EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho
NZ ACCOUNTING STANDARDS BOARD

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Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA
Submitted to: www.ifac.org

Dear John

Public Sector Combinations

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the International Public Sector Accounting Standards Board's (IPSASB's) Exposure Draft 60, *Public Sector Combinations* (the Exposure Draft).

The Exposure Draft was issued for comment in New Zealand and, as a result, you may also receive comments directly from New Zealand constituents.

We are pleased the IPSASB has made progress on the public sector combinations project and has produced a comprehensive Exposure Draft.

The NZASB has considered the Exposure Draft. While we are supportive of some of the proposals in the Exposure Draft, our main concerns with the Exposure Draft are:

1. the narrow definitions of equity interests and owners;

2. that the classification of a public sector combination relies on whether an entity has gained control of an operation as a result of the combination. The assessment of control is based on the guidance from IPSAS 35 *Consolidated Financial Statements.* This concern is discussed further below; and

3. the proposed accounting for the residual amount in an amalgamation.

WELLINGTON OFFICE Level 7, 50 Manners St, Wellington • AUCKLAND OFFICE Level 12, 55 Shortland St, Auckland
POSTAL PO Box 11250, Manners St Central Wellington 6142, New Zealand • PH +64 4 550 2030 • FAX +64 4 385 3256

The NZASB supports (a) the principle that the classification of a public sector combination is based on the economic substance of the combination, and (b) that the entity considers the classification that best meets the objectives of financial reporting and that satisfies the qualitative characteristics. However, the NZASB does not support the approach to classifying public sector combinations adopted in this Exposure Draft.

In the Exposure Draft, the classification of a public sector combination relies on whether an entity has gained control of an operation as a result of the combination. The assessment of control is based on the guidance in IPSAS 35, which focuses on whether control exists, rather than whether an entity has gained control over another operation in a public sector combination. The Exposure Draft proposes using the guidance in IPSAS 35 for determining whether an entity controls another entity (with references to some terms being read in a particular way). For example, “an entity controls” is to be read as “an entity gains control” and “another entity” is to be read as “an operation”. However, merely changing the terms does not adequately explain how a concept designed for one purpose should be applied for a different purpose. The existence of a control relationship after the combination does not necessarily mean that one entity has gained control over another entity during the combination, nor does it necessarily mean that the entity that becomes the controlling entity after the combination is the acquirer in the entity combination, as the combination could be structured to achieve that outcome. This makes the approach in the Exposure Draft difficult to follow and could make it difficult to apply in practice.

The NZASB has proposed an alternative approach to determining whether the combination is an acquisition or an amalgamation. This alternative approach uses three indicators to determine the economic substance of the combination.

Our responses to the Specific Matters for Comment are set out in the Appendices to this letter. If you have any queries or require clarification of any matters in this letter, please contact Vanessa Sealy-Fisher (Vanessa.sealy-fisher@xrb.govt.nz) or me.

Yours sincerely

Kimberley Crook

Chair – New Zealand Accounting Standards Board

APPENDIX 1

Response to Specific Matters for Comment

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?

The NZASB generally supports the proposed scope of the Exposure Draft. However, the definitions of equity interests and owners are not broad enough. In the public sector and not-for-profit (NFP) sector, the concept of equity interests is not limited to equity participants holding an equity instrument and the use of the term owners is not limited to those with a quantifiable ownership interest. For example, in our jurisdiction, a local council's "owners" are its ratepayers and an NFP's "owners" are the residual beneficiaries.

