

NZASB Exposure Draft 2018-4

PBE IPSAS 40 PBE Combinations

(NZASB ED 2018-4)

Invitation to Comment

September 2018

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Information for respondents

Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising a new PBE Standard based on IPSAS 40 *Public Sector Combinations*.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand
Email: submissions@xrb.govt.nz
(please refer to *PBE Combinations* in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is **31 January 2019**.

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

¹ The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IFRS	International Financial Reporting Standard
IPSASB	International Public Sector Accounting Standards Board
IPSAS	International Public Sector Accounting Standard
ITC	Invitation to Comment
NFP	Not-for-Profit
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
PBE	Public Benefit Entity
PBE IPSAS	Public Benefit Entity International Public Sector Accounting Standard
RDR	Reduced Disclosure Regime

Questions for respondents

		Paragraph(s)
1	Do you agree with the changes (as listed below) made by the NZASB in developing the proposed PBE IPSAS 40? If not, please explain why not and identify what you think would be more appropriate.	19–49
	(a) Indicators relating to consideration	19–23
	(b) Definitions of equity interests and owners	24–25
	(c) Use of the term “new entity”	26–33
	(d) Applying the modified pooling of interests method	34–36
	(e) Presentation of financial statements and disclosures	37–40
	(f) Acquiring a non-cash-generating operation	41–43
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	(h) Transition	45–47
	(i) Voluntary combination not under common control	48
	(j) Selection of accounting policies by the resulting entity	49
	(k) Income taxes	50–51
2	Do you agree with the changes (as listed in Table 2) made by the NZASB in developing the proposed PBE IPSAS 40? If not, please explain why not and identify what you think would be more appropriate.	52 See Table 2
3	Do you agree with retaining paragraphs 13(b) and AG36 in the proposed PBE IPSAS 40? If you disagree, please provide reasons.	53
4	Do you agree with the concessions and associated RDR paragraphs in the proposed PBE IPSAS 40? If you disagree, please provide reasons and indicate any additional concessions or RDR paragraphs that you consider would be appropriate.	54–56 See ED
5	Do you agree with the proposed effective date of 1 January 2021, with early adoption permitted? If you disagree, please provide reasons.	58–59
6	Do you have any other comments on the Exposure Draft?	

1. Introduction

1.1 Background

1. The NZASB is proposing to issue a new PBE Standard based on IPSAS 40 *Public Sector Combinations*. This new PBE Standard would supersede PBE IFRS 3 *Business Combinations*, the current PBE Standard dealing with business combinations.
2. PBE IFRS 3 is based on NZ IFRS 3 *Business Combinations*, which in turn is based on IFRS 3 *Business Combinations* issued by the International Accounting Standards Board. Hence, the requirements in PBE IFRS 3 are largely based on IFRS 3. IPSAS 40 is also based, in part, on IFRS 3 but the IPSASB also developed requirements for amalgamations.
3. In accordance with the Accounting Standards Framework the NZASB considers each new IPSAS for adoption in New Zealand. The matters that the NZASB considers are outlined in the *Policy Approach to Developing the Suite of PBE Standards* (the PBE Policy Approach). Having applied the PBE Policy Approach to IPSAS 40, the NZASB considers that it is desirable to issue a new PBE Standard based on IPSAS 40 rather than retaining PBE IFRS 3.
4. IPSAS 40 has a more comprehensive scope than PBE IFRS 3 – the scope of PBE IFRS 3 excludes combinations under common control and combinations arising from local authority reorganisations. PBE IFRS 3 also requires that for each business combination, one of the combining entities be identified as an acquirer. This requirement has been challenging to apply in the public sector and NFP sector. In contrast IPSAS 40 has a broader scope and establishes requirements for accounting for both acquisitions and amalgamations (using the modified pooling of interests method).
5. In developing the proposed PBE IPSAS 40 the NZASB looked first to the requirements in IPSAS 40 but it also drew upon its knowledge of the practical issues in respect of accounting for combinations in New Zealand. This led the NZASB to propose some modifications to the requirements in IPSAS 40. The NZASB is now seeking feedback on the adoption of the requirements in IPSAS 40, with some modifications, as a PBE Standard.

1.2 Purpose of this Invitation to Comment

6. The purpose of this ITC and associated ED is to seek comments on the proposed PBE Standard which would be applicable to Tier 1 and Tier 2 public benefit entities (PBEs).

1.3 Timeline and next steps

7. Submissions on NZASB ED 2018-4 are due by **31 January 2019**. Information on how to make submissions is provided on page 4 of this ITC.
8. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the new PBE Standard.

