

REFERENCE:

15 July 2016

Dear Mr. Stanford,

Exposure Draft 60: *Public Sector Combinations*

1. This submission has been prepared by the UN IPSAS Team to comment specifically on the specific matter for comment 2 of the above mentioned Exposure Draft (ED) of the IPSAS Board as shown below:

Specific Matter for Comment 2:

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?

Response of the UN IPSAS Team

3. In general, we agree with the adopted approach to classifying the PSC but it is our view that further detailed guidance is still required, especially when the classification determination and effective date become issues due to the element of time as described in the Annex to this memorandum. The Annex describes an actual scenario of progressive combination of entities.

4. Following the guidelines set out in the ED, the resulting combination described in the Annex has features of both acquisition and amalgamation but does not fully meet the criteria to be classified strictly as either. The main reason is because the combination process occurs over multiple financial reporting periods post the establishment of the resulting entity, which also makes it difficult to clearly determine the actual combination date.

5. Given this example of the United Nations scenario which is a multiyear combination process, further guidance may be necessary as such further guidance was not available in the ED. We feel that such guidance would assist the United Nations and other preparers of IPSAS-compliant financial statements to report on PSC with similar issues.

6. The United Nations appreciates the work that the IPSAS Board is carrying out in developing accounting standards and guidance for public sector entities, including international organizations such as the United Nations. Should you have any queries on our comments, please contact Mr. Jeriphanos Gutu, Officer-in-Charge, UN IPSAS Team, at gutuj@un.org or myself at williams-baker@un.org.

Sincerely



U. Valencia Williams-Baker
Deputy Director, Accounts
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ANNEX

From time to time the United Nations carries out restructuring and/or re-organization of its operations, some of which result in creation of separate financial reporting entities. The United Nations has recently reorganized/restructured two of its operations, the International Criminal Tribunal for Former Yugoslavia (ICTY) and International Criminal Tribunal for Rwanda (ICTR) into the International Residual Mechanism for Criminal Tribunals (MICT).

In the Resolution, *RES/1966*, acting under Chapter VII of the Charter of the United Nations, the Security Council approved the establishing of the Residual Mechanism in 2012. The entity has two branches that commenced functioning as of 1 July 2012 for the ICTR branch and 1 July 2013 for the ICTY branch. ICTR ended its mandate on 31 December 2015 and during 2015 transferred some of its assets to the MICT; ICTR is currently in liquidation and all operations are expected to be fully transferred to MICT by 31 July 2016. ICTY is scheduled to end its operations by 31 December 2016 and to finalize its winding down process in 2017. MICT has been gradually assuming their (ICTR & ICTY) functions and assets as both entities wind down their activities, and will continue to administer contractual arrangements previously undertaken by both entities.

The three entities have co-existed since the inception of MICT. They each have separate budgets and have been producing separate IPSAS-compliant financial statements. Since the inception of MICT, both ICTR and ICTY have been progressively transferring their functions and assets to MICT following the transitional arrangements set out in the Resolution (*RES/1966*). The functions of the three entities are essentially the same and the locations will remain the same. The ICTR branch of MICT will continue to be based in Arusha, Tanzania with the ICTY branch continuing to be based in The Hague.

The substance of the establishment of MICT was solely as a resulting entity from the combination of ICTR and ICTY operations as they were completing their mandates. Despite the transfer of assets to the MICT, in substance, the MICT will not gain control over ICTR nor ICTY, which follows

the definitive criterion for an amalgamation. In addition, the presumption that the combination is an acquisition is being rebutted by the fact that the PSC was imposed by one level of government (in this case, the Security Council of the UN) and no consideration being paid because the entities do not have any party with direct entitlement to their net assets, thus further indicates that the PSC may be an amalgamation.

On the other hand, MICT can be considered as another party to the combination that has gained control over both operations since the combination of ICTR and ICTY operations are not done simultaneously. It can be argued that the combination has fallen into the category of an acquisition (without consideration). Furthermore, as the transfer of the functions and assets are done gradually over a period of time (of more than one year) since the inception of MICT, the determination of the actual date of the combination becomes unclear.

Following the proposed approach in the ED to classifying this public sector combination resulting in the MICT, appears to have features of both categories but does not fully meet criteria of either of the two. The main reasons are the transitional arrangement that occurs over a period of time and the fact that the combination of the two entities does not occur simultaneously. This in fact has caused difficulties in determining the actual combination date which is essential to applying the accounting method.

This MICT example reveals the challenges of classifying a progressive PSC which occurs over an extended time period in excess of a year. The UN IPSAS Team recommends to the IPSASB to consider this limitation and broaden or clarify the approach to classify and account for such scenarios as the ED progresses to the final IPSAS.

Additional Comments

The issue of classification is clear as it is based on the premise of control which determines whether a combination is an amalgamation or an acquisition.

However, when the combination is done in a progressive or staggered way, such that it covers several financial reporting periods, the following issues arise:-

- (a) When the entire combination process is completed, what date should be considered as the combination date?
- (b) How should such a scenario be accounted for? What additional factors should be considered in classifying the combination as an acquisition or an amalgamation?