCC and concurred with the reasons stated by the board. The commenter added that this approach is consistent with other IPSASs where fair value is used to measure acquisitions of individual assets and liabilities, including non-exchange transactions, for enhancement of comparability. Also it enables users to assess whether the value of any consideration transferred for the operation reflects the values of the operation's net assets. Approach A also aligns with IFRS 3, consistent with IPSASB's goal to converge with IFRS unless there are public sector characteristics that would require an alternative approach. Furthermore, it is stated that allowing different accounting treatments where consideration is transferred, from where consideration is not transferred (or transferred at nominal value), may lead to financial statement structuring opportunities.²⁸²

4.5.5. Others

Both members of this group commented on the SMC 4 by supporting approach B for the recipient in an acquisition NUCC. They stated a few arguments in support of this approach:

1. The approach B is adequate considering that it separates the definitions and easier for the first time use. This approach is an integrated form.²⁸³
2. Although approach B recognizes that some assets are gifts, IPSAS requires that gifts are recognized at fair value. However, if the intention is to recognize gifts made to the public sector then approach B is a better solution as it avoids creating and recognizing internally generated goodwill.²⁸⁴

4.5.6. Summary

SMC 4 caused one of the significant discussions between the respondents. Among all groups there are various propositions and opinions to this question. However, there is a majority that supports a particular approach. In the group of standard setters the majority supports approach A, stating mainly that this view prevents

²⁸² cf. CL 8, p. 3 – 4.

²⁸³ cf. CL 24, p. 5.

²⁸⁴ cf. CL 4, p. 3.

structuring opportunities which may arise in approach B and that this approach is in line with other IPSASs and IFRS 3. In the group of accounting profession, the majority supports approach B, but with only one extra vote in comparison to approach A. The main arguments stated in support of this view are that it promotes fundamental nature of accounting, comparability between mainstream public sector, GBEs and private sector IFRS appliers and better enables the true substance of the transaction to be reflected. In this group the supporters of approach A stated similar argument as in the group of standard setters and added that this method is practical to apply. In the group of governmental bodies all members except one supported approach B mainly for its suitability to public sector and that fair value only should be applicable for commercial transactions. Members of the group “others” also supported approach B. In conclusion, from the conceptual point of view approach B is more suitable for the public sector, however from practicability point of view approach A is easier to apply.

4.6. The commenters’ views on the recognition by recipient in its financial statements the consideration transferred in excess of the net assets acquired in an acquisition NUCC

4.6.1. 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 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).”²⁸⁵

4.6.2. Standard setters

All members of this group commented on this SMC. 2 commenters (FRC and AASB) supported option (b). Accordingly, where the consideration transferred is in excess of the net assets acquired, the difference arising in an acquisition NUCC is recognized

²⁸⁵ CP, par. 5.46., p. 41.

as goodwill for all acquisitions. That will require development of a definition of goodwill that encompasses the notion of service potential. The AASB stated that the requirements of AASB 3 (i.e., business combinations standard which incorporates the requirements of IFRS 3) in relation to goodwill apply to both for-profit and not-for-profit entities. Furthermore, there are no significant implementation issues specific to public sector entities. Therefore, based on its experience in Australia, it supported option (b), the recognition of goodwill for all acquisitions.²⁸⁶

The NZASB supported both options (a) and (b). Option (a) is supported from a practical perspective because of the difficulty of measuring the impairment of goodwill in respect of non-cash-generating activities. Option (b) is supported from the conceptual perspective since it is consistent with the acquisition method in IFRS 3.²⁸⁷

The PSAB Staff supported option (a) because goodwill can only exist in acquisitions of 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.²⁸⁸

The ASB supported option (c) that requires the difference arising in an acquisition NUCC, where the consideration is transferred to be recognized as a loss in the recipient's financial statements. An item becomes an asset when future economic benefits or service potentials are expected from it. Therefore, when excess of the net assets is acquired, the recipient should be able to demonstrate that the projected future results of operations of the acquired entity would be sufficient to recover the purchase premium over its amortization period. As public sector entities do not have profit orientation and intend providing goods and services to achieve their objectives, the excess is likely to have been paid for policy reasons and it is more appropriate to recognize the excess as a loss. The respondent thinks that the definition of goodwill, as defined in IFRS 3 (business combinations), has not been met.²⁸⁹

²⁸⁶ cf. CL 6, p. 5.

²⁸⁷ cf. CL 23, p. 10.

²⁸⁸ cf. CL 20, p. 3.

²⁸⁹ cf. CL 10, p. 9.

