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Our Ref: PSD/ED09/2016

Thursday, 23 June 2016

John Stanford
IPSASB Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
Canada

Dear Mr Stanford,

RE: Exposure Draft ED 60: Proposed International Public Sector Accounting Standard - Public Sector Combinations

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Exposure Draft (ED 60), *Proposed International Public Sector Accounting Standard - Public Sector Combinations*, issued by the International Public Sector Accounting Standards Board (IPSASB) of IFAC.

The Institute supports the Boards decision to issue a standard on public sector combinations therefore providing guidance in combinations in the public sector to ensure consistent application. However, we are not convinced that that public sector combinations with private sector entities should be classified as amalgamations. In our view, all combinations with private sector should be classified as acquisitions.

We have included our responses to each of the Specific Matters for Comment in an appendix to this letter.

If you would like to discuss these comments further, please contact the undersigned on nixon.omindi@icpak.com.

Yours Faithfully,

Nixon Omindi
For Professional Standards Committee

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 as defined in this 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?

Due to the interaction with IFRS 3, most preparers of financial statements in our jurisdiction have preference for acquisition accounting where the combination involves a private sector entity and opine that amalgamation accounting is more appropriate for combinations under common control and combinations where the economic substance transpires into a new entity. We are of the view that combinations that are not under common control but are "forced transactions" would be analogous to common control transactions and amalgamation accounting would be appropriate thus no need for economic substance test proposed in paragraph AD22 of the ED. Alternatively, if the combination is not a common control transaction or forced transaction, it is most likely that one party to the combination obtains control of the combined operations. Accordingly, we are of the view that IFRS 3 acquisition accounting would be appropriate in this instance and an "economic substance" test is not required.

We disagree with the proposed approach to classifying public sector combinations. We have preference for an approach that is more strictly based on the concept of control with some modifications for circumstances unique to the public sector.

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?

We are of the view that the modified pooling of interest method of accounting does not take into consideration prior period restatement and this may impair comparability. We consider that the pooling of interests method specified in IAS 22 Business Combinations and paragraph BC43 of the ED (which requires restated comparatives), which accounts for the combining operations as though they were continuing as before, although now jointly owned and managed is most appropriate for amalgamations, especially given the ED's aim to achieve comparability between current period and prior period operating results. We however acknowledge that the benefits derived from applying the IAS 22 pooling of interests method might not outweigh the costs and hence agree with this approach on that basis. We suggest that the IPSASB should not conclude that the modified pooling of interests method assists comparability of current period with prior period results, but rather pose the rationale on a cost/benefit front in the final standard.

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?

ICPAK proposes that the IPSASB should not prescribe where in equity the residual amount is recognised, but instead leave this to entities to determine the most appropriate treatment. This view is also consistent with the IASB's tentative views in the Business Combinations under Common Control project.

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?

As noted in our comments to question 3 above, ICPAK agrees that the acquisition method in IFRS 3 should be used in accounting for acquisitions.