2. Overview of Invitation to Comment and ED

2.1 Summary of the content

9. This ITC seeks feedback on NZASB ED 2018-4 PBE IPSAS 40 *PBE Combinations*, and in particular, on the proposals which differ from IPSAS 40.
10. In order to assist constituents in forming an opinion on the proposals, the NZASB has organised the discussion of the ED as follows:
 - (a) Approach taken in developing the ED;
 - (b) Comparison: PBE IFRS 3 and PBE IPSAS 40;
 - (c) Comparison: IPSAS 40 and PBE IPSAS 40;
 - (d) Key changes;
 - (e) Other changes;
 - (f) Other matters;
 - (g) Proposed RDR concessions;
 - (h) Amendments to other standards; and
 - (i) Effective date and other comments.

2.2 Approach taken in developing the ED

11. The NZASB's approach to developing a PBE Standard based on an IPSAS depends in part on the approach taken by the IPSASB in developing that standard. The IPSASB frequently uses a convergence approach when it is developing an IPSAS based on an underlying IFRS® Standard. In convergence projects the IPSASB adopts the requirements in the underlying IFRS Standard, subject to making changes to address public sector specific transactions or circumstances. In developing a PBE Standard based on a converged IPSAS the NZASB then focuses on whether those modifications are appropriate for PBEs in New Zealand and considers whether there are any other New Zealand-specific transactions or circumstances that need to be addressed. This generally results in few changes to the IPSAS and leads to better alignment between NZ IFRS and PBE Standards.
12. Although IPSAS 40 is based, in part, on IFRS 3, this was not a typical convergence project. The IPSASB began with IFRS 3, but then made a number of changes, particularly to address the need for guidance on amalgamations in a public sector context. The IPSASB developed an approach to classify a combination as an acquisition or an amalgamation and developed requirements on accounting for amalgamations.
13. The NZASB has considered the relevance of these requirements for New Zealand PBEs, taking into account current practice under PBE IFRS 3 and the types of combinations that can occur in New Zealand. In developing the ED, the NZASB considered the following issues.
 - (a) Differences between IPSAS 40 and IFRS 3 in respect of accounting for acquisitions – the NZASB considered why the IPSASB has diverged from IFRS 3 and whether such divergences would cause any problems for New Zealand PBEs.
 - (b) The distinction between amalgamations and acquisitions – the NZASB considered whether this distinction is clear enough and whether the proposed approach to classification would lead to sensible answers in New Zealand.

- (c) Requirements which might be open to interpretation or could be clarified – the NZASB has proposed a number of changes to clarify requirements.
14. As a result of considering these issues the NZASB has proposed a number of changes to the requirements of IPSAS 40. The significant changes are discussed in this ITC. They include:
- (a) changes to the requirements in IPSAS 40;
 - (b) clarifications to the guidance in IPSAS 40;
 - (c) NFP enhancements to ensure that the proposed PBE Standard is appropriate for application by NFP PBEs as well as public sector PBEs; and
 - (d) changes to ensure coherence within the suite of PBE Standards by acknowledging the existence of certain PBE Standards (for example, PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*) for which there is no corresponding IPSAS.
15. Although the ED has been issued in clean form, a marked-up copy of the ED showing the changes proposed to the underlying IPSAS is also available on the XRB website.²

2.3 Comparison: PBE IFRS 3 and PBE IPSAS 40

16. The main differences between the requirements in PBE IFRS 3 and the proposed requirements in PBE IPSAS 40 are set out in Table 1 below.

Table 1

PBE IFRS 3	Proposed PBE IPSAS 40
<i>Scope</i>	
Excludes <ul style="list-style-type: none"> • business combinations arising from a local authority reorganisation • combinations under common control 	Applies to all PBE combinations as defined
<i>Classification of combination</i>	
All business combinations within the scope of the standard are accounted for as acquisitions	PBE combinations are classified as either acquisitions or amalgamations
<i>Accounting for amalgamations</i>	
Not addressed – one of the combining entities must be identified as the acquirer	Addressed – there are requirements on accounting for amalgamations
<i>Identifying an acquirer</i>	
One of the combining entities must be identified as the acquirer	Less guidance on identifying an acquirer because of the classification approach

² The marked-up copy of the ED shows most of the New Zealand specific changes to the IPSAS. It does not show the New Zealand specific changes to the consequential amendments.