The CNOCP stated that this topic should be discussed after the project conceptual framework is finished. They noted as previously proposed that acquisitions at market price, whether UCC or NUCC, are infrequent in the public sector and the alternatives proposed are based on very confusing provisions in the CP.²⁹⁰

4.6.3. Accounting profession

12 out of 13 members of this group commented on this SMC. 6 commenters (ADAA, Ernst & Young GmbH, JAB, ZICA, ICAS and IDW) stated if gain or loss computed through fair value measurement they support option (b). Accordingly, where the consideration transferred is in excess of the net assets acquired, the difference arising in an acquisition NUCC is recognized as goodwill for all acquisitions.²⁹¹ This will require development of a definition of goodwill that encompasses the notion of service potential. Several arguments were stated in support of the option (b):

1. In the option (a), the valuation of goodwill, its life, the identification of CGUs in the operation, the groups of assets and the synergies to which the goodwill is attributed are problematic (ADAA).²⁹²
2. A loss should not be recognized for all acquisitions, primarily because the key reason for making an acquisition is to enhance the performance of the acquiring and acquired entity. Hence, synergies and intangible assets are expected to be identified in the combination (ADAA).²⁹³
3. Treating the difference arising as an immediate loss implies that the entity wasted money by paying more than the fair value of the identifiable net assets. However, it might be politically rational in some rare cases to spend more than the fair value of the identifiable net assets. In the private sector, goodwill represents the synergies from the acquired assets or liabilities to enhance performance (Ernst & Young GmbH).²⁹⁴
4. The arguments that support the recognition of goodwill in the acquisition of a CGU can also be applied to a service-generating-unit. However, where the

²⁹⁰ cf. CL 3, p. 8.

²⁹¹ cf. CP, par. 5.46., p. 41.

²⁹² cf. CL 5, p. 4.

²⁹³ cf. CL 5, p. 4.

²⁹⁴ cf. CL 7, p. 6 – 7.

acquired operation is non-CGU, it is reasonable to assume that it would only be in rare circumstances that a public sector entity would pay a consideration in excess of the net assets acquired (Ernst & Young GmbH).²⁹⁵

5. It is a similar approach that is required by IFRS 3 to recognize goodwill for all acquisitions. However, this will require the definition of goodwill to be amended to encompass the notion of service potential. A gain or loss should be recognized in all cases, provided fair value has been used. Thorough evaluation it would be required to ensure this value represents an accurate reflection of the situation of the entity being acquired including intangibles and unidentified assets (JAB, ZICA and ICAS).²⁹⁶

The IDW supported option (b). It went one step forward and discussed the subsequent treatment of goodwill and particularly the impact of it to initial accounting treatment on acquisitions. From a conceptual viewpoint, the IDW supported amortization of goodwill over time, rather than only the impairment approach of IAS 36, because in their opinion there are significant conceptual flaws in the latter approach. It noted that amortization of acquired goodwill would be the best solution, due to the difficulty of the impairment test and thus difficulties in achieving a reliable measurement where the corresponding audit risk would decline over time. A differentiation as to whether an acquired operation is CGU or not is inappropriate, and therefore option (a) is not suitable. Equally option (c) would be inappropriate in the majority of circumstances, since this would imply that funds had not been well managed in allocating compensation, which would likely have a reputational impact.²⁹⁷

3 respondents (FSMB-AGA, CIPFA, and ICPAK) supported option (c), where the consideration transferred is in excess of the net assets acquired, the difference arising in an acquisition NUCC should be recognized as a loss for all acquisitions.²⁹⁸

Several arguments were stated in support of this option:

²⁹⁵ cf. CL 7, p. 6 – 7.

²⁹⁶ cf. CL 21, p. 5.

²⁹⁷ cf. CL 16, p. 7 – 9.

²⁹⁸ cf. CP, par. 5.46., p. 41.

1. The concept of goodwill, while used in accounting for commercial transactions has value (i.e., it does not have value in accounting in a public sector environment). No goodwill is expected from operations in public sector entities (FSMB-AGA and ICPAK).²⁹⁹
2. The amounts involved will often not be material in mostly revaluation-based accounts in the UK public sector (CIPFA).³⁰⁰

2 commenters (JICPA and ACAG) supported option (a). Accordingly, where the consideration transferred is in excess of the net assets acquired, the difference arising in an acquisition NUCC should be recognized as goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions.³⁰¹ The JICPA stated that when the acquired operation is cash-generating, it will provide future economic benefits that meet the definition of an asset, thus the goodwill can be recognized as such. In all other acquisitions it should be recognized as a loss, because “service potential that is not capable of being individually identified and separately recognized does not arise”³⁰² and it is consistent with the view of IPSAS 26. The ACAG supported option (a) because the recognition of goodwill in public sector entities would have a limited impact for the entities within the scope of the CP. In Australia, the objective of public sector entities is generally to deliver goods and/or services rather than the generation of cash returns, thus the accounting treatment of a combination in the financial statements of GBEs should be excluded from the scope of this CP.³⁰³

The ICAN stated conditional support that if under approach A (SMC 4), where the fair value measurement is being proposed for use of the identifiable assets acquired and liabilities assumed, the resulting difference would be appropriately identified as goodwill as it relates to an entity not in the public sector. Furthermore, it noted that if other measurement basis such as cost is used, where there has been alignment of accounting policies across the acquired entities, a more appropriate measurement of

²⁹⁹ cf. CL 1, p. 5.

³⁰⁰ cf. CL 12, p. 5.

³⁰¹ cf. CP, par. 5.46., p. 41.

³⁰² CP, par. 5.41., p. 38.

