



Mr Ian Carruthers
Chair
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017 United States of America

Dear Mr Carruthers

Exposure Draft 60 *Public Sector Combinations*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on Exposure Draft (ED) 60 *Public Sector Combinations*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC has responded to each of the five questions posed in the ED (see attachment). HoTARAC recommends:

- simplification of the basis for distinguishing amalgamations from acquisitions (see response to question 2), and
- refinements to the 'modified pooling of interests' method (see response to question 3 attached).

If you have any queries regarding our comments, please contact Martin Smith from New South Wales Treasury on +61 2 9228 5158 or by email to martin.smith@treasury.nsw.gov.au.

Yours sincerely

Stephen Miners
Acting Chair
Heads of Treasuries Accounting and Reporting Advisory Committee

17 June 2016

Attachment: HoTARAC Response to the Specific Matters for Comment on ED 60 Public Sector Combinations

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?

HoTARAC agrees with the scope of this ED.

This ED applies to 'a transaction or other event that meets the definition of a public sector combination' (paragraph 3). The ED's scope exclusions in paragraphs 3 and 4 are in line with IFRS 3 *Business Combinations*. Accordingly, HoTARAC agrees with these exclusions.

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?

HoTARAC agrees with classifying 'public sector combinations' as either 'acquisitions' or 'amalgamations'. However, HoTARAC recommends a simpler classification approach to the one proposed in paragraphs 7-14 that would produce the same reporting outcome in most cases (see below).

In practice, the vast majority of Australian Public Sector combinations occur within a single Government. These combinations meet the paragraph 5 definition of 'public sector combination under common control' (PSCC). For PSCCs, the ED's presumption that a combination is an acquisition is rebutted. Accordingly, the ED results in PSCCs being classified as 'amalgamations'.

HoTARAC recommends replacing this approach with a simpler approach that will achieve the same outcome in most cases. Under this simpler approach:

- all PSCC's would be classified as 'amalgamations', and
- all other public sector combinations would be classified as 'acquisitions' except for circumstances in which;
 - no acquirer can be identified, or
 - the combination is a genuine merger of equals.

Accordingly, in the vast majority of cases, there would be no need to consider:

- whether an acquirer can be identified (paragraph 7),
- whether one entity that existed prior to the combination gains control of another (paragraph 8 and AG10), or
- the rebuttable presumption (paragraphs 9 to 14).

Attachment: HoTARAC Response to the Specific Matters for Comment on ED 60 Public Sector Combinations

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?

HoTARAC agrees with the 'modified pooling of interests' method in cases where a completely new entity is formed at the amalgamation date and one or more operations are transferred into that new entity (see (a) below). However, HoTARAC recommends refinements to the 'modified pooling of interests' method to address accounting by entities that existed prior to a combination (see (b) below).

(a) New entity formed at the amalgamation date and operations transferred to that entity

HoTARAC agrees with this approach for completely new entities formed at the amalgamation date because it reflects the substance of the amalgamation from the date that it occurred.

(b) Where a party to an amalgamation existed prior to the amalgamation

In many cases, public sector combinations under common control result in one or more operations being transferred to an entity that existed prior to the transfer. For example, a Government may decide to transfer the operations of a small department (e.g. a department that administers a single health program) into a larger department (e.g. the Department of Health). In such cases the transferee department remains largely unchanged by the combination and has gained control of the other department's operations. In substance, the combination does not make the transferee department a new entity for reporting purposes. HoTARAC does not consider that the 'modified pooling of interests' method, in its current form, should be used in such cases because that method does not reflect the substance of the results for a continuing entity.

Instead, HoTARAC considers that a refinement is needed to the 'modified pooling of interests' method to reflect the pre-combination existence of a continuing entity. In practice, this refinement to this would result in a transferee entity that existed prior to a combination recognising the following in its financial statements:

- Statement of financial position:
 - Current year
 - all assets and liabilities at balance date, and
 - net assets of relevant transferors as owners' equity.
 - Prior year comparatives - all assets and liabilities as reported in its prior year financial statements with any adjustments required by Standards.
- Statement of financial performance:
 - Current year – the pre-combination results for the period from the start of the year to the date of combination and post-combination results from the date of the combination to the end of the year.
 - Prior year comparatives – results as reported in its prior year financial statements with any adjustments to those results required by Standards.
- Statement of cash flows:
 - Current year – the pre-combination results for the period from the start of the year to the date of combination and post-combination results from the date of the combination to the end of the year.
 - Prior year comparatives – results as reported in its prior year financial statements with any adjustments to those results required by Standards

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The notes to the financial statements would include:

- a dissection of pre and post combination financial performance, and
- a summarised balance sheet at combination date.

In HoTARAC's view this would satisfy the requirement for users to have access to historical information identified in BC58.

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?

HoTARAC agrees with IPSASB's proposal to recognise amalgamation adjustments in 'residual amount' rather than other components of assets/equity, such as the revaluation surplus (see ED paragraph 39).

HoTARAC considers that revaluation surpluses are entity specific. Accordingly, the transferee entity should recognise any revaluation surplus for transferred assets previously recognised by the transferor as a residual amount adjustment.

As noted in response to Specific Matter for Comment 3 above, HoTARAC considers that a refinement is needed to the 'modified pooling of interests' method.

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?

HoTARAC agrees that the acquisition method of accounting (as set out in IFRS 3 *Business Combinations*) should be used in accounting for acquisitions. This will result in accounting for public sector combinations pursuant to this ED being consistent with accounting for business combinations under IFRS 3.