



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

3 August 2016

Mr John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2  
CANADA

Dear John,

**EXPOSURE DRAFT 60: PUBLIC SECTOR COMBINATIONS**

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft 60 ("ED 60") *Public Sector Combinations* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the standard. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2279 9277 or by email at [rasnimi@mia.org.my](mailto:rasnimi@mia.org.my).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dato' Haji Che Pee Samsudin'.

**DATO' HAJI CHE PEE SAMSUDIN**  
Chairman of Public Sector Accounting Committee  
MALAYSIAN INSTITUTE OF ACCOUNTANTS

## Part I: Specific Matter for Comment

**Do you agree with the scope of the Exposure Draft? If not, what changes to the scope would you make?**

We support the scope of the ED.

**Do you agree with the approach to classifying public sector combinations adopted in this Exposure Draft (see paragraph 7–14 and AG10–AG50)? If not, how would you change the approach to classifying public sector combinations?**

We generally agree with the approach to classify public sector combinations as proposed in the ED. Our additional comments relating to the approach to classify public sector combinations are as follows:

### 1. Economic substance

We noted that paragraph 9 states that *'in assessing whether the presumption is rebutted, an entity considers the economic substance of the public sector combination'*. Paragraph 9 further states that *'to assess the economic substance of the combination, and entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13.'* However, paragraph AG19 of the ED states that *'in assessing whether the presumption is rebutted, an entity considers the economic substance of the public sector combination and the indicators in paragraphs 12–14'*.

As such, it appears that there is an inconsistency between the requirements in paragraphs 9 and AG19. Paragraph 9 requires an entity to consider indicators relating to consideration and decision-making to assess the economic substance of the public sector combination. However, paragraph AG19 seems to require an entity to also consider the economic substance, in addition to indicators relating to consideration and decision-making.

For better clarity, we propose paragraph AG19 to be amended as follows:

*'In assessing whether the presumption is rebutted, an entity considers the economic substance of the public sector combination by taking into accounts and the indicators in paragraphs 12–13 and if relevant, the additional matters to be considered in paragraph 14*.

### 2. Assessment of indicators

Paragraph 9 also states that *'to assess the economic substance of the combination, and entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13. These indicators, individually or in combination, will usually provide evidence as to whether the economic substance of the combination is that of an amalgamation and that the presumption is rebutted.'*

The word 'individually' may lead preparers to 'pick and choose' the indicator that will result in their intended outcome (i.e. amalgamation or acquisition). We believe that those indicators should be considered in totality and hence, we propose the word 'individually' to be deleted.

### 3. Implementation Examples

We noted that Implementation Example ("IE") 19, IE29, IE45, IE59, IE68, IE78, IE90, IE99, IE112, IE125, IE135, IE144 and IE153 discuss three matters, which are economic

substance, consideration and decision making in order to illustrate how various public sector combinations should be classified. Based on paragraph 9, in assessing the economic substance, an entity should consider the indicators relating to consideration and decision making.

As such, we propose the discussion on economic substance in the respective IEs to be used as the overall conclusion of the assessment of indicators relating to consideration and decision making, rather than as an indicator on its own.

#### 4. Editorial error

We believe the word 'and' in paragraph 9 which states that '*to assess the economic substance of the combination, and entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13*' should be replaced with the word 'an'.

**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?**

We agree that the modified pooling of interests method of accounting should be used in accounting for amalgamations on the same basis as included in BC40 to BC58 of the ED.

**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?**

We noted that paragraph 37 requires the resulting entity to recognise as a residual amount all items within net assets/equity of the combining operations at the amalgamation date. The Board further acknowledged the consequences of adopting this conceptual basis of an amalgamation as stated in BC64 to BC66.

Paragraph 65 of IAS 22 (revised 1993) *Business Combinations* states that '*since a uniting of interests results in a single combined entity, a single uniform set of accounting policies is adopted by that entity. Therefore, the combined entity recognises the assets, liabilities and equity of the combining enterprises at their existing carrying amounts adjusted only as a result of conforming the combining enterprises' accounting policies and applying those policies to all periods presented*'. In other words, those items under equity such as a revaluation reserve, will be carried at their existing carrying amount separately and is not being aggregated with other items under equity.

As modified pooling of interests method is based on pooling of interests method, it would be beneficial to understand whether the previously recognised revaluation surplus under pooling of interests method (under IAS 22) can still be utilised to absorb future revaluation decreases. We believe that the approach taken in IAS 22 should be consistent with modified pooling of interest method in the ED.

In relation to where the residual amount should be recognised, for better clarity, we propose examples for both amalgamations under common control and not under common control are included, together with how the residual amount for amalgamations under common control and not under common control are presented in the financial statements.

**Do you agree that the acquisition method of accounting (as set out in IFRS 3, Business Combinations) should be used in accounting for acquisitions? If not, what method of accounting should be used?**

We agree that the acquisition method of accounting (as set out in IFRS 3 *Business Combinations*) should be used in accounting for acquisitions. We believe that there is no specific public sector reason that requires a method of accounting other than the acquisition method.