³⁰³ cf. CL 11, p. 5.

any difference would be to transfer such gain or loss to the statement of financial performance at the date of acquisition.³⁰⁴

4.6.4. Governmental bodies

4 out of 5 members of this group commented on this SMC. 3 respondents supported option (c), where the consideration transferred is in excess of the net assets acquired, the difference arising in an acquisition NUCC is recognized as a loss for all acquisitions.³⁰⁵ Several arguments were stated in support of this view:

1. Goodwill in public sector acquisitions NUCC is unlikely to meet the IFRS 3 definition of goodwill. However, a minority of HoTARAC members support option (b), if IPSASB considers a definition of goodwill that encompasses the notion of service potential.³⁰⁶
2. The concept of goodwill seems inappropriate to the public sphere. Goodwill represents the excess price that the acquiring entity pays in consideration of the benefits that it gains from taking control of the entity: elimination of a competitor, ensuring supplies or a market opportunity, improved production conditions, expansion abroad, brand recognition, and etc. Considering the non-market nature of the activities of government and of other public entities, the capitalization of goodwill is inappropriate (DGFIP).³⁰⁷
3. In the public sector, GBEs do not generally compete as a business with private sector entities. Therefore, the intangibles usually represented by goodwill do not necessarily result in an increase in future economic benefits of a public sector entity. In addition, goodwill is created through an increase in future service potential, since it does not represent an increase in the resources of the government that can be used to provide future services (Government of Canada).³⁰⁸

The SPSFRAC supported the option (a), where the consideration transferred is in excess of the net assets acquired, the difference arising in an acquisition NUCC is

³⁰⁴ cf. CL 18, p. 5.

³⁰⁵ cf. CP, par. 5.46., p. 41.

³⁰⁶ cf. CL 8, p. 4.

³⁰⁷ cf. CL 13, p. 5.

³⁰⁸ cf. CL 15, p. 4.

recognized as goodwill for acquisitions where the acquired operation is cash-generating and a loss for all other acquisitions. This is supported because goodwill should be recognized only in commercial transactions, when a price is paid and a CGU is taken over.³⁰⁹

4.6.5. Others

Both of the commenters of this group responded to this SMC. 1 commenter stated the same arguments as for the SMC 4. The response was word-to-word identical. As the commenter supported approach B in the previous question, for this question also option (b) was chosen. The second commenter noted that for the entities regulated by IPSASs, option (c) provide the most consistent solution reflecting the underlying role of the state in providing goods and services to its citizens. Furthermore, all state owned for-profit enterprises are scoped out of IPSAS and apply IFRS.³¹⁰

4.6.6. Summary

In the SMC 5, the IPSASB went one step further and opened discussion on recognition of goodwill for acquisitions NUCC. In the groups of standard setters and accounting profession there is a tendency to support option (b). Commenters state that provided gain or loss is computed through fair value application, this option is similar to the one in IFRS 3 and that goodwill is a result of synergies which are also possible in public sector as service potential. The majority in the group of governmental bodies and the minority in the groups of accounting profession and standard setters support option (c). The followers of this view stated that considering the non-market nature of the activities of government and of other public entities, the capitalization of goodwill is inappropriate. Option (a) was supported by a little proportion of respondents in the groups of accounting profession, standard setters, and governmental bodies. Some commenters also stated conditional agreement with option (a) and (b). In the group of others, one commenter supported option (b) and the second one option (c).

³⁰⁹ cf. CL 25, p. 3.

³¹⁰ cf. CL 4, p. 5.

4.7. The commenters' view on recognition by recipient in its financial statements the difference arising in an acquisition UCC

4.7.1. 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)."³¹¹

4.7.2. Standard setters

All members of this group answered to this question. 3 respondents supported option (b), where the recipient in an acquisition UCC, should recognize the difference arising as a contribution from owners or distribution to owners recognized directly in net assets or equity.³¹² Several arguments were stated in support of this option.

1. AASB 1004 (contributions) specifies requirements for accounting of the restructuring of administrative arrangements (i.e., PSCs UCC), including a requirement that a contribution from owners or distribution to owners is recognized in relation to assets and liabilities transferred. There are no significant implementation obstacles specific to public sector entities arising from these requirements (AASB).³¹³
2. In a transaction between entities UCC, this difference is likely to reflect the common control nature of the transactions rather than an arm's length economic gain or loss of the acquirer. Therefore, treating this difference as a contribution from or distribution to owners more accurately reflects the nature of the transaction (NZASB).³¹⁴
3. In acquisitions UCC with previous carrying amounts, any difference between the consideration given and the amount of the acquired assets and liabilities,

³¹¹CP – par. 6.26., p. 46.

³¹²cf. CP – par. 6.26., p. 46.

³¹³cf. CL 6, p. 6.

