



1 April 2010

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board (AASB)
PO Box 204
Collins Street West
MELBOURNE VIC 8007

Dear Mr Stevenson

IMPAIRMENT OF STATUTORY RECEIVABLES

I refer to your letter dated 21 December 2009 on the abovementioned issue.

The Australasian Council of Auditors-General (ACAG) wishes to thank the AASB for its preliminary consideration and views on this Gap in GAAP issue that was identified in the 'other Gaps in GAAP' category of issues identified in our letter to you of 18 November 2009.

View of the Australian members of ACAG

In summary, ACAG has considered the insightful views of the AASB provided in your letter of 21 December 2009, particularly the matter of the application of AASB 136 *Impairment of Assets* (including paragraph 23 of AASB 136). It also acknowledges that no material concerns were identified for statutory receivables in a recent update and consultation process within ACAG. Finally, ACAG recognises that this Gap in GAAP issue was positioned in the third priority category of many issues advised to the AASB for consideration.

In overall consideration and recognition of the above mentioned matters, ACAG is of the view that the issue of Impairment of Statutory Receivables does not warrant a separate project at this time. Rather the higher priority Gaps in GAAP issues should receive consideration and attention by the AASB.

In communicating this view, it is noted that the AASB considers that AASB 136 is not restrictive in achieving effective impairment assessment outcomes for statutory receivables. ACAG would appreciate receiving an understanding of whether the AASB deliberated on the matter of clarifying the application of AASB 136 (by insertion of an Aus paragraph) and the outcome of that deliberation. It is ACAG's view that a clarifying Aus paragraph in AASB 136 would benefit preparers of financial reports applying this standard.

Further elaboration giving rise to ACAG's view is provided below.

Discussion of the View of Australian members of ACAG

This Gap in GAAP issue was listed in the 'other Gaps in GAAP' (third or least priority) category of issues raised by ACAG for consideration/attention by the AASB.

It was raised as a matter of 'better practice principle', not as a 'concern' of a pressing and major nature that is resulting in materially distorted impairment accounting outcomes or financial reporting disclosures for statutory receivables. Hence its listing in the third priority category of issues raised for consideration.

The matter of better practice principle recognises the difference and preference in the application of the impairment requirements of AASB 139 *Financial Instruments: Recognition and Measurement* and those of AASB 136 *Impairment of Assets*. Despite statutory receivables being excluded from the application of AASB 139 (by operation of AASB 132 *Financial Instruments: Presentation*) and coming within AASB 136, some ACAG practitioners consider that the impairment requirements of AASB 139 are better suited to statutory receivables than the impairment requirements of AASB 136. This reflects the view of those practitioners that the characteristics of statutory receivables are more like financial instruments. Also, AASB 139 provides for a portfolio approach to impairment testing which is a most reasonable basis for assessing the impairment of significant numbers of statutory receivables. The use of this approach is not clear under AASB 136.

Your letter provides ACAG with an insightful explanation of the AASB's current views of the application of AASB 136, and with this in mind, its reluctance at this time to change the scope of AASB 132 (with far-reaching consequences) to encompass non-contractual assets, including statutory receivables.

The letter indicates that while the AASB is of the view that statutory receivables are more in the nature of financial instruments, the AASB considers that AASB 136 is not restrictive in its operation for impairment testing of statutory receivables. The AASB notes that through the application of professional judgement, paragraph 23 of AASB 136 can be considered for an individual or portfolio of statutory receivables. The AASB also would not object to applicable reporting entities voluntarily making disclosures compatible with financial instrument disclosures under AASB 7 *Financial Instruments: Disclosures* for statutory receivables.

As the AASB does not consider that AASB 136 is restrictive for impairment assessment of statutory receivables, ACAG would like some understanding as to whether the AASB deliberated on the matter of including an Aus paragraph in AASB 136 to clarify its application and the result of that deliberation. As you are aware this matter was raised in the issues paper *Impairment of statutory receivables* that was considered by the AASB. As noted earlier in this letter, it is ACAG's view that a clarifying Aus paragraph in AASB 136 would benefit preparers of financial reports applying this standard.

Australian ACAG member offices have had the opportunity to update their understanding of the position status for impairment accounting and reporting of material statutory receivables in their particular jurisdictions. This has been done in the knowledge of the views of the AASB provided in your letter. This update and consultation process revealed no significant or material concern in the impairment accounting and reporting of statutory receivables in the various jurisdictions.

Concluding Comments

As previously advised to the AASB, my oversight in informing the AASB of my audit office postal address for Gaps in GAAP matters, meant that I received your letter via the ACAG's postal address towards the end of January 2010. This delayed the consultation process with Australian ACAG member offices on this matter and an earlier response to your letter. I apologise for not replying earlier.

Thank you again for the opportunity for ACAG to provide comment and respond to the views of the AASB on this issue.

Yours sincerely

A handwritten signature in black ink, appearing to read "Simon O'Neill", with a horizontal line extending to the right.

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee