



Ian Carruthers  
Chairman  
IPSASB  
IFAC  
Submitted via website

Brussels, 24 June 2016

**Subject: Exposure Draft 60 Public Sector Combinations**

Dear Chairman,

The Federation of European Accountants (FEE) is pleased to provide you with its comments on Exposure Draft (ED) 60, *Public Sector Combinations*. A more in depth analysis of the issues discussed below, is provided in Annex 1.

The Federation supports the approach taken in this ED that aligns, as far as possible, Public Sector Combinations with International Financial Reporting Standard 3 (IFRS 3).

**Scope**

The Federation supports the scope of the ED.

**Approach to classifying public sector combinations**

The Federation also supports the approach to classifying public sector combinations.

The comprehensive set of examples is useful in guiding the decision-making procedures. However, a potential issue has been identified in the wording of some examples – causing inconsistent application of the “imposition” indicator in determining whether a presumption of an acquisition should be rebutted. In order to avoid any misinterpretations, the Federation believes that the related examples should be reworded.

**Modified pooling of interests method of accounting when accounting for amalgamations**

The Federation agrees with the ED that the modified pooling of interests method of accounting should be used in accounting for amalgamations.

However, we believe that the ED should include examples where the two parties involved in the amalgamation have the same accounting policies but have timing differences in respect to the revaluation of their assets as this can cause issues in practice.

## **Residual amount recognition and adjustments**

The Federation agrees with the proposed treatment of the recognition of the residual amount arising from an amalgamation, since the residual amount should be recognised as an ownership contribution\distribution or in net assets\equity, depending on whether they are under common control or not.

We also agree with the adjustments being made through the residual amount, rather than through other components of net assets/equity.

However, we do not agree with requiring 'adjustment' or 'derecognition' of the existing revaluation reserves, as implied by paragraph 37 of the proposed IPSAS.

We disagree with the suggestion of the IPSASB that the conceptual approach requires these balances to be disregarded.

## **Acquisition method when accounting for acquisitions**

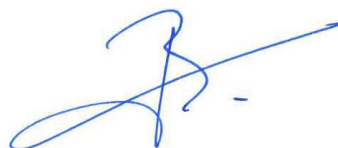
We agree that the acquisition method should be used in accounting for acquisitions, since the provisions of the ED are mostly in line with IFRS3 and the differences and exceptions generally are well-founded.

Kind regards,

On behalf of the Federation of European Accountants,



Petr Kriz  
President



Olivier Boutellis-Taft  
Chief Executive

## **About the Federation of European Accountants**

The Federation of European Accountants represents 50 professional institutes of accountants and auditors from 37 European countries, with a combined membership of over 875,000 professional accountants working in different capacities. As the voice of the European profession, the Federation recognises the public interest.

The Federation is in the EU Transparency Register (No 4713568401-18).

## Annex 1 - Detailed responses to Specific Matters for Comment

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### Specific matter for comment 1

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

- (1) The Federation agrees with the scope contained in ED 60.

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### Specific matter for comment 2

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

- (2) The Federation agrees with the approach to classifying public sector combinations in ED 60.
- (3) Close alignment with IFRS 3 is advantageous but this can still be achieved without starting from the point of view of a private sector standard and this approach may lead to more inconsistency in practice due to inconsistent application of the indicators used to determine whether the pooling of interests method should be used.
- (4) In addition, in the comprehensive set of examples, which are useful in guiding the classification, we have identified a potential issue with the wording – which could result in an inconsistent application of the “imposition” indicator in determining whether a presumption of an acquisition should be rebutted.
- (5) To our understanding, the imposition of a combination by a higher authority (i.e. national government) is one of the two main indicators that the presumption that an acquisition has taken place can be rebutted. Indeed, this is explicitly stated in many of the examples. However, in Scenario 9, IE105 (p137) it states “the fact that Central Government is able to impose the public sector combination on Company M provides evidence that the combination is an acquisition and the presumption should not be rebutted”. This approach is repeated in Scenario 10 IE 119, Scenario 12 IE 137 and Scenario 13 IE146.
- (6) In order to avoid any misinterpretations, we believe that the examples mentioned above should be reworded or otherwise clarified.

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### Specific matter for comment 3

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

- (7) We agree that the modified pooling of interests method should result in carrying values in the new entity that provide a good base for the provision of relevant and reliable financial information on an ongoing basis - provided that the amalgamating entities have a well-defined process of impairment review and have good systems for ensuring that assets and liabilities are fully and accurately recorded.
- (8) Nonetheless, the ED could provide more guidance on the practical issues arising on combination of two entities. For instance, we would welcome an example for the case where two organisations with the same accounting policies before amalgamation have timing differences in respect to the revaluation of their assets, i.e. where only one of the two entities has recently revalued its assets.

- (9) Finally, whilst we appreciate some of the arguments for changing the measurement basis for taxation and employee benefits, we can also imagine circumstances where other assets or liabilities would see a significant change in value after amalgamation, yet there is no exception for these. Consequently, we do not agree that taxation and employee benefits should be measured differently from other assets or liabilities.

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#### Specific matter for comment 4

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

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

- a. In the case of an amalgamation under common control, as an ownership contribution or ownership distribution; and*
- b. In the case of an amalgamation not under common control, directly in net assets/equity?*

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

- (10) The Federation agrees with the treatment as proposed in the ED since the residual amount should be recognised as an ownership contribution\distribution or in net assets\equity, depending on whether they are under common control or not.
- (11) For a “pure” pooling of assets approach we can recognise the rationale in making adjustments for the equalisation of accounting policies through the residual amount.
- (12) We also agree with the accounting policy of the adjustments being made through the residual amount, rather than through other components of net assets/equity.
- (13) However, the ED is not very clear about adjustments to reserves. In paragraph 37 the ED requires that the residual amount is calculated as a balancing item based on the balances of assets and liabilities, implicitly requiring adjustment or derecognition of all existing components of net assets/equity before adding back the residual amount. These adjustments or derecognitions are not mentioned elsewhere in the standard – the effect of them is only made clear in the Illustrative examples, and discussed in BC62 to BC66. We do not agree with requiring ‘adjustment’ or ‘derecognition’ of the existing revaluation reserves.
- (14) Furthermore, we disagree with the suggestion of the IPSASB in BC62 to BC66 that the conceptual approach requires these balances to be disregarded, because the resulting entity is a new entity.
- (15) The use of the modified pooling approach allows the resulting entity to take forward balances from the combining entities with minimal adjustment or other explanations because although a new entity is being created, the normal business of the combining entities is to a very great extent carrying on as usual. Against this background, it seems wrong to discard reliable information on revaluation reserves. This seems particularly evident for those combinations where there are no changes of accounting policy and no new revaluations.

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## Specific matter for comment 5

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

- (16) We agree that the acquisition method should be used in accounting for acquisitions. It is appropriate for situations where a public sector entity takes control of another entity under the circumstances described in the ED.
- (17) It is especially relevant for such situations as bail-outs, where there is a real prospect that control will be temporary and the entity in question may be privatised in the future. The provisions are mostly in line with IFRS 3.
- (18) Furthermore, the exceptions to the general recognition and measurement principles in the areas of:
- Contingent liabilities,
  - Income taxes,
  - Employee benefits,
  - Indemnifications of assets,
  - Reacquired rights, and
  - Share-based payment transactions

are generally well-founded and are justified by the differences between the private and public sector.