³¹⁴cf. CL 23, p. 10 – 11.

meets the definition of a contribution to or distribution from owners and should be treated as such. This should not be restricted to cases where the transferor is the ultimate controlling entity (FRC).³¹⁵

The ASB partly supported option (c) (excluding the exception), where the recipient in an acquisition UCC should recognize the difference arising as a gain or loss recognized directly in net assets or equity.³¹⁶ The commenter stated that the difference arising in an acquisition UCC does not constitute a gain or loss and also does not meet the definition of a contribution from owners or distribution to owners. The difference arising in an acquisition UCC should be recognized directly in net assets or equity (accumulated surplus and deficit), as the transaction occurs between the parties with the same ultimate controlling entity. The recipient is thus entitled to the transferor's portion of the accumulated surplus or deficit that relates to the assets transferred and liabilities relinquished. Every effect will be eliminated upon consolidation.³¹⁷

The PSAB Staff supported option (a), where the recipient in an acquisition UCC should recognize the difference arising as a gain or loss recognized in surplus or deficit.³¹⁸ They stated some arguments for their choice:³¹⁹

1. The difference arising doesn't meet the definitions of contribution from owners or distribution to owners.
2. 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.
3. Creation of a new component of net assets just because the acquisition is a transaction between entities UCC is not appropriate.
4. 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.

³¹⁵ cf. CL 26, p. 4.

³¹⁶ cf. CP, par. 6.26., p. 46.

³¹⁷ cf. CL 10, p. 9 – 10.

³¹⁸ cf. CP – par. 6.26., p. 46.

³¹⁹ cf. CL 20, p. 3 – 4.

The CNOCP rejected board's view with three options and stated that these transactions are infrequent. The accounting treatment of an acquisition UCC must be conducted at the carrying amount.³²⁰

4.7.3. Accounting profession

12 out of 13 members of this group answered to this question. With 4 respondents (FMSB-AGA, Ernst & Young GmbH, ICPAK and JAB), option (b) has the most supporters. This option considers that the recipient in an acquisition UCC should recognize the difference arising as a contribution from owners or distribution to owners recognized directly in net assets or equity.³²¹ Several arguments were stated in support of this option:

1. The FMSB-AGA and the ICPAK stated support for the approach suggested by the IPSASB to use the carrying values as the measurement basis for the transactions. Carrying values may or may not reflect fair value and it would be inappropriate to recognize either a gain or a loss on such transactions. Therefore, option (b) is favored.³²²
2. This approach reflects the substance of the transaction when dealing with combinations UCC and is commonly applied in practice when an entity acquires an asset for zero consideration from the parent or another group entity (Ernst & Young GmbH).³²³
3. This approach is consistent with the economic consequences of an acquisition UCC, having no change in underlying assets and liabilities, when analyzed from the whole perspective of government reporting (JAB).³²⁴

3 commenters stated their support for the option (c). This option considers that the recipient in an acquisition UCC should recognize the difference arising as a gain or as a loss recognized directly in net assets or equity. Except where the transferor is the ultimate controlling entity, in which case the gain or loss meets the definition of a

³²⁰ cf. CL 3, p. 9.

³²¹ cf. CP, par. 6.26., p. 46.

³²² cf. CL 1, p. 4.

³²³ cf. CL 7, p. 7.

³²⁴ cf. CL 19, p. 2.

contribution from owners or distribution to owners. Several arguments were stated in support to this option.

1. The IDW noted that reasons underlying public sector acquisitions UCC normally do not reflect the intention of affecting financial performance. Whether (b) or (c) might be appropriate would depend on the individual circumstances, although this is more likely to be (c).³²⁵
2. The profit or loss should not be recognized in income, but in equity (ZICA).³²⁶
3. This is not a financial performance issue as suggested by option (a) and further guidance on the disclosure is required (ICAS).³²⁷

The ACAG stated its support for the option (b) and (c). It noted that whether the difference in a PSC UCC is recognized as a contribution from owners or distribution to owners should depend on the substance rather than the form or outcome of the PSC. Therefore, ACAG supported conditionally that where the PSCs are being recognized as a contribution from owners or distribution to owners directly in net assets or equity:

1. it should involve an involuntary transfer of an operation at the direction of the controlling entity or by virtue of legislation or ministerial directive; and/or
2. the controlling entity designates the PSC to be a contribution by or distribution to owners.

This is more reflective of a transaction by owners acting in their capacity as owners. Where the transfer is voluntary in nature and is not designated to be a contribution by distribution to owners, the difference should be treated as a gain or loss in the statement of financial performance.³²⁸

3 commenters (ADAA, JICPA and ICAN) supported option (a), where the recipient in an acquisition UCC should recognize difference arising as a gain or loss recognized in surplus or deficit.³²⁹ Following arguments were stated in support of this view:

³²⁵ cf. CL 16, p. 9.

³²⁶ cf. CL 21, p. 3 – 4.

³²⁷ cf. CL 22, p. 3.

³²⁸ cf. CL 11, p. 5 – 6.

³²⁹ cf. CP, par. 6.26., p. 46.

1. It is consistent with IFRSs that there should be no recognition of internally generated goodwill and therefore, in an acquisition UCC no goodwill should be recognized. In theory PSEs UCC should apply consistent accounting policies. Therefore any differences arising in an acquisition UCC should be measurement differences rather than recognition differences.³³⁰
2. The accounting treatment of an acquisition UCC between the recipient and the transferor should be symmetrical, as stated to SMC 7, and the transferor should recognize the difference between the proceeds from disposal and the controlled entity's amount as a gain or loss on disposal of a controlled entity, as stated in the paragraph 51 of IPSAS 6.³³¹

The CIPFA stated its inability to follow the board's opinion at this point and that there should be a clear disclosure and an explanation of this item which links it to the PSC. The commenter noted that acquisitions UCC will not arise. Furthermore, the CIPFA's view on this matter reflected the specifics of the public sector arrangements within the UK and other jurisdictions where they have reviewed public sector financial reporting.

