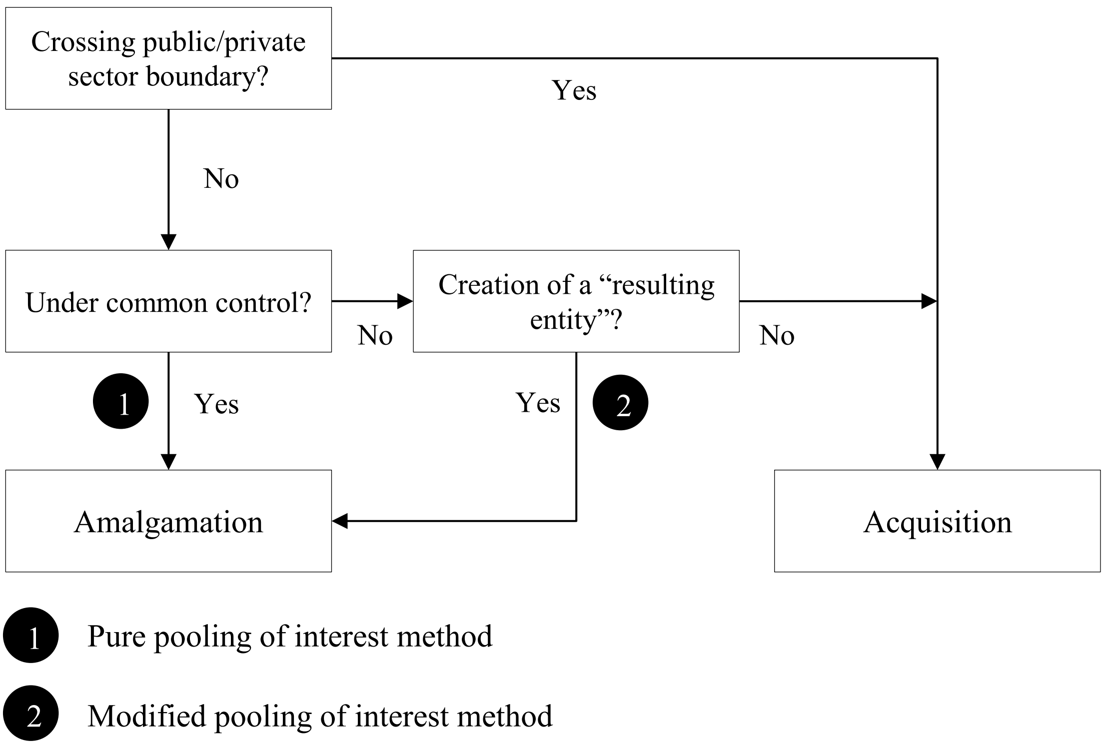
May Public Sector Combinations PAP Meeting

Teleconference
12 May 2016
2:00pm – 3:00pm (AEDT)

Present
Susan Fraser, Queensland Audit Office
Kaveh Daemi, The Treasury – NSW
Martin Smith, The Treasury – NSW
Johannes Claassen, The Treasury – NSW
Darryn Rundell, Pitcher Partners
Kala Kandiah – AASB
Shaun Steenkamp – AASB
Junyoung Jeong - AASB



Frequency of public sector combinations

Panel members indicated that combinations under common control happen frequently, such as agency/department restructures, however that combinations not under common control are very rare in Australia. Panel members noted that combinations of local government are less frequent and are not under common control, however, are accounted for as amalgamations.

Classifying public sector combinations

Panel members were generally concerned with the IPSASB's proposed classification model. In particular, the model requires significant judgement and can result in undesirable outcomes, for example, amalgamation accounting where acquisition accounting would be more appropriate. Panel members were also concerned about the indicators proposed in the

ED in relation to when the presumption may be rebutted, particularly that there needs to be better conceptual basis to explain why those particular indicators were chosen.

Panel members generally agreed that the AASB staff's alternative approach has more conceptual merit and would be simpler to apply in practice. Panel members were of the view that combinations crossing public/private sector boundary need to be accounted for as an acquisition. Panel members noted that the alternative approach would, in the majority of case, lead to similar outcomes when compared to the proposed method in the ED. However, the alternative approach would also eliminate the less desirable outcomes. One panel member suggested that distinguishing public/private entities could be difficult in practice, but agreed that this judgement should be left to entities.

Panel members suggested that the economic substance of an amalgamation mentioned in paragraph AG22 of ED 60 could be incorporated into the AASB staff's alternative approach. The panel's view was that if one of the parties to the combination continued to exist after the combination, this would provide evidence that the economic substance of the combination is that of an acquisition. On the other hand, if a new entity is formed as a result of the combination, this would provide evidence for an amalgamation.

Accounting for combinations

Panel members considered that the modified pooling of interest method should be applied for amalgamations that create a new 'resulting entity'. The panel formed this view because the economic substance of such a transaction is the dissolving of the combining entities and the creation of a new entity to assume the operations of the dissolved entities. Panel members considered the 'fresh start' method of accounting in this situation but thought that this might not meet cost/benefit criteria in all jurisdictions.

Amalgamations under common control should be accounted for using the pure pooling of interest method. Most panel members generally thought that comparatives for entities combining under common control will be helpful, which means that the pooling of interest method is preferred to the modified pooling of interest method.

New South Wales did not think that the pure pooling of interests method would be appropriate for common control combinations. NSW TPP 09-03 provides the accounting requirements for public sector combinations under common control. These requirements are broadly based on AASB 1004 *Contributions*. AASB 1004 does not require the restatement of comparatives, however TPP 09-03 does require comparatives for the transferred function or activity to be included in the notes to the financial statements for accountability and comparability purposes.

Most panel members supported the proposal in the ED to account for the residual amount arising from an amalgamation under common control as an ownership contribution or ownership distribution. Panel members noted that this was the method currently applied in practice. In the case of an amalgamation not under common control, recognising the residual amount directly in net assets/equity was also acceptable. Panel members were indifferent to AASB staff's view to not prescribe where in equity the residual amounts should be recognised.

Panel members supported that the acquisition method of accounting (as set out in IFRS 3, *Business Combinations*) should be used in accounting for acquisitions.