Treasury Board of Canada Secretariat | Secrétariat du Conseil du Trésor du Canada

Ottawa, Canada
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Mr. John Stanford,
Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street, 4th Floor
Toronto, ONTARIO
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Dear Mr. Stanford:

SUBJECT: Public Sector Combinations

Thank you for the opportunity to comment on the Exposure Draft – *Public Sector Combinations* that was issued in January 2016.

By way of background, the Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Our government is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS have become increasingly important as a secondary source of generally accepted accounting principles (GAAP) for Canadian governments. Consequently, we have read the exposure draft with interest, and our responses to the Specific Matters for Comment raised in the Exposure Draft (ED) are included in the attached Appendix.

We thank you again for providing the opportunity to comment on this Consultation Paper. If you require further information, please do not hesitate to contact me at diane.peressini@tbs-sct.gc.ca (613-369-3107)

Yours sincerely,

Diane Peressini,
Executive Director,
Financial Management Sector
Office of the Comptroller General

Attachment
c.c.: Bill Matthews, Comptroller General of Canada

Canada

Appendix

Exposure Draft – 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?

We agree.

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?

We partially agree with the approach to classifying public sector combinations in that various factors are considered in addition to control. However, we believe that the proposed rebuttable presumption approach may lead to the classification of some public sector combinations as acquisitions for which the acquisition method of accounting is not appropriate.

The application guidance in paragraphs AG 43-45 links the concepts of control, consideration and decision-making to the most appropriate accounting method. With respect to the acquisition method, paragraph AG 44 states: "Such information assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments and comparing them with the performance of other entities based on the investment made by the acquirer. It also includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities." Consequently, it is the investment by the acquirer in the combination, and the presence of commercial substance, on which the relevance of the information to the users is based. In contrast, the rebuttable presumption approach places more emphasis on whether there is a controlling/controlled entity relationship for the classification.

To illustrate our concerns with the rebuttable presumption approach, we refer to the Illustrative Examples (IE), Scenario 7. In this scenario, a central government transfers an operation to a provincial government with no consideration provided. The operation has net assets but the service entity transferred operates at a loss; the agreement requires that the provincial government continues to provide the services of the transferred operation for 10 years, thereby offsetting the net assets with the net losses in future years. The transferred operation will be a separate entity within the government reporting entity.

In this situation, there is no investment by the acquiring entity. This entity is continuing the operations of the transferred entity, along with the assets and liabilities used to provide the services, such that there are no differences in the services provided immediately before and after the transfer. The conclusion in the IE is that the transfer is an acquisition based on the fact that the transferred operation subsequently continues to operate as a separate entity in a controlled/controlling entity relationship, whereas the lack of consideration is considered inconclusive. However, we can find no rationale for revaluing the assets and liabilities transferred, thereby changing the basis on which the cost of providing the services is determined, as there has been no investment by the acquirer. Consequently, we believe that the modified pooling-of-interests method would more appropriately reflect the substance of the transaction in this scenario. In the public sector, whether the transfer results in a controlling/controlled entity relationship, or the transferred operation becomes an integral part of the controlling entity after the transfer, is usually a decision of the controlling entity which does not change the substance of the transaction.

Consequently, we prefer the individual weighting approach (as discussed in paragraph BC 33(b)) as this would result in more appropriate classifications of public sector combinations, i.e. where the control, consideration and decision-making factors are a matter for professional judgement based on the individual circumstances of the combination. It would also be helpful if these factors were better linked with the concepts discussed in paragraphs AG 43-45 about the accounting method.

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 agree.

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 these statements.

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?

We agree.