4.7.4. Governmental bodies

3 out of 5 members of this group commented on this SMC. 2 commenters supported option (b), where the recipient in an acquisition UCC should recognize the difference arising as a contribution from owners or distribution to owners recognized directly in net assets or equity.³³² Several arguments were stated in support of this view:

1. This option is consistent with the treatment in AASB 1004 for administrative restructures. The combination is undertaken to meet the owner government's policy objectives, thus any differences should be recognized by the recipient through an adjustment of contributions or distributions to owner (AASB).³³³
2. The Government of Canada stated that since the decision to transfer an operation is made by the ultimate controlling entity, to provide more efficient or effective services, the impact on the acquiring and transferring intermediate

³³⁰ cf. CL 5, p. 5.

³³¹ cf. CL 9, p. 5.

³³² cf. CP, par. 6.26., p. 46.

³³³ cf. CL 8, p. 6.

entities should be reflected as a decision of the owner. That is a net increase in the controlling entity's residual interest in the acquirer, offset by a corresponding decrease in the interest in the transferor after the acquisition. As there is no impact on the financial statements of the ultimate controlling entity, there should be no gain or loss reflected in the financial statements of the acquiring and transferring entities resulting from the decision to transfer the operation.³³⁴

The SPSFRAC supported option (c), where the recipient in an acquisition UCC should recognize the difference arising as a gain or loss recognized directly in net assets or equity.³³⁵ Except where the transferor is the ultimate controlling entity, in which case the gain or loss meets the definition of a contribution from owners or distribution to owners.³³⁶

4.7.5. Others

Both of the commenters responded to this SMC. One stated its alignment with option (b) and the second one with option (a). Denise Silva Ferreira Juvenal stated that option (b) is more adequate at this moment and after a new structure that public sector will do for implementation of new standards, he will reconsider his view to agree with option (a). Charity Commission stated that the advantage of option (a) is that any gain or loss is taken through the performance statement and since it matches a movement of cash between entities upon consolidation, it is netted out as part of the intra-group consolidation adjustments.³³⁷

4.7.6. Summary

In SMC 6 the IPSASB, in the same way for SMC 5, went one step further and opened discussion on the treatment of the difference arising in acquisitions UCC. Among all groups, except the group of others, remarkable tendency (with little difference) is observed to support option (b) for the application. Respondents stated

³³⁴ cf. CL 15, p. 5.

³³⁵ cf. CP, par. 6.26., p. 46.

³³⁶ cf. CL 25, p. 4.

³³⁷ cf. CL 4, p. 5.

that this option is suitable where carrying amounts are used in combinations, since it would be inappropriate to recognize gain or loss. Furthermore, this option reflects the substance of the transaction. Supporters also mention that other options are not appropriate for this type of transaction.

4.8. The commenters' views on accounting treatment for the recipient and transferor of an acquisition UCC

4.8.1. Specific matter for comment 7

"In your view, should the accounting treatment for the recipient and transferor of an acquisition UCC be symmetrical?"³³⁸

4.8.2. Standard setters

All members of this group commented on this SMC stating their agreement. 2 members indicated a concern with regards to acquisition UCC, where symmetrical accounting treatment may not be possible. Several arguments were stated in support of the SMC 7:

1. Logically the contribution or distribution and gain or loss recognized by the recipient and transferor of an acquisition UCC have to be symmetrical. Nevertheless, because of the nature of the assets being transferred, in some circumstances the accounting outcome may not be symmetrical (AASB).³³⁹
2. Although, it a logical consequence of the transaction, it should be noted that the values at which items are assumed by the recipient might be different from values at which they are transferred by the transferor (ASB).³⁴⁰
3. Treatment 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 (NZASB).³⁴¹

³³⁸ CP, par. 6.31., p. 47.

³³⁹ cf. CL 6, p. 6.

³⁴⁰ cf. CL 10, p. 10.

³⁴¹ cf. CL 23, p. 11.

The CNOCP stated that the “mirror” effect, by which a single transaction is treated symmetrically in the financial statements of two distinct entities, is not an accounting principle. Moreover, sometimes it may be difficult to carry out symmetrical treatment, as each entity exercises its judgment and takes into consideration elements that are specific to it. Nevertheless, if such acquisitions UCC had to be identified, it considers that the recipient must reflect the acquisition UCC at its net carrying amount that is the accounting treatment will be symmetrical.³⁴²

4.8.3. Accounting profession

12 out of 13 members of this group (FMSB-AGA, ADAA, Ernst & Young GmbH, JICPA, ACAG, CIPFA, IDW, ICPAK, ICAN, JAB, ZICA and ICAS) agreed with the board’s question that the accounting treatment for the recipient and transferor of an acquisition UCC have to be symmetrical. Several arguments were stated in support:

1. For reasons of comparability, accountability and transparency it is undesirable for PSEs UCC to adopt inconsistent accounting treatments.³⁴³
2. The acquisition is merely an internal transfer for the ultimate controlling entity. Therefore, the resulting entity should succeed the combining entity’s structure of net assets (each amount of line items) under the amalgamation UCC.³⁴⁴
3. Being not aware of any public-sector specific reasons to the contrary.³⁴⁵
4. The accounting treatment of the recipient and transferor on an acquisition UCC should be symmetrical, given the absence of fair value measurement.³⁴⁶
5. Symmetrical accounting aligns with a principle that is fundamental to reporting under government finance statistics (GFS).³⁴⁷
6. Symmetrical accounting treatment is a good starting point. Entities under UCC that apply IFRS, in theory should not have major differences and fair value would be the same for buyer and seller.³⁴⁸

³⁴² cf. CL 3, p. 9.

