

NZASB ED 2018-4 PBE Combinations

This summary provides an overview of the exposure draft on PBE Combinations

Project objective	To develop a PBE Standard (applicable to Tier 1 and Tier 2 public benefit entities) that is aligned with IPSAS 40 <i>Public Sector Combinations</i> and addresses the accounting for both amalgamations and acquisitions.
Project stage	The NZASB has published an exposure draft, NZASB ED 2018-4 <i>PBE Combinations</i> (the ED), and is seeking comments on the ED.
Next steps	The NZASB will consider the comments received before finalising the proposed PBE Standard.
Comment deadline	31 January 2019

Why is the NZASB undertaking this project?

The IPSASB has issued a standard dealing with amalgamations and acquisitions

Replacing PBE IFRS 3

This project aims to replace PBE IFRS 3 *Business Combinations* with a new standard based on IPSAS 40 *Public Sector Combinations*.

Why change?

In accordance with the Accounting Standards Framework, the NZASB considers the suitability of each new IPSAS as the basis for a PBE Standard. The NZASB considers that it is desirable to issue a PBE Standard based on IPSAS 40 for the following reasons.

- IPSAS 40 has a broader scope than PBE IFRS 3 – PBE IFRS 3 excludes combinations under common control and combinations arising from local authority reorganisations. Hence, IPSAS 40 fills a gap in PBE Standards by providing requirements to account for these types of combinations.
- IPSAS 40 acknowledges that combinations may be amalgamations or acquisitions.
- IPSAS 40 establishes requirements for accounting for both amalgamations and acquisitions.

Comparison: PBE IFRS 3 and the proposed PBE IPSAS 40

Significant differences

- *Scope*
- *Classification of combination*
- *Accounting for amalgamations*

Significant differences

The following table compares the requirements in PBE IFRS 3 and the proposed PBE IPSAS 40.

	PBE IFRS 3	Proposed PBE IPSAS 40
Scope	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
Classification: amalgamation or acquisition?	All business combinations within the scope of the standard are accounted for as acquisitions	PBE combinations are classified as either amalgamations or acquisitions
Accounting for amalgamations	Not addressed – if within the scope of the standard, one of the combining entities must be identified as the acquirer	Contains requirements on the accounting for amalgamations

Classification: amalgamation or acquisition?

Does one party gain control of one or more operations?

What is the economic substance of the combination?

The classification approach

A combination must be classified as an amalgamation or an acquisition. If none of the parties to the combination gain control of one or more operations, the combination is classified as an amalgamation. If one party to a combination gains control of one or more operations as a result of the combination, an entity considers the economic substance of the combination to determine whether the combination should be classified as an amalgamation or acquisition. This involves looking at the indicators relating to consideration and the decision-making process.

The classification approach is summarised in Diagram 1.

Indicator relating to consideration

The absence of consideration may influence classification. If there is no consideration, it is necessary to consider why no consideration has been paid to compensate those with an entitlement to the net assets of a transferred operation.

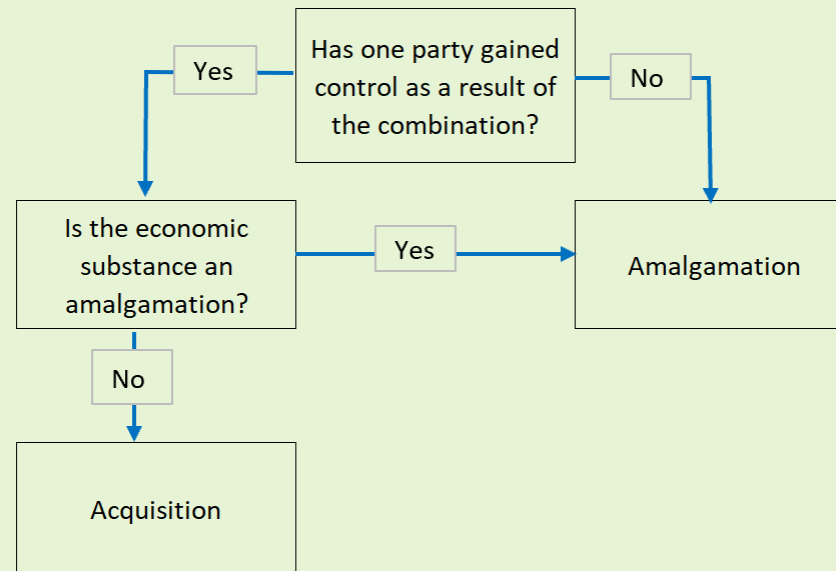
Indicators relating to the decision-making process

The combination may be an amalgamation if it is:

- imposed by a third party without any party to the combination being involved in the decision-making process;
- a combination under common control; or
- subject to approval by each party's citizens through referenda.

Classification: amalgamation or acquisition?

Diagram 1 Classification approach



Types of amalgamations

Is the resulting entity a new reporting entity or a continuing reporting entity?

