



<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	19 April 2011
<b>From:</b>	<b>Robert Keys</b>	<b>Agenda Item:</b>	12.2
<b>Subject:</b>	<b>Emerging issue: IPSASB ED 45 <i>Improvements to IPSASs 2011</i></b>	<b>File:</b>	

## Action

Decide whether:

- (a) to respond to IPSASB ED 45; and
- (b) if so, how to seek input from AASB constituents; and
- (c) the IPSASB's proposals to delete references to 'exchanges of assets that lack commercial substance' from IPSAS 16 *Investment Property* and IPSAS 17 *Property, Plant and Equipment*, (on the basis that those IPSASs include requirements for the treatment of such assets acquired through non-exchange transactions elsewhere), are supported and whether they highlight issues for the way in which Australian Accounting Standards currently deal with such exchanges by not-for-profit entities.

## Attachments

A copy of IPSASB ED 45 will be available at the AASB meeting. It can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0156>.

## Overview of staff views

- (a) The AASB's practice has been to consider IPSASs where they differ from Australian Accounting Standards. Although most of the IPSASB proposals appear to be perfunctory, IPSASB ED 45 warrants a response from the AASB on the basis that the proposals relating to exchanges of assets that lack commercial substance inappropriately equate such exchanges to non-exchange transactions.
- (b) We think it would be sufficient to undertake targeted consultation with AASB constituents, through the AASB's Not-for-Profit Focus Group and through HoTARAC and ACAG, to ascertain whether the IPSASB proposals highlight any issues in Australia. We note that the issue the IPSASB is addressing has not been highlighted to us as an issue by Australian constituents. Based on input from constituents, we suggest the submission to the IPSASB is developed through a sub-committee and cleared through the Chairman.
- (c) We disagree with the manner in which the IPSASB proposes addressing the issue of exchanges of assets that lack commercial substance. This is because IPSASB seems to presume that all 'exchanges that lack commercial substance' are 'non-exchange

transactions’, which is not necessarily the case – and there is no public sector (or not-for-profit) specific reason to make such a presumption.

We do not think the issue highlights any inconsistencies within AASB 116 *Property, Plant and Equipment* and AASB 140 *Investment Property* (between requirements relating to exchanges of such assets that lack commercial substance and Aus paragraphs relating to acquisitions at cost or nominal amounts). Unlike the IPSAS paragraphs that correspond to the Aus paragraphs, the Aus paragraphs refer to ‘acquired at no cost, or for a nominal cost’ rather than ‘acquired through a non-exchange transaction’.

We agree that, currently, the IPSASs’ references to ‘exchange transactions’ in the context of the discussion about exchanges of assets that lack commercial substance relative to the references to ‘non-exchange transactions’ elsewhere in the IPSASs has the potential to be unclear. We think it could be resolved by IPSASB clarifying or re-expressing the references to ‘exchange transactions’ when used in the context of exchanges of assets that lack commercial substance.

## Background

IPSASB ED 45 is open for comment until 30 June 2011. It comprises three parts:

- Part I proposes deleting the Introduction section of those IPSASs that have an Introduction section;
- Part II proposes inserting objective paragraphs in those IPSASs that do not currently have an objective paragraph; and
- Part III proposes general improvements to four IPSASs that relate to inconsistent references to standards, terminology and structure resulting from IPSASB’s ongoing review of existing IPSASs.

The only issue of significance to the AASB is the proposal to delete references to exchanges of assets that lack commercial substance from IPSAS 16 *Investment Property* and IPSAS 17 *Property, Plant and Equipment* on the basis that those IPSASs include requirements for the treatment of such assets acquired through a non-exchange transaction elsewhere.

## APPENDIX

### Extracts from AASB 116 (AASB 140 has similar paragraphs)

**15 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.**

**Aus15.1 Notwithstanding paragraph 15, in respect of *not-for-profit entities*, where an asset is acquired at no cost, or for a nominal cost, the cost is its *fair value* as at the date of acquisition.**

24 One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

25 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
- (b) the *entity-specific value* of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
- (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

### Extracts from IPSAS 17 (IPSAS 16 has similar paragraphs) – marked up for proposals

**26. An item of property, plant, and equipment that qualifies for recognition as an asset shall be measured at its cost.**

**27. Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.**

38. One or more items of property, plant, and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant, and equipment is measured at fair value unless ~~(a) the exchange transaction lacks commercial substance, or (b) the~~ fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

39. ~~An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:~~

- ~~(a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or~~
- ~~(b) The entity specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and~~
- ~~(c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.~~

~~For the purpose of determining whether an exchange transaction has commercial substance, the entity specific value of the portion of the entity's operations affected by the transaction shall reflect post tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.~~