³⁴³ cf. CL 5, p. 5.

³⁴⁴ cf. CL 9, p. 6.

³⁴⁵ cf. CL 16, p. 10.

³⁴⁶ cf. CL 18, p. 6.

³⁴⁷ cf. CL 19, p. 3.

³⁴⁸ cf. CL 22, p. 7.

4.8.4. Governmental bodies

4 out of 5 members of this group commented on this SMC. All of the respondents support the view that the accounting treatment for the recipient and transferor of an acquisition UCC have to be symmetrical. Following arguments were stated in support of this view:

1. At the government level as a whole, there is no change to the assets or liabilities subject to the combination. This also aligns with the GFS approach. Symmetry can be achieved by both the transferor and the recipient recognizing a contribution from owners or distribution to owners of the same amount.³⁴⁹
2. Increases in the controlling entity's interest in one entity should be offset by decrease in the other entity. Although these transactions will be eliminated upon consolidation of the entities, the accounting treatment in both of the separate financial statements should reflect the economic substance of the transaction in the same manner. This will provide more clarity and transparency from the users' perspective.³⁵⁰
3. The SPSFRAC is of the opinion that in principle takeovers should be recorded symmetrically, because this simplifies the financial statistics. However, this is possible only for public entity UCCs, because they have the same accounting policies. In the case of units NUCC, symmetrical recording would be desirable but hardly feasible, because of the different accounting standards.³⁵¹
4. "Logically, the accounting treatment in the public sector where mergers and acquisition are viewed differently than in the market sector, should be symmetrical for buyer and the seller."³⁵²

4.8.5. Others

Both of the commenters have answered to this question. The respondents are of the view that the accounting treatment for the recipient and transferor of an acquisition UCC should be symmetrical. One of the commenters added that this is also

³⁴⁹ cf. CL 8, p. 6.

³⁵⁰ cf. CL 15, p. 5 – 6.

³⁵¹ cf. CL 25, p. 3.

³⁵² CL 13, p. 6.

important “to avoid inadvertently creating internally generated goodwill within the group”.³⁵³

4.8.6. Summary

Respondents in all groups found this SMC reasonable and homogeneously agreed with the board’s view. Main supporting argument stated in support of this view is that it seems to be the logical consequence of this type of combinations. This method promotes comparability, accountability and transparency. Moreover, symmetrical treatment simplifies the GFS. Several commenters noted that, due to the nature of the assets being transferred, in some circumstances the accounting outcome may not be symmetrical.

³⁵³ CL 4, p. 5.

5. Conclusion

The responses to the 9 PVs and 7 SMCs analyzed in this thesis are very important input for the further development of the project. Overall, there are many points which are criticized and it cannot be said that certain groups generally tend to always agree or disagree with the board's view. However, the commenters are satisfied with the initiated discussion for the development of a purposeful standard on PSCs. The CP highlights very controversial issues. The opinions on most of the questions are heterogeneous throughout all of the groups. There are not only differences among the groups, but also partly within the groups, each respondent submitted various arguments. The trend is observed that some commenters may be very resourceful for one topic whereas others may just state their agreement or disagreement. Nonetheless, it seems overall there is support for the IPSASB's proposals and approve of the board's efforts.

The IPSASB's preliminary views have been discussed by the minority of commenters. However, there were enough replies to estimate a trend. Respondents mainly agreed on the definitions proposed by the board with some amendments. Differentiation in terms of PSC UCC and NUCC was also supported. The differentiation of acquisitions and amalgamations based on control criteria was also approved, to the extent that it should not be the only characteristic for distinguishing. Recognition dates for acquisition UCC and NUCC were homogeneously agreed to be the date on which the recipient gains control of the acquired operation. Respondents also supported that the difference arising in an acquisition NUCC should be treated as a gain or loss. For resulting entity in an amalgamation, the modified pooling of interests method of accounting was supported. Overall, IPSASB's PVs were supported by the respondents.

