

# ED PBE IPSAS 40 PBE Combinations

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Webinar

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## Why develop a new standard?



- PBE IFRS 3 *Business Combinations* is based on IFRS 3 *Business Combinations*
- The IPSASB issued IPSAS 40 *Public Sector Combinations* in January 2017
- We consider all new IPSAS for suitability as PBE Standards
- PBE IPSAS 40 will fill a gap in PBE Standards
  - it will apply to more types of combinations
  - it will address amalgamations and acquisitions

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## What would change?



- Broader scope – fewer scope exclusions
- Classify each combination as an amalgamation or an acquisition – PBE IFRS 3 requires that an acquirer be identified
- Pooling of interests method used for amalgamations
- Acquisitions – additional restrictions on the recognition of goodwill

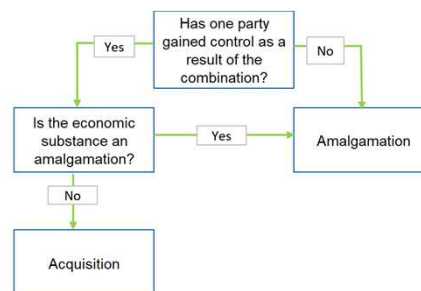
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## Amalgamation or acquisition?



- A combination is classified as an amalgamation or an acquisition
  - If none of the parties to the combination gain control of the operation  
→ amalgamation
  - If one of the parties gains control, consider the economic substance of the combination by looking at the indicators relating to consideration and the decision-making process  
→ could be an amalgamation or an acquisition

Diagram 1



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## Amalgamation or acquisition?



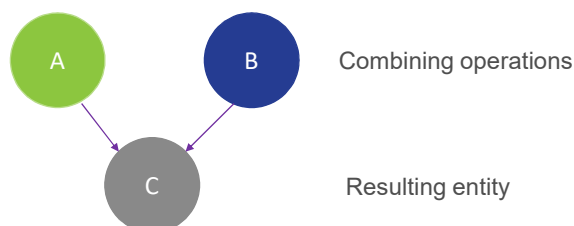
- Consideration
  - If there is no consideration, need to consider why no consideration has been paid to compensate those with an entitlement to the net assets of a transferred operation
- The combination may be an amalgamation if the following indicators relating to the decision-making process are present
  - imposed by a third party without any party to the combination being involved in the decision-making process
  - a combination under common control
  - subject to approval by each party's citizens through referenda

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# Amalgamations

## Parties in an amalgamation

- Resulting entity/combined operation
  - The entity that is the result of two or more operations combining in an amalgamation
- Combining operation
  - An operation that combines with one or more other operations to form the resulting entity in an amalgamation



## Types of amalgamation



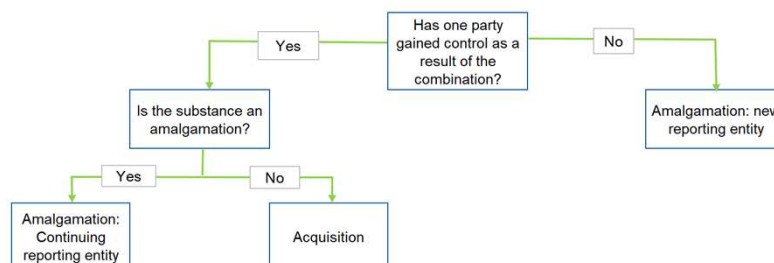
- New reporting entity
  - If no party to an amalgamation gains control of one or more operations as a result of an amalgamation, the resulting entity is a *new reporting entity*
- Continuing reporting entity
  - If one party to the combination gains control of one or more operations but the combination is classified as an amalgamation, the resulting entity is a *continuing reporting entity*
- Different accounting requirements for new reporting entity and continuing reporting entity

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## Amalgamation or acquisition?



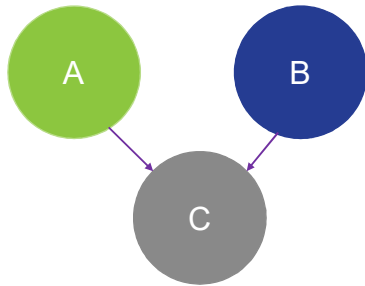
Diagram 2



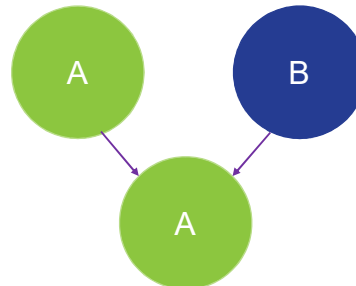
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## Types of amalgamation

New reporting entity



Continuing reporting entity



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## Accounting for amalgamations

- The modified pooling of interests method
  - Have all entities been applying PBE Standards?  
If not, apply relevant first-time adoption requirements
  - Certain continuing reporting entities may need to apply XRB A1
  - Add all balances as at the amalgamation date
    - generally at carrying amounts
    - may need to align accounting policies
  - Eliminate inter-entity transactions

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## Accounting for amalgamations

- Presentation: new reporting entity

	Amalgamation date	Reporting date	Amalgamation date to reporting date
Opening statement of financial position	✓		
Statement of financial position		✓	
Statement of financial performance			✓
Statement of changes in net assets/equity			✓
Statement of cash flows			✓
Comparison with approved budget			✓
Accounting policies and notes		✓	

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## Accounting for amalgamations

- Presentation: continuing reporting entity
  - Major classes of assets and liabilities and components of net assets/equity
  - Align accounting policies
  - Adjustments for inter-entity transactions
  - Comparatives for the continuing reporting entity are not restated
  - Historical information for the combining operations



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# Acquisitions

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## Accounting for acquisitions

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- Consistent with PBE IFRS 3 – apply the acquisition method
- Compared to PBE IFRS 3
  - Additional restrictions on the recognition of goodwill
  - More guidance on how to deal with acquisitions where there is no consideration or limited consideration
  - Less guidance on identifying the acquirer

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## Transition and effective date



- Prospective application is required
  - but first-time adopters of PBE Standards applying PBE FRS 47 have the option of restating prior period combinations
- Early application is permitted
  - but first-time adopters of PBE Standards applying PBE FRS 46 may not restate combinations that occurred prior to adoption of PBE Standards

Proposed effective date – 1 January 2021

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## PBE IPSAS 40 or PBE IPSAS 35?



- PBE IPSAS 40
  - Requirements for amalgamations and acquisitions
- PBE IPSAS 35
  - Requirements for the ongoing presentation and preparation of consolidated financial statements when one entity controls one or more other entities
- Control is the overlap
  - PBE IPSAS 40 – an indicator of the type of combination
  - PBE IPSAS 35 – consolidated financial statements are prepared when one entity controls another entity

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## Next steps



- Comments due to NZASB by 31 January 2019
- Documents available on XRB website
  - Invitation to Comment
  - NZASB ED 2018-4 PBE Combinations
  - In Summary
  - Marked-up ED
  - IPSAS 40
- Send comments to NZASB at [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)



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## Information



See “Accounting Standards in Development” section.

[www.xrb.govt.nz](http://www.xrb.govt.nz)  
[enquiries@xrb.govt.nz](mailto:enquiries@xrb.govt.nz)



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## Key points

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- The ED covers amalgamation and acquisition
- Approach for classifying the type of combination
- Modified pooling of interests method for amalgamations
- New reporting entity vs continuing reporting entity
- Accounting for acquisitions consistent with PBE IFRS 3
- Generally prospective application



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