There are different requirements for each situation

Resulting entity

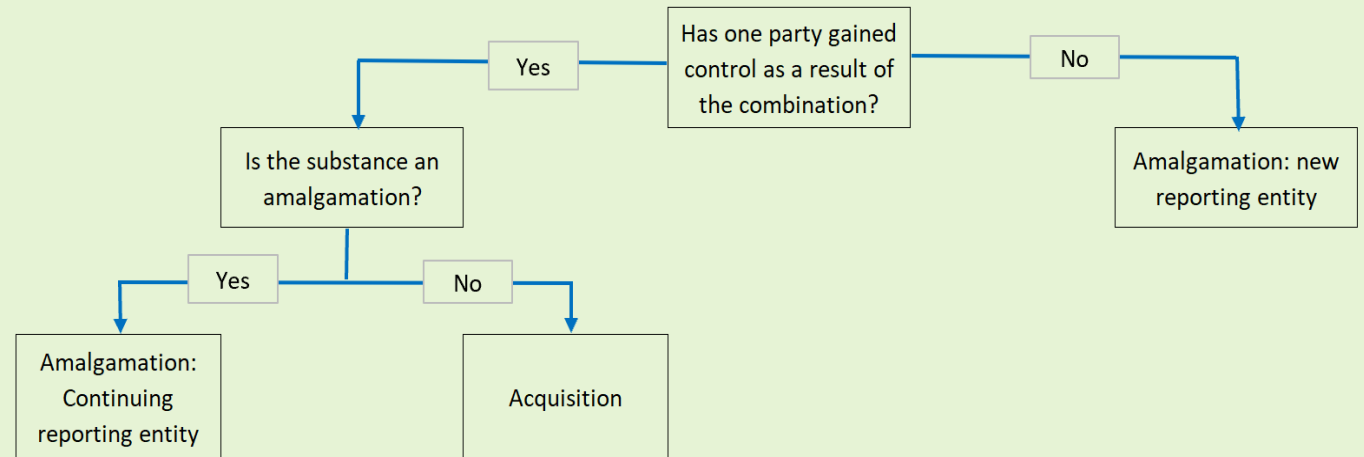
An amalgamation gives rise to a resulting entity. It is necessary to decide if the resulting entity is a new reporting entity or a continuing reporting entity.

- If no party to an amalgamation gains control of one or more operations as a result of an amalgamation, the resulting entity is a *new reporting entity*.
- If one party to the combination gains control of one or more operations but the combination is classified as an amalgamation, the resulting entity is a *continuing reporting entity*.

There are different accounting requirements for new reporting entities and continuing reporting entities. These differences affect presentation, disclosure and how to apply the modified pooling of interests method. For example, a new reporting entity is treated as coming into existence as at the date of amalgamation and, therefore, is required (amongst other things) to present an opening statement of financial position as at the amalgamation date. In contrast, a continuing reporting entity is treated as a continuation of the existing party that gained control of one or more operations and, therefore, is required to present information about the impact of the amalgamation on its financial statements as at the date of the amalgamation.

Types of amalgamations

Diagram 2 Amalgamation: New or continuing reporting entity?



Accounting for amalgamations

Amalgamations are accounted for using the modified pooling of interests method

Combining operations have to prepare financial statements in accordance with PBE Standards prior to the amalgamation

The modified pooling of interests method

Under the modified pooling of interests method, the resulting entity recognises the combining operations' assets, liabilities and non-controlling interests as at the amalgamation date.

Combining operations have to prepare financial statements in accordance with PBE Standards prior to the amalgamation. Combining operations that have not previously prepared financial statements in accordance with PBE Standards apply the relevant first-time adoption requirements.

Components of net asset/equity

The resulting entity recognises the difference between the assets and liabilities assumed in an amalgamation as one or more components of net assets/equity.

Comparative information

Comparative information for the period prior to the amalgamation is required as outlined below.

Type of entity	Comparative information?
Continuing reporting entity	Yes
New reporting entity	No

Accounting for acquisitions

Acquisitions are accounted for using the acquisition method

Acquisition method based on PBE IFRS 3

Acquisitions are accounted for using the acquisition method. This is consistent with PBE IFRS 3.

Compared to PBE IFRS 3, the ED has more requirements on the acquisition method. The ED has additional requirements on:

- the recognition of goodwill; and
- common non-exchange acquisitions in the public sector and not-for-profit sector such as a donation of an operation.

Transition and effective date

Transitional provisions

- *Prospective application*
- *Restatement of prior combinations is generally prohibited*
- *Early application permitted*

Prospective application

In general, the proposed standard is to be applied prospectively — this means there is no restatement of combinations before the date the standard is applied.

However, retrospective application is permitted in some first-time adoption situations.

Effective date

The ED proposes an effective date of annual financial statements covering periods beginning on or after 1 January 2021, with early application permitted.

Next steps

*The deadline for comments
is 31 January 2019*

*Our webinar is on
14 November*

Commenting on the proposals

Respondents may choose to answer all or some of the questions in the Invitation to Comment. The NZASB would like to know why you agree or disagree with the proposals. The NZASB welcomes comments on any other matters you think are important.

Comments can be formal or informal. Comment letters and e-mails will generally be posted on the XRB website.

Further information is available on our website at www.xrb.govt.nz

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.

Webinar

We will hold a webinar on Wednesday 14 November 2018 from 12.00 – 1.00pm. The webinar is free, but you need to register in advance on our website.