Almost every commenter replied to the SMCs. The responses were mainly extensive and vary in argumentation. The majority of respondents agreed with the scope of the CP. It was suggested to emphasize on amalgamations, to include guidance on disclosures and to exclude accounting by transferor. The majority of respondents replied with support for the IPSASB's opinion of distinguishing between acquisitions and amalgamations, with a further distinction for PSCs NUCC and UCC. Some

commenters agreed only to distinguish with regards to NUCC and UCC. Some respondents proposed to distinguish PSCs based on whether or not the transaction involved the exchange of significant consideration. Others found it problematic to distinguish between amalgamation and acquisition based on legal form. The differentiation between an acquisitions and an amalgamations based only on the notion of “control” is one of the frequent criticized topics. Most commenters could not identify other public sector characteristics that should be considered in determining whether one party has gained control of one or more operations and required further exploration of this issue. Some stated that these characteristics could be laws, regulations and higher authorities. For SMC 4 various arguments were stated. However, a trend could be identified. In the group of standard setters the majority supported approach A (i.e. use of fair value for all acquisitions NUCC). In the groups accounting profession, governmental bodies and others the majority with a small difference to minority supported approach B (i.e. to differentiate between the cases of no or nominal consideration and consideration transferred). For the issue of goodwill in public sector, commenters’ responses were skeptic. However, a trend in a direction to IPSASB’s option (b) (where the consideration transferred is in excess of the net assets acquired, the difference arising in an acquisition NUCC should be recognized as goodwill for all acquisitions) was traced. This would require development of a definition of goodwill that encompasses the notion of service potential. Standard setters group and accounting profession group stated that this is a similar approach as the one used in IFRS 3 and that there are significant conceptual flaws in other options. The opponents of this approach stated that goodwill cannot exist in non-profit public sector and therefore, the difference should be recognized as a loss. For the acquisition UCC, the respondents mainly supported that the difference arising should be treated as a contribution from owners or distribution to owners recognized directly in net assets or equity. Finally, all respondents confirmed that accounting treatment for the recipient and transferor of an acquisition UCC should be symmetrical as it is the logical consequence.

The CP PSC was developed in June after the board reviewed, in June 2010, initial issues on entity combinations in the public sector, divided between entity combinations UCC and entity combinations NUCC. After issuing this CP in June

2012, responses were submitted until October 2012. Currently, as it published on the webpage the IPSASB had an initial discussion of the replies received to the CP on PSCs as follows:³⁵⁴

1. The IPSASB confirmed that the proposed scope of the CP is relevant for the project.
2. The board also confirmed that the guidance on derecognition and recognition of assets for the transferor in order to eliminate unintended differences that may arise in accounting treatment of the same combination will be provided.
3. The board also confirmed to include further guidance in the exposure draft on the definition of an operation, disclosures for combining entities in regards to the going concern basis, subsequent measurement requirements similar to that included in IFRS 3 (business combinations) and distinguishing between asset acquisitions, entity and operation acquisitions and amalgamations referring to corresponding IFRS 3 regulations.

Furthermore, the IPSASB had a detailed analysis of the responses to the other SMCs and PVs at its June 2013 meeting which have not been published yet. An ED is expected to be published at the end of the year 2013.

³⁵⁴ cf. IFAC Homepage: Project History, p. 3.

List of literature

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Marquez Berger, Thomas Mueller (2012): "Konzernrechnungslegung der öffentlichen Hand – Das „Public Sector Combinations“ - Projekt des IPSASB, Die Wirtschaftsprüfung (2012), issue 19, S. 1025 – 1029

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Consultation Paper – Public Sector Combinations, June 2012, IPSASB, United Kingdom

Consultation Paper Summary - Public Sector Combinations, June 2012, IPSASB, United Kingdom

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<http://www.ifac.org/public-sector/projects/public-sector-combinations>
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Deloitte IASPlus Homepage: IPSASB consults on public sector combinations
<http://www.iasplus.com/en/news/2012/june/ipsasb-issues-proposed-standard-on-public-sector-combinations>
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<http://www.iasplus.com/en/news/2009/May/news5201>
[Access 3 August 2013]

IPSAS Wikipedia
<http://www.iasplus.com/en/news/2009/May/news5201>
[Access 3 August 2013]

Appendix I – List of grouped comment letters

Nr.	Name	Country	Pages	Group
1	Financial Management Standards Board – AGA	US	5	accounting profession
2	Cour des comptes	France	2	accounting profession
3	CNOCP	France	18	standard setter
4	Charity Commission	UK	6	others
5	Abu Dhabi Accountability Authority	UAE	5	accounting profession
6	Australian Accounting Standards Board	Australia	6	standard setter
7	Ernst & Young GmbH	Germany	8	accounting profession
8	HoTARAC	Australia	9	governmental bodies
9	The Japanese Institute of Certified Public Accountants	Japan	7	accounting profession
10	Accounting Standards Board	South Africa	11	standard setter
11	Australasian Council of Auditors-General	Australia	7	accounting profession
12	CIPFA	UK	6	accounting profession
13	Direction Générale des Finances Publiques	France	10	governmental bodies
14	European Commission	Belgium	3	governmental bodies
15	Government of Canada	Canada	6	governmental bodies
16	IDW	Germany	10	accounting profession
17	Institute of Certified Public Accountants of Kenya	Kenya	4	accounting profession
18	Institute of Chartered Accountants of Nigeria	Nigeria	6	accounting profession
19	Joint Accounting Bodies	Australia	3	accounting profession
20	PSAB Staff	Canada	6	standard setter
21	Zambia Institute of Chartered Accountants	Zambia	4	accounting profession
22	ICAS	UK	3	accounting profession
23	New Zealand Accounting Standards Board	New Zealand	12	standard setter
24	Denise Silva Ferreira Juvenal	Brazil	7	others
25	Swiss Public Sector Financial Reporting Advisory Committee	Switzerland	4	governmental bodies
26	Financial Reporting Council	UK	5	standard setter

Appendix II – Abstract (English)

The IPSASB is currently developing and improving international public sector accounting standards by various projects. One of the most extensive projects in the past years was the treatment on public sector combinations. Initially this project started in March 2007 with development of two IPSAS, which were “entity combinations from exchange transactions” and “entity combinations from non-exchange transactions”. In 2010, the board had published an ED 41 “entity combinations from exchange transactions” which did not become an IPSAS, since the scope could not be made sufficiently clear. Later in 2010, the board agreed that this project should encompass all types of entity combinations which occur in public sector. Consequently, they reviewed the project brief.