PBE IFRS 3	Proposed PBE IPSAS 40
<i>Recognition of goodwill</i>	
Goodwill is recognised if the consideration transferred exceeds the fair value of the net assets acquired	The recognition of goodwill depends on the type of acquisition Goodwill arising from the acquisition of a cash-generating operation is recognised if the acquisition results in the generation of net cash inflows and the consideration transferred exceeds the fair value of the net assets acquired Goodwill arising from the acquisition of a non-cash-generating operation is expensed in surplus or deficit at the acquisition date
<i>Non-exchange acquisitions</i>	
Requirements on combinations achieved without the transfer of consideration Does not address the types of non-exchange acquisitions covered by PBE IPSAS 40	Requirements on common non-exchange acquisitions in the PBE sector
<i>Tax forgiven</i>	
No requirements on tax forgiven in a combination	Requirements on tax forgiven in a combination

2.4 Comparison: IPSAS 40 and PBE IPSAS 40

17. The significant changes proposed to the requirements of IPSAS 40 are discussed under the following headings:
- Key changes;
 - Other changes;
 - Proposed RDR concessions; and
 - Amendments to other standards.
18. All the paragraph references below refer to the proposed PBE IPSAS 40 unless otherwise indicated.

2.5 Key changes

Indicators relating to consideration

19. In reflecting on the types of PBE combinations that it has observed in New Zealand and the role of consideration in those combinations, the NZASB notes that the absence of consideration is a common feature of PBE combinations. The NZASB is of the view that the absence of consideration, in itself, does not provide evidence that the combination is an amalgamation. The NZASB is concerned that application of the guidance in IPSAS 40 about consideration without any changes, could lead to some PBE combinations, particularly some involving NFP entities, being inappropriately classified as amalgamations. For example, the NZASB considers that a transaction involving a donated operation could be an acquisition. This

has led the NZASB to modify the sections of IPSAS 40 dealing with consideration and the classification of combinations. The requirements in IPSAS 40 and the changes made by the NZASB are discussed in more detail below.

20. Paragraph 12 of IPSAS 40 (shown below) sets out indicators supporting the classification of a combination as an amalgamation.

Extract from IPSAS 40

12. The following indicators may provide evidence that the combination is an amalgamation:
- (a) Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement (paragraphs AG27–AG28 provide additional guidance);
 - (b) Consideration is not paid to those with an entitlement to the net assets of a transferred operation (paragraphs AG29–AG30 provide additional guidance); or
 - (c) Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity (paragraph AG31 provides additional guidance).
21. In developing the ED the NZASB has combined the indicators in paragraphs 12(a) and 12(b) and removed the indicator in paragraph 12(c). The NZASB combined paragraphs 12(a) and 12(b) because of its view that, on its own, the indicator in paragraph 12(a) is not a helpful indicator of an amalgamation. The NZASB is of the view that, when classifying combinations, it is necessary to consider the reasons why no consideration has been paid to compensate those with an entitlement to the net assets of a transferred operation.
22. Consistent with its view that the absence of consideration does not in itself provide evidence that a PBE combination is an amalgamation, and the broader view of equity interests and owners by PBEs in New Zealand, the NZASB removed paragraph 12(c). In the New Zealand public sector and NFP sector the concept of equity interests is not limited to equity participants with an equity instrument, and the use of the term owners is not limited to owners with a quantifiable ownership interest. Paragraph 12 in the proposed PBE IPSAS 40 therefore reads:

Extract from the proposed PBE IPSAS 40

12. The absence of consideration paid to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement may provide evidence that the combination is an amalgamation if the reasons for the absence of consideration do not provide evidence of an acquisition (paragraphs AG26–AG30 provide additional guidance).
23. The changes to paragraph 12 led to a number of other changes throughout the ED including:
- (a) the reordering of the guidance in paragraphs AG27–AG30;
 - (b) the replacement of the examples in paragraph AG30;
 - (c) the removal of paragraph AG31 which contained guidance on paragraph 12(c);
 - (d) the removal of the reference to the indicator in paragraph 12(c) in the illustrative examples (scenario 2 variation, scenario 3 and scenario 14);
 - (e) the updating of the analysis in the illustrative examples; and
 - (f) the reclassification of scenario 6 in the illustrative examples from an amalgamation to an acquisition.