The proposed definitions of equity interests and owners have implications for paragraphs 12(c) and AG31 (and the various illustrative examples that rely on these definitions). For example, in the NFP sector, a charity might decide to wind up and transfer its net assets to another charity for no consideration. In economic terms, this is essentially the same as a person donating or bequeathing an operation to a charity. This is noted in paragraphs AG29 and AG30 where it allow for situations in which the former owner gives up its entitlement for no consideration, the presumption should not be rebutted and it's still an acquisition. However, the charity example described above might be treated as an amalgamation, according to paragraph AG31 of the Exposure Draft. We don't see any difference between an individual person donating an operation to a public sector entity and a charity donating its entire operations to a public sector entity. We disagree with the logic in paragraph AG31, which states that if an NFP organisation donates its operations, this is usually an amalgamation. This inconsistency is demonstrated in scenarios 6 and 11 in the illustrative examples – the conclusion in scenario 6 is that the combination is an amalgamation and the conclusion in scenario 11 is that the combination is an acquisition, but both are very similar in substance (i.e. they are both donated operations) and both should be viewed as acquisitions. The only major difference between the two scenarios is in scenario 11, NFP R is donating an operation and continues to operate, whereas in scenario 6, the whole NFP is donated. We consider this difference should have no effect on the classification and both scenarios should be classified as an acquisition.

The definitions of equity interests and owners have implications for paragraphs 13(b) and AG36. The fact that citizens have to approve the combination does not necessarily mean that the combination is an amalgamation. For example, it is common in the private sector for acquisitions to require shareholder approval, which is equivalent to citizen approval.

In summary, the NZASB propose the definitions of equity interests and owners be broadened to fully reflect the public sector and NFP equivalents of ownership.

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?

General comments

The NZASB supports (a) the principle that the classification of a public sector combination is based on the economic substance of the combination, and (b) that the entity considers the classification that best meets the objectives of financial reporting and that satisfies the qualitative characteristics. However, the NZASB does not support the approach to classifying public sector combinations adopted in this Exposure Draft. The NZASB does not support the proposed classification of a public sector combination, which relies on whether an entity has gained control of an operation as a result of the combination and contains a rebuttable presumption that the combination shall be classified as an acquisition. The NZASB has proposed an alternative approach to determining whether the combination is an acquisition or an amalgamation. This alternative approach uses three indicators to determine the economic substance of the combination. Our rationale is explained further below.

Classification based on gaining control

In the Exposure Draft, the classification of a public sector combination relies on whether an entity has gained control of an operation as a result of the combination. The assessment of control is based on the guidance in IPSAS 35 *Consolidated Financial Statements*, which focuses on whether control exists, rather than on whether an entity has gained control over another operation in a public sector combination. The Exposure Draft proposes using the guidance in IPSAS 35 for determining whether an entity controls another entity with references to some terms being read particular way. For example, "an entity controls" is to be read as "an entity gains control" and "another entity" is to be read as "an operation". However, merely changing the terms does not adequately explain how a concept designed for one purpose should be applied for a different purpose. The requirements in IPSAS 35 are designed to assess whether a control relationship exists *at present*, i.e. an assessment of the relationship between the entities at a point in time. In contrast, assessing whether one entity has gained control over another entity involves considering how the relationship between two entities has *changed over time*. The latter assessment involves considering the nature of their relationship both before and after the combination, and how that change in relationship came about. In particular, the existence of a control relationship after the combination does not necessarily mean that one entity has gained control over another entity during the combination, nor does it necessarily mean that the entity that becomes the controlling entity after the combination is the acquirer in the entity combination, as the combination could be structured to achieve that outcome. This makes the approach in the Exposure Draft difficult to follow and could make it difficult to apply in practice.

The Application Guidance about assessment of control in paragraphs AG10-AG18 is insufficient and the logic is difficult to follow. For example, it is difficult to apply in situations involving reverse acquisitions and the formation of new entities, where identifying the acquirer can be difficult. For example:

- Paragraph AG15 acknowledges that a public sector combination involving an exchange of equity interests could be a reverse acquisition, but does not provide guidance on how to determine if that is the case, nor how the guidance in IPSAS 35 should be applied in making this determination. In a reverse acquisition, the legal controlling entity (i.e. legal parent) is likely to gain a majority of voting rights and power of appointment over the governing body of the legal controlled entity (i.e. legal subsidiary). Considering the guidance in IPSAS 35 might lead one to conclude that the legal controlling entity has gained control of the legal controlled entity in the entity combination. However, if the previous owners of the controlled entity gain control of the controlling entity in the combination (by ending up with a controlling interest in the combined entity), this indicates that the legal controlled entity is the acquirer for accounting purposes.

