



Australian Government

Australian Accounting
Standards Board

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Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox

Exposure Draft ED 41 Entity Combinations from Exchange Transactions

The Australian Accounting Standards Board (AASB) is pleased to provide comments on Exposure Draft ED 41 *Entity Combinations from Exchange Transactions*.

The AASB supports the IPSASB's programme to update the convergence of accrual basis International Public Sector Accounting Standards (IPSASs) with International Financial Reporting Standards to the extent appropriate for public sector entities. Accordingly, the AASB agrees with the IPSASB's decision to use IFRS 3 *Business Combinations* as the basis for ED 41. The AASB particularly welcomes the release of a version of the ED that highlights proposed differences from IFRS 3.

However, the AASB is concerned with the proposal to limit the scope of the proposed IPSAS to entity combinations from exchange transactions. The AASB believes that the exchange/non-exchange distinction would be difficult to apply in practice, because of the difficulty in distinguishing between an amount paid in exchange for goodwill and an amount transferred in a non-exchange transaction.

The AASB recommends instead that entity combinations from non-exchange transactions be included within the Standard's scope, and that the common control scope exclusion in IFRS 3 is retained. The AASB believes that this approach would better comply with the policy of only changing IFRSs in the convergence project when needed for public-sector-specific reasons. The AASB acknowledges that there may be practical issues in identifying entities or operations under common control. However, the AASB considers this is a jurisdictional issue that should not be addressed by the IPSASB as part of its convergence project.

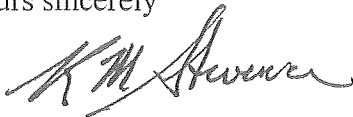
In addition, the AASB suggests that the IPSASB has regard to the following in finalising an IPSAS on entity combinations:

- (a) guidance that has been omitted from IFRS 3 on the basis that it would rarely apply to public sector entities. Guidance such as that on combinations by contract alone and the application guidance for reverse acquisitions should be reinstated. This is because there is no public-sector-specific reason to omit it, and some public sector entities may benefit from having the guidance available;

- (b) the term 'business' should not be omitted and replaced with the term 'operation' because both terms are appropriate in a public sector context and the term 'operation' may have unintended consequences of including acquisitions of assets or groups of assets, notwithstanding scope paragraph 3(c). Therefore, the term should be 'business/operation', with an appropriate definition in Appendix A;
- (c) consistent with the AASB's comment on IPSAS ED 40 *Intangible Assets*, it is premature for the IPSASB to make the comment in paragraph 19 that the power to grant rights and the power to tax do not satisfy the specified criteria for recognition as intangible assets, because the IPSASB has not yet deliberated on this issue in its Conceptual Framework project; and
- (d) the reference to 'paragraph 28' in paragraph 30, should be 'paragraph 29'.

If you have any queries regarding any matters in this submission, please contact me or Natalie Batsakis (nbatsakis@aasb.gov.au).

Yours sincerely



Kevin M. Stevenson
Chairman