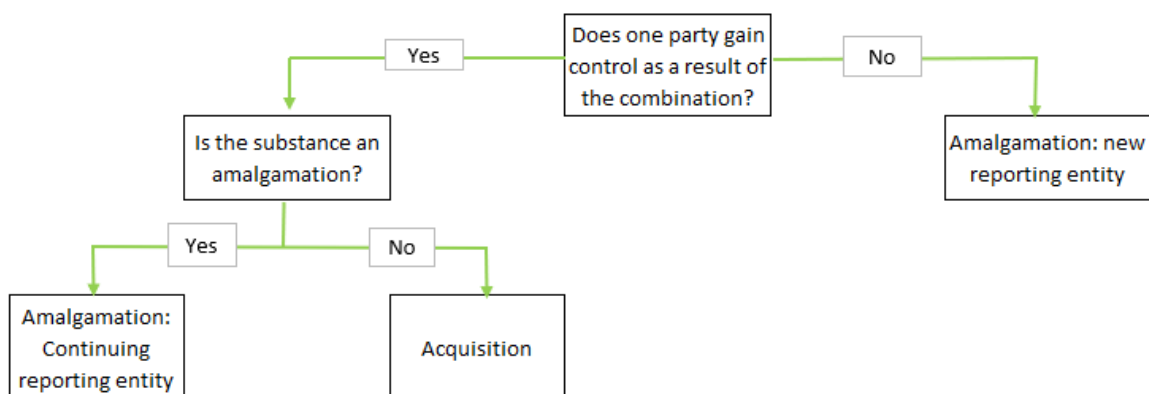
Definitions of equity interests and owners

24. The NZASB has modified the definitions of equity interests and owners in IPSAS 40 so that they broadly align with the definitions in PBE IFRS 3 (see paragraph 5). The NZASB is of the view that these definitions should be broad enough to capture the different types of PBEs and different types of residual interests in PBEs in New Zealand.
25. As a result of changing these definitions the NZASB has also replaced the phrase “quantifiable ownership interests” with “equity interests” where appropriate.

Use of the term “new entity”

26. The meaning of the term “new entity” in IPSAS 40 is unclear because IPSAS 40 uses the same term to refer to both *new legal entities* and *new economic entities* (see paragraphs AG17 and AG22 of IPSAS 40).
27. IPSAS 40 also uses the term “new entity” inconsistently. For example, paragraphs AG1 and AG22 take the view that an amalgamation creates a new entity but there are different presentation requirements for amalgamations in IPSAS 40 depending upon whether the amalgamation results in a new entity or a continuing entity (see paragraphs 50 and 51 of IPSAS 40).
28. These inconsistencies and lack of clarity caused the NZASB to review the use of the term “new entity” and “continuing entity”. Providing clarity is important because it affects presentation, disclosure and how to apply the modified pooling of interests method. The NZASB thought the best way to clarify these terms is to specify when a *new reporting entity* and *continuing reporting entity* can arise from an amalgamation.
29. When considering how best to provide that clarity, the NZASB noted that IPSAS 40 contains requirements for two types of amalgamations, which could be used to differentiate between a new reporting entity and a continuing reporting entity. These two types of amalgamations are as follows.
 - (a) Amalgamations in which no party to an amalgamation gains control of one or more operations as a result of an amalgamation (see paragraph 7 of the ED).
 - (b) Amalgamations in which one party to the combination gains control of one or more operations but the entity determines that the combination has the substance of an amalgamation rather than an acquisition (see paragraphs 8 to 14 of the ED).
30. The NZASB added guidance in paragraph 18 of the proposed PBE IPSAS 40 to specify that in the first type of amalgamation, the resulting entity is a new reporting entity, and in the second type of amalgamation, the resulting entity is a continuing reporting entity.
31. The NZASB has not based the requirements in the ED on whether or not an entity is a new legal entity, because any new entities established as part of a PBE combination would not necessarily be separate legal entities.
32. Diagram 1 summarises the types of amalgamations in the proposed PBE IPSAS 40.