- IFRS 3 prohibits the identification of a new entity as the acquirer in certain situations (for example, where the new entity was formed to effect the business combination by an issue of equity instruments), but paragraph AG17 of the Exposure Draft merely focuses on whether or not the new entity existed prior to the combination. This is problematic because (a) it does not explain how long the new entity needs to have existed and/or whether existence as a legal shell is sufficient for the entity to be identified as the acquirer, and (b) if the new entity is not the acquirer, how to determine whether or not one of the existing combining entities gains control over another entity. For example, if the combination has been structured so that it results in a new entity gaining all of the voting rights and power of appointment over the governing bodies of the combining entities, it is unclear how the guidance in IPSAS 35 should be applied to determine whether or not, in economic substance, the new entity has gained control of the combining entities.

<u>NZASB's proposed alternative approach</u>

Although we do not support the proposed approach in the Exposure Draft, we think that some of the indicators set out in paragraphs 12 and 13 are relevant to determining how combinations should be classified. We would propose some modifications, as explained below.

We note the IPSASB's rationale for not starting with consideration of whether the combination is under common control or not under common control. However, we still support this factor as an indicator in the classification of the public sector combination. While there are likely to be instances in which it is not clear whether or not entities are under common control, there are likely to be many situations where it is clear that the combining entities are under common control, such as where the combining entities are being consolidated into the ultimate controlling entity's consolidated financial statements both before and after the combination.

The NZASB's proposed alternative approach to determining whether the combination is an acquisition or an amalgamation is to use the following three indicators to determine the economic substance of the combination. We have also provided our reason for the indicators selected and/or modifications to the indicators in the Exposure Draft.

(a) Consideration – There should be a rebuttable presumption that the combination is an acquisition where consideration is paid to those with an entitlement to the net assets of

the transferred operation for giving up that entitlement, and the consideration approximates the market value of the operation. However, the reverse is not necessarily true. The lack of adequate consideration does not necessarily mean that the combination is an amalgamation, particularly given that many transactions in the public sector are not at market value. Hence, if this indicator is not present (e.g. if no or nominal consideration is given), then other factors would be considered.

NZASB's reason

We do not consider the indicators in paragraphs 12(a) to 12(c), as currently framed, to be useful in determining whether a combination is an amalgamation rather than an acquisition. For example, a donated operation can be an acquisition. This point is acknowledged in paragraph AG29. That is, the absence of consideration does not in itself provide evidence of the economic substance of the public sector combination. We agree with that point and therefore consider that the way the indicators in paragraphs 12(a) to 12(c) are expressed is not helpful. However, the *presence* of adequate consideration *is* an indicator that the combination is an acquisition. Hence, we consider that the indicators in paragraphs 12(a) to 12(c) should be reframed as one indicator that focuses on the presence (rather than the absence) of adequate consideration. In addition, paragraphs 12(b) and 12(c) are based on the narrow view of equity interests and owners in the Exposure Draft. As explained in our response to Specific Matter for Comment 1, in the public sector and the NFP sector, equity interests is not limited to equity participants of an equity instrument and owners is not limited to a quantifiable ownership interest.

(b) Decision making – There should be a rebuttable presumption that the combination is an amalgamation where a public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process regarding the combination. This may include a third party instigating the combination (rather than the combining entities) and the combination being subject to approval by the affected citizens.

NZASB's reason

We support using the distinction between a voluntary or involuntary combination as an indicator of the type of public sector combination. But we would combine the indicator in paragraph 13(b) with the indicator in paragraph 13(a) because paragraph 13(b) is not an indicator by itself. We do not support paragraph 13(b) as an indicator by itself because the fact that citizens have to approve the combination does not necessarily mean that the combination is an amalgamation. For example, it is common in the private sector for acquisitions to require shareholder approval, which is equivalent to citizen approval in the public sector. Therefore, under our proposed approach, the associated guidance in paragraph AG36 would need to be updated.