## Part II: Other comments

### Additional Comment 1

Paragraph AG17 states that *'in a public sector combination in which a new entity is formed to effect the combination, that entity may gain control of operations only where the entity exists prior to the combination taking place. Where this new entity does not exist prior to the combination taking place, an entity considers whether one of the parties to the combination that existed prior to the combination taking place gains control of operations'*.

For better clarity, we propose paragraph AG17 to be amended as follows :

*'In a public sector combination in which a new entity is formed to effect the combination, ~~that entity may gain control of operations only where the entity exists prior to the combination taking place. Where this new entity does not exist prior to the combination taking place,~~ an entity considers whether one of the parties to the combination that existed prior to the combination taking place gains control of operations'*.

### Additional Comment 2

Paragraph 11 states that *'if, in exceptional circumstances, after applying the indicators in paragraphs 12–13, the results are inconclusive or do not provide sufficient evidence about the economic substance of the public sector combination to determine whether the presumption is rebutted, an entity also considers which classification would provide information that best meets the objectives of financial reporting and that best satisfies the qualitative characteristics. In such circumstances, an entity has regard to paragraph 14 in determining whether the presumption is rebutted. Paragraphs AG40–AG41 provide additional guidance'*.

Paragraph 14 states that *'if the analysis of the indicators relating to consideration and the decision-making process produces inconclusive results or does not provide sufficient evidence to determine whether the presumption should be rebutted, based on the economic substance of the public sector combination and the indicators in paragraphs 12–13, an entity considers which classification and resulting accounting treatment would provide information that best meets the objectives of financial reporting. Paragraphs AG42–AG46 provide additional guidance. An entity also considers which classification and resulting accounting treatment would provide information that best satisfies the qualitative characteristics of relevance, faithful representation, understandability, timeliness, comparability and verifiability. Paragraphs AG47–AG50 provide additional guidance'*.

We believe that paragraph 14 appears repetitive when taken together with paragraph 11.

We propose paragraph 14 be deleted and paragraph 11 be amended as follows:

*'If, in exceptional circumstances, after applying the indicators in paragraphs 12–13, the results are inconclusive or do not provide sufficient evidence about the economic substance of the public sector combination to determine whether the presumption is rebutted, an entity also considers which classification and resulting accounting treatment would provide information that best meets the objectives of financial reporting and that best satisfies the qualitative characteristics. ~~In such circumstances, an entity has regard to paragraph 14 in determining whether the presumption is rebutted.~~ Paragraphs AG40-AG44AG50 provide additional guidance'.*

### **Additional Comment 3**

Paragraph IE127 states that *'in considering the indicators relating to consideration, the Ministry of Education notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the reason for this is that Not-for-Profit Organization R voluntarily surrendered those rights'.*

For better clarity, we propose the wordings in the last sentence of the paragraph to be amended as follows:

*'...However, the reason for this is that Not-for-Profit Organization R voluntarily surrendered the rights to receive payment of consideration'.*

### **Additional Comment 4**

We noted that in some scenarios included in the ED, it is unclear why the classification has been determined as amalgamation or acquisition. These are as follows:

a) Scenario 6:

Paragraph IE71 states that *'taking these factors together, the Department of Health considers that the presumption should be rebutted and the public sector combination should be classified as an amalgamation. In arriving at this decision, the Department of Health considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor. In this scenario, this view is reinforced by the fact that that Board of Trustees is voluntarily giving up control over the operations to improve the delivery of services to the public'.* It is unclear why the Department of Health considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor and accordingly, considered that the presumption should be rebutted.

b) Scenario 7:

Based on paragraph IE79, in relation to consideration, there is no payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation which indicates that the presumption that the public sector combination is an acquisition can be rebutted. However, in paragraph IE80, in relation to decision-making, it is voluntary combination which indicates that the presumption cannot be rebutted. It is unclear how the Provincial Government considers these factors and arrives at the conclusion that the public sector combination is an acquisition. In addition, if the fact that there is no payment of consideration, but the cost of providing services is approximately equal to the value of net assets received, is considered to be the factor in determining whether the presumption should be rebutted, such factor should be included in the indicators relating to consideration.

#### **Additional Comment 5**

Paragraph 18 states that *'the resulting entity shall thereafter be identified as the entity that obtains control of the combining operations as a result of the amalgamation'*. Paragraph 5 states that 'An amalgamation gives rise to a resulting entity and is either:

- (a) A public sector combination in which no party to the combination gains control of one or more operations; or
- (b) A public sector combination in which one party to the combination gains control of one or more operations, and in which the presumption that such a combination is an acquisition is rebutted.

However, the words 'obtains control' in paragraph 18 may give an impression that it is an acquisition. We also noted the words 'obtains control' are used throughout the ED on discussion on amalgamation.

#### **Additional Comment 6**

Paragraph AG39 states that *'in such circumstances, the entity considers all other factors in determining whether the presumption should be rebutted'*. We would like to clarify what are some of these 'other factors'.