Diagram 1



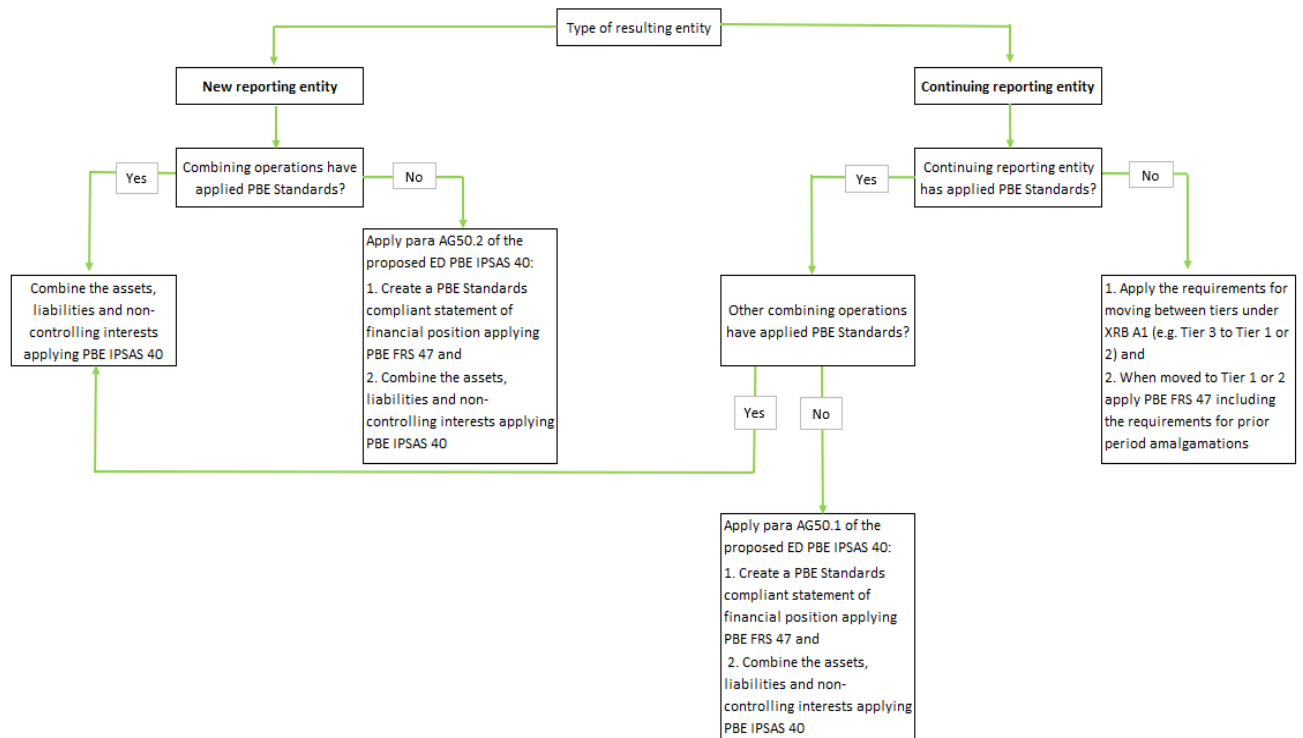
33. The clarification of these terms led to a number of other changes throughout the proposed PBE IPSAS 40 including:
- (a) clarifying that the resulting entity is a new reporting entity in paragraph 50;
 - (b) clarifying that the resulting entity is a continuing reporting entity in paragraph 51; and
 - (c) the removal of paragraphs AG1 and AG22.

Applying the modified pooling of interests method

34. The NZASB thought about application of the proposed standard to PBE combinations (in which the resulting entity could be either a continuing reporting entity or new reporting entity) where the combining operations have reported in accordance with different suites of standards. The NZASB thought that it was important for the proposed PBE IPSAS 40 to be clear about what is required if (i) one of the combining entities had previously recognised assets and liabilities that did not meet the recognition and measurement requirements in PBE Standards; and/or (ii) one of the combining entities had failed to recognise assets and liabilities that should be recognised in accordance with PBE Standards. The NZASB also thought that the proposed standard needed to be clear about the circumstances in which the resulting entity would be expected to go through a first-time adoption process.
35. The NZASB is of the view that IPSAS 40 does not contain sufficient guidance about these issues for New Zealand PBEs. For example, IPSAS 40 does not establish requirements about when the first-time adoption standard would be applied; this has been left to the judgement of the reporting entity. This guidance is particularly important in New Zealand because of our tiered Accounting Standards Framework. The NZASB considered scenarios where the amalgamation involves combining operations that have been reporting under the Tier 3 or Tier 4 PBE Accounting Requirements. The NZASB therefore added guidance to address these situations (see the proposed amendments to paragraphs 20.1, AG50.1, AG50.2 and paragraphs B6 to B9 of PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*).
36. The IPSASB did not permit the recognition of previously unrecognised assets/liabilities of the combining operations on the grounds that the IPSASB considered it would be costly for entities to identify, measure and recognise these assets/liabilities. The NZASB has previously established requirements for first-time adoption of PBE Standards and, as a consequence, the prohibition in IPSAS 40 on the recognition of previously unrecognised assets and liabilities had

to be modified. This was necessary because application of PBE FRS 47 may result in the recognition of assets and liabilities as at the date of amalgamation that were not previously recognised by the first-time adopter. Hence, retaining the prohibition in IPSAS 40 would have created an inconsistency between the proposed PBE IPSAS 40 and PBE FRS 47. The NZASB therefore changed paragraph 21, omitted paragraph 23 and added paragraphs B6 to B9 of PBE FRS 47. Diagram 2 below summarises the scenarios for entities applying different suites of standards prior to the amalgamation.