(c) Entities under common control – There should be a rebuttable presumption that the combination is an amalgamation where the entities involved are under common

control. However, the reverse is not necessarily true, so a combination involving entities not under common control is not necessarily an acquisition.

NZASB's reason

We support using the fact that a combination is under common control as an indicator of the type of public sector combination (paragraph 13(c)). If all the entities involved are ultimately controlled by the same entity both before and after the combination, the combination is more likely to be a reorganisation or restructure of the operations of the economic entity and thus an amalgamation. A public sector combination under common control would rarely, if ever, be an acquisition. However, the reverse does not apply. That is, a combination of entities that are not under common control is not necessarily an acquisition. This is because most combinations in the public sector are amalgamations, including those not under common control, such as when two or more local governments (previously autonomous) are amalgamated under the direction of the central government.

If the analysis of the above indicators is inconclusive, then consideration of which classification and resulting accounting treatment best meets the objectives of financial reporting and satisfies the qualitative characteristics (similar to paragraph 14 in the Exposure Draft) is needed.

<u>Application of the NZASB's proposed alternative approach to illustrative examples</u>

We have applied our proposed alternative approach to the following illustrative examples in the Exposure Draft to demonstrate the application of our approach. It should be noted that the comments below merely summarise the application of our approach – if adopted, we envisage that a more fulsome discussion would be provided, in a similar manner as shown in the illustrative examples in the Exposure Draft.

- Scenario 4 variation: Restructuring of Central Government ministries

  (a) Consideration – There is no consideration paid/received. This is not determinative in itself.

  (b) Decision making – The combination is imposed by a third party, Central Government. This suggests it is an amalgamation.

  (c) Entities under common control – The entities are under common control. This suggests it is an amalgamation.

  There are two indicators that it is an amalgamation and no indicators that it is an acquisition. On balance, these indicators suggest the combination is an amalgamation.

- Scenario 6: Combination with a not-for-profit organisation

  (a) Consideration – There is no consideration paid/received. This is not determinative in itself. However, the nil consideration for the net assets of NFP I

and the voluntarily transfer suggest this is a donation, which supports the combination being a bargain purchase. This suggests it is an acquisition.

(b) Decision making – The combination was not imposed by a third party. This was a voluntary transfer by NFP I. This suggests it is an acquisition.

(c) Entities under common control – There is nothing to suggest the entities are under common control. This is not determinative in itself.

There are two indicators that it is an acquisition and no indicators that it is an amalgamation. On balance, these indicators suggest that the combination is an acquisition. (This conclusion is different from the Exposure Draft, which suggests that the combination is an amalgamation.)

- Scenario 7: Transfer of an operation between levels of government

(a) Consideration – The nil consideration reflects the fair value of Operation J. This suggests it is an acquisition.

(b) Decision making – The combination was not imposed by a third party. The Provincial Government accepts the Central Government's policy of devolving responsibility for some social services. This suggests it is an acquisition.

(c) Entities under common control – There is nothing to suggest the entities are under common control. This is not determinative in itself.

There are two indicators that it is an acquisition and no indicators that it is an amalgamation. On balance, these indicators suggest the combination is an acquisition.

- Scenario 11: Donated operations

(a) Consideration – There is no consideration paid/received. This is not determinative in itself. NFP R had donated Operation S, which supports the combination being a bargain purchase. This suggests it is an acquisition.

(b) Decision making – The combination was not imposed by a third party. NFP R voluntarily surrendered the rights to Operation S. This suggests it is an acquisition.

(c) Entities under common control – There is nothing to suggest the entities are under common control. This is not determinative in itself.

There are two indicators that it is an acquisition and no indicators that it is an amalgamation. On balance, these indicators suggest that the combination is an acquisition.

