



27 May 2016

Mr John Stanford
Technical Director
International Public Sector Accounting Standard Board
International Federation of Accountants
227 Wellington Street West
Toronto
Ontario MSV 3H2
CANADA

Dear John

EXPOSURE DRAFT – PUBLIC SECTOR COMBINATIONS

Thank you for the opportunity to provide comments on the International Public Sector Accounting Standards Board's (IPSASB's) Exposure Draft 60 – *Public Sector Combinations* (the exposure draft).

We have considered the contents of the exposure draft and we are broadly supportive of the accounting standard proposed by the IPSASB.

One matter in the exposure draft that we found unusual was the rebuttable presumption in paragraph 8. It is unusual to have a rebuttable presumption that, in our experience, will be rebutted in most instances. Most combinations in the New Zealand public sector are rearrangements of public sector organisations that do not involve the transfer of consideration, and for which acquisition accounting would not reflect the substance of the transaction.

In our view, therefore, the standard should be based on the rebuttable presumption that a public sector combination will be a rearrangement not involving the transfer of consideration.

Although unusual, we are satisfied that paragraph 8 should result in the presumption being appropriately rebutted in the instances that we would expect, and result in the appropriate accounting treatment of public sector combinations.

Appendix 1 to our submission responds to the questions in the Request for Comments dated January 2016.

If you have any questions about our submission, please contact me.

Yours sincerely

Todd Beardsworth
Assistant Auditor-General (Accounting and Auditing Policy)
Office of the Controller and Auditor-General of New Zealand

cc. **New Zealand Accounting Standards Board**

Appendix 1 - Our Responses to the IPSASB Questions in the Exposure Draft

1. ***Do you agree with the scope of the Exposure Draft? If not, what changes to the scope would you make?***

We consider the proposed scope of the exposure draft to be appropriate.

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 found it unusual that the exposure draft has a rebuttable presumption (in paragraph 8) that, in our experience, will be rebutted in most instances. Most combinations in the New Zealand public sector are rearrangements of public sector organisations that do not involve the transfer of consideration, and for which acquisition accounting would not reflect the substance of the transaction.

Although unusual, applying the rebuttable presumption in paragraph 8 should result in public sector combinations being appropriately classified.

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 support the modified pooling of interests method of accounting for amalgamations.

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 recognised?***

We do not agree with the approach presented in the exposure draft. In our view, amalgamation accounting, for both common control and not under common control amalgamations, should permit adjustments to be made to other components of net assets/equity rather than the entire adjustment being made to the residual amount. There is information value to users to show the amalgamated components of equity, appropriately adjusted for the accounting policies of the amalgamated entity. Further, in our view, this better represents the effect of an amalgamation on the net assets/equity.

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 ownerships 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 recognised?

Following our comment above, we see the residual amount as the amount after accounting for other components of net assets/equity. In all amalgamations, the residual amount will be accounted for in net assets/equity. However, we agree that the residual amount should be labelled "ownership contribution"

or “ownership distribution” in the case of an amalgamation under common control, as that label best describes the underlying nature of the amalgamation.

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 support the acquisition method of accounting for the types of public sector combinations where such accounting reflects the substance of the combination. However, we reiterate that, in our experience, most combinations in the New Zealand public sector are rearrangements for which acquisition accounting would not reflect the substance of the transaction.

6. ***General comments***

The requirements listed in paragraph 52(g) relating to the disclosure of financial information of the combining operations prior to the amalgamation date are likely to exceed the legislative reporting requirements of the combined operation. Further, there may be practical issues for the new entity to obtain this information. However, we acknowledge that the disclosure of this information will retain the accountability of the combining operations up to the amalgamation date.