Diagram 2



Presentation of financial statements and disclosures

37. IPSAS 40 permits, but does not require, the resulting entity to present the combining operations' comparatives in the first set of financial statements following an amalgamation.
38. The NZASB's view is that the continuing reporting entity's comparatives are useful to readers and that a requirement to present such comparatives would not be onerous because the information would have already been prepared. The NZASB has therefore required that the continuing reporting entity present comparative information (see paragraph 51 of the ED). The comparative information is not restated for the combining operations. This requirement has been clarified in paragraphs 51 and 52 of the proposed PBE IPSAS 40.
39. The NZASB has also clarified that a new reporting entity shall not present comparatives because it has not been in existence prior to the amalgamation (see paragraph 50 of the ED).
40. The NZASB considered what information should be presented in respect of amalgamations that occur part way through a reporting period. Generally, disestablished or newly established public sector entities are required to prepare financial statements following an amalgamation in accordance with legislative requirements (which are intended to ensure that users receive appropriate financial information up to, and following, the amalgamation). Other PBEs such as registered charities are not generally subject to equivalent legislative requirements. To

address the potential information gap that could occur, the NZASB has clarified that PBEs are required to provide historical information up to the date of the amalgamation (see paragraphs 52, 54(g) and 54(h) of the ED).

Acquiring a non-cash-generating operation

41. IPSAS 40 amended IPSAS 26 *Impairment of Cash-Generating Assets* to include requirements on impairment testing for goodwill acquired in an acquisition of a non-cash-generating operation. The amendments to IPSAS 26 required that, where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, the acquirer (i.e. the entire reporting entity) is treated as a cash-generating unit for the purposes of impairment testing of goodwill.
42. The NZASB is of the view that, although goodwill could arise in an acquisition of a non-cash-generating operation, it is not appropriate to treat the acquirer as a cash-generating unit. This is because of concerns about the practical workability of the requirements for impairment testing the goodwill in accordance with IPSAS 26 when applied to the entire entity.
43. To address these concerns, the NZASB considered that a practical solution would be to require that goodwill arising on the acquisition of a non-cash-generating operation be expensed in surplus or deficit at the acquisition date. The NZASB therefore omitted the IPSASB's requirements in relation to goodwill arising from a non-cash-generating operation (from paragraphs 90A and 90B of PBE IPSAS 26 *Impairment of Cash-Generating Assets*), and amended paragraphs 86 and AG93 of the proposed PBE IPSAS 40 to require the recognition of the resulting loss in surplus or deficit if goodwill arises from the acquisition of a non-cash-generating operation. These changes led to further changes in paragraph 20A of PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and paragraph 18A of PBE IPSAS 26.

Identifying an acquirer

44. The NZASB noted that guidance from IFRS 3 (and PBE IFRS 3) on identifying an acquirer in a reverse acquisition was omitted from IPSAS 40 (see paragraphs B14–B18 of PBE IFRS 3). The IPSASB may have omitted this guidance from IPSAS 40 on the grounds that the exchange of equity instruments in the public sector is uncommon and is likely to occur only if there is a corporation involved. The NZASB acknowledged that PBE combinations are unlikely to involve reverse acquisitions and that guidance on identifying the acquirer in this situation is not required. However, the NZASB is of the view that it would be helpful to add guidance on whether one entity (and, if so, which entity) has gained control of another entity. The NZASB therefore added guidance from PBE IFRS 3 paragraph B15(c) and (d) in paragraphs AG14 and AG17.

Transition

45. IPSAS 40 requires prospective application. However, when providing guidance for first-time adopters of PBE Standards, the NZASB decided to permit retrospective application for prior amalgamations, consistent with the existing requirements in PBE FRS 47 for prior acquisitions, where retrospective application is permitted. Hence, the NZASB modified the transitional provisions to provide an exception for first-time adopters of PBE Standards – these are entities not previously applying NZ IFRS.