Other concerns

In addition to the above points, we have the following concerns with the Exposure Draft:

- Paragraphs AG17 and AG22 are inconsistent/confusing – paragraph AG17 uses the term "new entity" to refer to a new legal entity but paragraph AG22 uses the term "new entity" to refer to a new economic entity.
- The last sentence of paragraph AG22 states that the presumption that the combination is an acquisition is not rebutted if one of the parties to the combination continues to exist – but the combination is not usually an acquisition when one government department is 'amalgamated' into another government department. For operational or legal reasons, it might be easier for one of the combining entities to continue to exist, with the other entity combined into the continuing entity, but that does not necessarily mean that the combination should be viewed as an acquisition by the continuing entity.
- Paragraph AG23 seems to focus on the legal form of the combined entity. The paragraph states that the presumption is not rebutted if there is a controlling entity/controlled entity relationship after the combination. However, there could be various reasons why an amalgamation is effected in this way. For example, there could be legal, tax or administrative reasons for leaving the existing operations of the combining entities within their respective existing legal entity structure, either for a period of time or indefinitely, which could entail establishing a controlled entity/controlling entity structure as part of the combination, but that outcome does not necessarily mean that the economic substance of the combination is an acquisition.
- Apart from the more straight-forward examples, the logic applied in the illustrative examples is hard to follow. In some cases, this is because reliance is being placed on the indicator in paragraph 12(c), that is, consideration in situations involving councils and charities (which we disagree with, as noted in our response to Specific Matter for Comment 1 and above). For example, we consider that scenario 6 is economically similar to scenario 11, and consider that both should be treated as acquisitions. Hence we disagree with the conclusion in scenario 6. In other cases, there are situations involving the appointment of a new governing body, which seems to be a determining factor in establishing whether one entity gains control over another entity. For example, the scenario 3 variation seems to suggest if there is a new governing body appointed, the entity (Municipality G) is a new entity after the combination. That is, the appointment of a new governing body somehow changes the entity itself. We note that the appointment of a new governing body as a factor to consider in determining the classification of the combination is not discussed in the main body of the Exposure Draft or the integral application guidance in Appendix A. It is therefore unclear how this factor is based on the requirements of the Exposure Draft. Also, in other situations where a new governing body is changed (e.g., a school's board of trustees is replaced by a government-appointed administrator) the NZASB would not conclude that the entity itself is a new entity.

Summary

The NZASB does not support an approach to the classification of a public sector combination that relies on whether an entity has gained control of an operation as a result of the combination (and which then has a rebuttable presumption that the combination shall be classified as an acquisition). The NZASB has proposed an alternative approach to determining whether the combination is an acquisition or an amalgamation. This alternative approach uses three indicators to determine the economic substance of the combination.

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?

The NZASB agrees with the modified pooling of interests method of accounting for amalgamations with the exception of the accounting for the residual amount, as noted in our response to Specific Matter for Comment 4.

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?

Conceptually the NZASB agrees with the pooling of interests method for all amalgamations because an amalgamation is a continuation of two or more existing entities now operating as one entity. However, for cost-benefit reasons, the NZASB accepts that comparative information is not restated. Restatement of comparative information is costly and may not be particularly useful to users.

The modified pooling of interests method combines the identifiable assets, identifiable liabilities and any non-controlling interests of the combining entities. In general, the resulting entity will continue to follow the accounting policies of the combined entities. This is consistent with paragraph 24 of the Exposure Draft, which requires the resulting entity to continue with the classification or designation previously applied by the combining entities. However, the Exposure Draft proposes that adjustments are made to the residual amount rather than combining the components of net assets/equity of the existing entities (paragraphs 36–39 in the Exposure Draft). Some of those existing components of net assets/equity were created by application of the combining entities' accounting policies, designations or classifications (such as revaluation reserves and the cash flow hedging reserve). By eliminating these components of net assets/equity when the entities combine, but also requiring the resulting entity to continue with the combining entities' existing classifications, designations and other accounting policies (other than changes required to align

accounting policies), the requirements of the Exposure Draft are internally inconsistent and would create unnecessary problems in practice.

