ICGFM The International Consortium on Governmental Financial Management

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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to IPSAS ED60 - 'Public Sector Combinations'.

2. We provide our comments in the attached paper.

3. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at Michael.parry@michaelparry.com or on +44 7525 763381.

Yours faithfully,

Michael Parry

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Cc: Jack Maykoski
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ICGFM Ad Hoc Committee on Accounting Standards

Response to ED60:

Public Sector Combinations

Overview

It is our view that the issue of combinations requires further consideration taking account of the substance of combinations between government entities. We provide our specific responses to the issues raised below.

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?

We agree with the scope of the exposure draft

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?

No - ED60 does not adequately recognise the nature and substance of government entity combinations. ED60 distinguishes amalgamations from acquisitions, but in fact there are three potential situations:

Situation 1. An amalgamation of two government entities, for example two government agencies combining into one new agency

Situation 2. A combination of two government entities that that meets the description of an acquisition, but where there is no consideration. An example would where the two agencies in situation 1 above are combined into one of the agencies.

Situation 3. An acquisition by a government entity of another entity for a consideration. This latter situation would most probably arise when a government acquires a commercial entity, which latter then becomes a Commercial Public Sector Entity.

For government entities the first two situations differ only in the form of the combination arrangements. Both involve a political decision to reorganise government operations and the substance of the combination remains the same. Therefore, there is no logical reason why the accounting treatment should differ as between Situations 1 and 2. On the other hand, situation 3 probably involves the acquisition of a commercial entity and hence the creation of a new, or expansion of an existing, Commercial Public Sector Entity.

Situation in 3 has much in common with combinations of commercial entitles, and therefore it is appropriate that it is treated in a similar manner to IFRS 3. On the other hand, Situations 1 and 2 are simply government reorganisations and should both be accounted for in the same manner using the modified pool approach as described in the ED.

Therefore, it is our view that these three situations should be clearly identified and defined, and that the accounting treatment for Situations 1 and 2, as defined above, should be identical applying the modified pool approach.

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?

Yes - and also for situation 2 above, acquisitions without consideration (see above)

Specific Matter for Comment 4:

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

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

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

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

If not, where should the residual amount be recognized?

We agree with the above treatment but consider it should also be applied to acquisitions without consideration (see above)

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?

No - as indicated above it is our view that this should only be applied to acquisitions for a consideration.

Other issues - definitions

It is our view that the distinctions between acquisitions and amalgamations as defined in paras 7 and 8 of ED60 lack clarity. The definitions will make it difficult in some circumstances to distinguish acquisitions from amalgamations of government entities. A clearer definition is required.

Conclusions

ED60 appears to have been drafted without adequate consideration of the substance of government entity combinations. In many cases such combinations could meet the definition in the ED of either an "amalgamation" or an "acquisition without consideration". A different accounting treatment for these two situations is inappropriate. Different accounting treatments could unintentionally influence public policy considerations for which the accounting treatment should be irrelevant.