46. The NZASB is therefore proposing to:
- (a) retain the approach in IPSAS 40 of mandating prospective application, except for first-time adopters of PBE Standards to which PBE FRS 47 applies (see paragraph 134.1 of the ED);
 - (b) provide additional requirements in paragraph 134.2 to clarify that, as a consequence of mandating prospective application (except for first-time adopters of PBE Standards to which PBE FRS 47 applies), restatement of combinations that occurred before the effective date of the proposed PBE IPSAS 40 is prohibited;
 - (c) provide an exception for first-time adopters of PBE Standards to which PBE FRS 47 applies in paragraph 134.3 and guidance for first-time adopters of PBE Standards in PBE FRS 47;
 - (d) prohibit retrospective application for first-time adopters of PBE Standards to which PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* applies. This is consistent with the general principle in PBE FRS 46 which restricts an entity changing its accounting policies previously used under NZ IFRS on first-time adoption of PBE Standards (see paragraph 29.1 of PBE FRS 46); and
 - (e) retain the approach in IPSAS 40 of permitting early application.
47. The transitional provisions are set out in paragraphs 134.1–134.3 of the proposed PBE IPSAS 40.

Voluntary combination not under common control

48. IPSAS 40 does not provide guidance for voluntary combinations not under common control. These combinations are more common in the NFP sector than the public sector. The NZASB thought it would be helpful to add guidance and a related illustrative example for such combinations (see paragraph AG17.1 and scenario 15 in the illustrative examples).

Selection of accounting policies by the resulting entity

49. The NZASB's view is that New Zealand PBEs require clear guidance on the selection of accounting policies by the resulting entity and the interaction between the proposed PBE IPSAS 40 and PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. The NZASB is proposing to clarify the requirements in IPSAS 40, including making it clear that a continuing reporting entity would retain its prior accounting policies. The NZASB has added guidance on the selection of accounting policies by a new reporting entity and a continuing reporting entity (see paragraphs AG54.1 and AG54.2).

Income taxes

50. IPSAS 40 includes some requirements on the recognition and measurement of income taxes following acquisitions and amalgamations and how to account for taxes forgiven as a result of a combination (see paragraphs 34, 79, AG58 and AG86 of IPSAS 40).
51. The NZASB is of the view that some of these requirements are not necessary and could create confusion. The NZASB therefore omitted paragraphs 34 and 79 and the related paragraphs AG58 and AG86.

Question for respondents

1. Do you agree with the changes (as listed below) made by the NZASB in developing the proposed PBE IPSAS 40? If not, please explain why not and identify what you think would be more appropriate.
 - (a) Indicators relating to consideration
 - (b) Definitions of equity interests and owners
 - (c) Use of the term “new entity”
 - (d) Applying the modified pooling of interests method
 - (e) Presentation of financial statements and disclosures
 - (f) Acquiring a non-cash-generating operation
 - (g) Identifying an acquirer
 - (h) Transition
 - (i) Voluntary combination not under common control
 - (j) Selection of the accounting policies by the resulting entity
 - (k) Income taxes

2.6 Other changes

52. Other changes made by the NZASB in developing the ED are outlined in Table 2 below.

Table 2

Paragraph(s)	Comments
5	Aligned the definition of an operation with the definition of a business in PBE IFRS 3.
16(c), 21, 26, 28, 30, 41, 42, AG54, IE166, IE173, IE174	Removed reference to “identifiable” assets in the guidance for amalgamations. This is a defined term that is specifically linked to the recognition of intangible assets. The use of the word identifiable is appropriate under acquisition accounting which requires the separation of identifiable intangible assets but does not seem necessary when discussing amalgamations.
20	Deleted the example because the necessary information about determining the date control is obtained is in the other sentences in paragraph 20.
21, 26	Clarified that the recognition and measurement principles of an amalgamation are subject to the exceptions in paragraph 31 of the proposed PBE IPSAS 40.
24	Changed the requirement to allow for situations where the resulting entity might be required to adopt a different classification or designation in order to comply with PBE Standards. IPSAS 40 does not allow for that possibility.
37	Clarified that the net amount from the total of sub-paragraphs (a)–(c) is recognised in net assets/equity.
37(a)	Provided clarity as to which combining operations are being referred to.