The NZASB therefore disagrees with the proposal to make adjustments to the residual amount and not to carry forward the reserves from the combining entities. This is because the combining entities are effectively continuing as one entity rather than as two or more separate entities, so any reserves existing at the date of the combination should be carried forward in the combined entity. If the combined entities are using the revaluation model for subsequent measurement of property, plant and equipment or investments, and the reserves are not carried forward, the financial statements may not fairly present the financial performance of the entity when future transactions for which those reserves were established take place. For example, if one of the combining entities revalues its property, plant and equipment and the revaluation reserve is not carried forward, any write-down of a previously revalued asset is recognised in surplus or deficit rather than reducing the revaluation reserve. The resulting entity will carry the unnecessary burden of having to explain to the community why a loss on revaluation needs to be reflected in the statement of financial performance just because two or more entities have amalgamated.

The need to carry forward the reserves is also highlighted in the following situations:

- One of the combining entities continues with cash flow hedge accounting, as is required by paragraph 24 of the Exposure Draft. This requirement would be difficult to apply to previously designated cash flow hedge accounting relationships if the cash flow hedge accounting reserve is eliminated. For example, IPSAS 29 *Financial Instruments: Recognition and Measurement* paragraph 111 requires that, when the hedged forecast cash flows affect surplus or deficit, the amounts that had been recognised in the cash flow hedging reserve must be reclassified to surplus or deficit. Under the proposal in the Exposure Draft, the cash flow hedging reserve is eliminated. But without this reserve, we are unclear how the reclassification of amounts previously recognised in the cash flow hedging reserve can comply with the requirements of IPSAS 29.

- Reserves that have been set up for restricted purposes, such as bequests. Some of the bequests could be governed by legislation which requires that they are carried forward and kept separate from the other reserves. In such cases, it is not appropriate to group these bequests with accumulated surplus and deficit.

In summary, the NZASB supports the modified pooling of interests method for amalgamations with all reserves being carried over to the combined entity.

Subject to our proposed accounting for reserves in equity, we agree with the proposal in the Exposure Draft for the accounting of the net residual amount in cases of amalgamations of entities under common control and entities not under common control.

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?

The NZASB agrees with the acquisition method of accounting for combinations that are acquisitions. There is no public sector specific reason for a different accounting method from the for-profit sector.

Other Matters

Additional guidance for applying the acquisition method where no consideration is transferred

Paragraphs 100 and 101 of the Exposure Draft are based on IFRS 3 paragraphs 43 and 44 respectively, and deal with particular types of acquisitions achieved without a transfer of consideration. The types of transactions for which paragraphs 43 and 44 of IFRS 3 were designed (such as a stapling arrangement, as mentioned in paragraph 43(c) of IFRS 3), are very different types of transactions to those occurring in the public sector in which there is no consideration, such as those discussed in paragraph 92 of the Exposure Draft. Anyone unfamiliar with the history/origin of paragraphs 100 and 101 may find these paragraphs confusing and be unclear when those paragraphs apply. For example, the accounting treatment in paragraph 101 of the Exposure Draft is different to the accounting treatment in paragraph 93 of the Exposure Draft, yet both paragraphs are dealing with acquisitions in which there is no consideration. It's therefore important to be clear about the circumstances in which the requirements of paragraphs 100 and 101 apply, rather than other parts of the Exposure Draft.

Disclosures

The Exposure Draft has included guidance for non-exchange acquisition without the transfer of consideration. We suggest requiring disclosure of the loss on acquisition recognised in surplus or deficit in accordance with paragraph 85, similar to the disclosure requirements for a bargain purchase in paragraph 118(n) of the Exposure Draft.

Consequential Amendments

In the consequential amendments to IFRS 3 *Business Combinations* (2008), the amendments to IAS 16 *Property, Plant and Equipment*, paragraph 44 were:

> 44 An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. <u>Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.</u>

It appears that this was missed as a consequential amendment to the equivalent paragraph in IPSAS 17 *Property, Plant and Equipment*. We are not aware of any public sector reason for omitting this amendment in the equivalent paragraph 60 of IPSAS 17. The proposed amendments are as follows:

Depreciation

…

60. An entity allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges, and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.

We recommend the IPSASB include this amendment in the final standard for Public Sector Combinations.