



Association of Accounting Technicians response to The International Public Sector Accounting Standards Board Exposure draft 60: Public sector combinations

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the The International Public Sector Accounting Standards Board (IPSASB) "Exposure draft 60: Public sector combinations" (ED), released on 28 January 2016.
- 1.2. AAT is submitting this response on behalf of our membership and from a wider public benefit perspective.
- 1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.
- 1.4. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.

2. Executive summary

- 2.1. AAT welcomes the opportunity to comment on the ED, as it strongly supports development of high quality standards in both the public and private sector, where many of its members work.
- 2.2. AAT believes this ED will add value for public sector financial reporting, in promoting consistency and comparability in reporting public sector combinations.
- 2.3. AAT does, however, have some concerns over the treatment of the revaluation reserves proposed (3.6, below).

3. AAT response to Exposure draft 60: Public sector combinations

- 3.1. The following paragraphs outline AAT's response to the proposals outlined in the ED. AAT has only listed those questions where we have a comment to make.

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?

- 3.2. AAT agrees that the scope of the Exposure Draft, which covers all public sector combinations, is appropriate.

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?

- 3.3. AAT agrees with the ED's approach to classification.
- 3.4. AAT would welcome more detail in the explanation of "rebuttal" in order to allow better clarification of the impact on all potential combinations that may take place in combinations with one or more public sector entities.

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?

- 3.5. AAT agrees that the modified pooling of interests method of accounting should be used in accounting for amalgamations.

Specific Matter for Comment 4 (first part of question):

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?

- 3.6. AAT has some concerns in respect of these specific points. The revaluation reserve is a key element of equity that affords a degree of transparency to stakeholders. As a consequence its elimination is not considered to be appropriate.
- 3.7. AAT urges a reconsideration of the proposals. In particular, the example set out on page 147 (ED) appears to "adjust" out rather than recognise the existence of a surplus that could have a bearing on the assets valuation position of the new entity.

Specific Matter for Comment 4 (last part of question):

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

- (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?

- 3.8. AAT agrees with these proposals but has some concerns identified in 3.6 (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?

- 3.9. AAT agrees that the acquisition method of accounting (as set out in IFRS 3, Business Combinations) should be used in accounting for acquisitions.

4. Conclusion

- 4.1. Although AAT agrees with most of the ED's proposals, it has some concerns regarding the treatment of the revaluation reserve that may work against providing transparency (3.6, above) and a fair representation of financial reporting of new entities resulting from public sector combinations.

5. About AAT

- 5.1. AAT is a professional accountancy body with over 49,800 full and fellow members¹ and 80,900 student and affiliate members worldwide. Of the full and fellow members, there are over 4,200 members in practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

email: consultation@aat.org.uk and aat@taxpolicyadvice.co.uk

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¹ Figures correct as at 31 March 2016