In June 2012, the board achieved a milestone by publishing a consultation paper (CP) with preliminary views and specific matters for comments on public sector combinations. Afterwards, the board invited the public to comment on this paper until 31 October 2012. The commenters from all continents sent in total of 26 comment letters with 173 pages. In March 2013 the board had reviewed the received comments and agreed with the scope of the CP. Currently, the IPSASB is further reviewing the comment letters on this CP, with the purpose of developing an ED by the end of 2013.

This master’s thesis focuses on the contents of and comments on the CP from October 2012 in order to identify patterns in submitted responses. The analysis demonstrates that there is a plausible trend towards an agreement with the IPSASB’s proposals, within the groups. However, strong criticism of a few board’s views was also observed. Most of the groups have various additions and amendments to the views proposed by the board. PV’s were discussed less, in comparison to responses to SMCs, which were answered almost completely. Mostly highlighted and intensively discussed topics are differentiation between acquisitions and amalgamations, and the concept of control. Moreover, respondents discussed the treatment of the difference arising in the acquisition NUCC and UCC, where consideration transferred is in excess of net assets received.

Appendix III – Abstract (German)

Das IPSASB entwickelt und optimiert internationale öffentlichen Rechnungslegungsstandards im öffentlichen Sektor. Eines der umfangreichsten Projekte in den letzten Jahren war die Behandlung von Zusammenschlüssen im öffentlichen Sektor. Das Projekt startete im den März 2007 mit der Entwicklung folgender 2 IPSASs, die „entity combinations from exchange transactions“ und „entity combinations from non-exchange transactions“. Im Jahr 2010 hat das Board den ED 41 „entity combinations from exchange transactions“ veröffentlicht, welcher nie ein IPSAS geworden ist, da der Umfang nicht hinreichend klar definiert werden konnte. Später im Jahr 2010 hat das Board beschlossen, dass dieses Projekt alle Arten von Zusammenschlüsse, die im öffentlichen Sektor auftreten, umfasst. Als Konsequenz überarbeitete das Board das Projekt.

Im Juni 2012 hat das Board einen Meilenstein durch die Veröffentlichung eines Konsultationspapiers mit vorläufigen Ansichten und spezifische Fragen für Kommentare zu Zusammenschüssen im öffentlichen Sektor erreicht. Danach lud das Board die Öffentlichkeit ein, um zu diesem Papier bis zum 31. Oktober 2012 Stellung zu nehmen. Die Kommentatoren aus allen Kontinenten sendeten insgesamt 26 Stellungnahmen mit 173 Seiten. Im März 2013 hatte das Board die empfangenen Kommentare abgegeben und stimmte mit dem Umfang des Konsultationspapiers zu. Derzeit überprüft das IPSASB weiter die Stellungnahmen zu diesem Konsultationspapier für die baldige Entwicklung einer ED.

Diese Arbeit konzentriert sich auf die Inhalte und Kommentare des Konsultationspapiers vom Oktober 2012. Die Analyse zeigte, dass es einen Trend gibt zu einer möglichen Einigung über die Vorschläge des IPSASBs. Ein Teil der Rückmeldungen war aber starke Kritik an einigen Ansichten des Boards. Denn viele Gruppen schlugen verschieden Ergänzungen und Änderungen zu den Ansichten des Boards vor. PVs wurden weniger diskutiert als die SMC, die fast 100 Prozent Rücklaufquote hatte. Hauptsächlich hervorgehoben und intensive diskutiert waren Themen über die Unterscheidung zwischen Erwerb und Zusammenlegungen sowie die Behandlung des Unterschiedsbetrag in den Zusammenschüssen, bei denen die übertragenen Gegenleistung größer als die erhaltene Nettovermögens ist.

Curriculum Vitae

Persönliches

Name	Altay Alasgarov, Bakk.
Geboren	27. Oktober 1984 in Baku (Aserbaidshan)
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Ausbildung

Universitär

2008 – 2013	Masterstudium der Internationale Betriebswirtschaft an der Universität Wien, mit 10 extra LVs von Bakk. KFKs: International Management und Externe Unternehmensrechnung
Wintersemester 2007	Deutschkurs in der Vorstudiumlehrgang
2002 – 2007	Bakkalaureatsstudium Business Administration an der Middle East Technical University Vertiefungen: Managerial Accounting und Financial Management
2001 – 2002	Academic English Courses at the Middle East Technical University

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1999 – 2000	Cankaya lycee in Ankara
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