Paragraph(s)	Comments
39(b)	Clarified that the existing net assets/equity balances, such as reserves of the combining operations can be retained and shown separately by the resulting entity.
87	Clarified that the recognition of goodwill in an acquisition where no consideration is transferred is limited to situations where achieved through changes in voting rights, by contract alone or similar circumstances.
94	Removed the reference to paragraph 86 because that paragraph provides requirements on the recognition of goodwill. Paragraph 94 does not permit the recognition of goodwill.
106	Clarified that increases or decreases in goodwill are subject to the requirements for recognition of goodwill in paragraph 86.
AG4	Added examples of inputs and processes from PBE IFRS 3 paragraph B7. Aligned the description of an output with PBE IFRS 3 paragraph B7.
AG23	Clarified that there might be circumstances in which there are controlling entity/controlled entity relationships after an amalgamation and added an example to illustrate this.
AG24	Removed the discussion of the types of benefits or service potential obtained because this does not affect the classification of the combination.
AG25	Removed paragraph because it repeats matters already covered in paragraph AG21.
AG43, AG44, table in AG45	Deleted the sentence about future cash flows associated with assets and liabilities as other considerations tend to be more important in the public sector and NFP sector context.
AG44, table in AG45	Added “where paid” because not all investments would have involved consideration.
AG53	Removed paragraph because it was not necessary and could create confusion.
AG54	Deleted the last sentence because it does not seem to be consistent with paragraphs 26–27 and therefore could create confusion.
AG65, AG113	Removed paragraphs because regulators always have the option to require additional information and these paragraphs are not establishing a requirement.
AG66	Replaced “public sector entity” with “unlisted entity” to allow for application by both NFPs and public sector entities.
AG79	Added an example of the acquirer’s trade name (under a network and partner agreement) to broadly align with PBE IFRS 3 paragraph B35.
IE69, IE79, IE83, IE127, IE136	Replaced the word “seller” with references to either the owner of the acquired operation or the acquired operation because the combination does not involve the actual sale of the acquired operation.
IE145, IE154	Removed reference to compensating the seller for giving up an entitlement to the net assets of an operation because both examples are bailouts

Paragraph(s)	Comments
	where the seller receives no compensation and there is a transfer of net liabilities rather than net assets.
IE154	Removed the phrase “...analogous to paying consideration” because it was not clear how taking on net liabilities is analogous to paying consideration. Added the phrase “...no payment of consideration is necessary” because the acquirer is taking on net liabilities and there is no payment for the acquired operation.

Question for respondents

- Do you agree with the changes (as listed in Table 2 above) made by the NZASB in developing the proposed PBE IPSAS 40? If not, please explain why not and identify what you think would be more appropriate.

2.7 Other matters

- In IPSAS 40 one of the indicators that the combination may be an amalgamation is a requirement that the combination be subject to approval by each party’s citizens through referenda (see paragraphs 13(b) and AG36). The IPSASB included this indicator because, in some jurisdictions, citizens may be part of the decision-making process. The NZASB has considered whether this indicator is appropriate in the New Zealand context and is of the view that it could be appropriate, even though it is not a common feature of PBE combinations.

Question for respondents

- Do you agree with retaining paragraphs 13(b) and AG36 in the proposed PBE IPSAS 40? If you disagree, please provide reasons.

2.8 Proposed RDR concessions

- The NZASB has identified proposed RDR concessions for Tier 2 PBEs in the ED.
- The proposed concessions and associated RDR paragraphs for disclosures related to acquisitions are based on the concessions and RDR paragraphs in PBE IFRS 3. The proposed concessions and associated RDR paragraphs for disclosures related to amalgamations have been identified using the approach currently applied to the for-profit standards. Consistency between the disclosures related to acquisitions and amalgamations has also been considered.
- The NZASB is currently reviewing the policy for determining RDR concessions in the for-profit standards. Once this policy has been finalised, a policy for determining RDR concessions in PBE Standards will be developed. The NZASB would consult separately on any changes to RDR concessions in PBE Standards as a result of any new policy developed.

Question for respondents

- Do you agree with the concessions and associated RDR paragraphs in the proposed PBE IPSAS 40? If you disagree, please provide reasons and indicate any additional concessions or RDR paragraphs that you consider would be appropriate.

2.9 Amendments to other standards

57. The ED also identifies proposed amendments to other PBE Standards to update and align references and requirements in those standards with the proposed PBE IPSAS 40.

2.10 Effective date and other comments

58. The proposed effective date for PBE IPSAS 40 is 1 January 2021, with early adoption permitted. This date is based on the assumption that this project will be completed by the end of 2019. The proposed effective date would be reviewed prior to issuing any standard.
59. The NZASB considers that this proposed effective date is appropriate because:
- (a) most PBEs would have applied PBE IFRS 3 to combinations within the scope of that standard and would have applied acquisition accounting. The requirements for the accounting of acquisitions in the proposed PBE IPSAS 40 are very similar to the requirements in PBE IFRS 3; and
 - (b) the standard would be applied prospectively – retrospective application would be limited to certain circumstances.

Questions for respondents

5. Do you agree with the proposed effective date of 1 January 2021, with early adoption permitted? If you disagree, please provide reasons.
6. Do you have any other comments on the Exposure Draft?