



Staff Paper

Feb 2011, AASB Agenda Paper 10.3 / FRSB Agenda Paper B7.3

Income from Non-Exchange Transactions – Measurement of Non-Financial Assets Acquired

Proposals in ED 180/ED 118

1. AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)* proposed that a non-financial asset acquired through a non-exchange transaction – such as property, plant and equipment – shall initially be measured at its fair value as at the date of acquisition (paragraph 43). This paper discusses whether to confirm that proposal in the light of the submissions received and other developments.

Comments by Respondents to AASB ED 180/FRSB ED 118

2. Of the eleven respondents to ED 180/ED 118¹ who commented on this proposal, eight² agreed. Two³ disagreed because of the difference between the treatment of financial and non-financial assets. AASB staff observe that this difference is not specific to the proposals in ED 180/ED 118. Rather, it exists in IFRSs and IPSASs generally. Therefore, staff suggests this project is not the place to address that difference.
3. Two supportive respondents expressed concern that PBEs/NFPs often lack the expertise to obtain relevant estimates of the fair value of various donated assets, such as goods-in-kind held for sale or distribution. They argued that these goods-in-kind received should not be required to be measured initially at fair value if the costs of doing so exceed the benefits. As this concern relates to a particular class of assets, it will be addressed in agenda papers (for a future meeting) dealing with ‘other issues’ than those on which comments were

¹ The collation of submissions on AASB ED 180/FRSB ED 118 was Agenda Paper B4.2 for the joint AASB-FRSB meeting on 17 – 18 March 2010. Copies are available on request to either jpaul@aab.gov.au or joanne.scott@nzica.com

² Joint Accounting Bodies, KPMG (Aust), PwC (Aust), South Aust. Treasury; Grant Thornton, PwC (NZ), NFPSAC and Salvation Army. The full names of the respondents to which these and other abbreviations relate are given in pages 3 – 4 of Agenda Paper B4.2 for the joint AASB-FRSB meeting on 17 – 18 March 2010.

³ HoTARAC and Finance Department

specifically invited in the ED. Another respondent, which did not express an overall view on this proposal,⁴ commented that the drafting of the ED is confusing in relation to whether the proposed Standard, or other Standards, are the relevant authority to refer to. This issue will be addressed in the drafting of the revised ED.

Recent Developments

4. Since IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*⁵ was issued, the IPSASB has adopted a modified policy for the measurement of financial and non-financial assets acquired in non-exchange transactions. That policy is to conform the initial measurement basis for the class of assets to its measurement basis in the IPSAS specifying its subsequent measurement basis. Therefore:
 - (a) IPSAS 27 *Agriculture* specifies that, where an entity acquires a biological asset through a non-exchange transaction, the biological asset is measured on initial recognition and at each reporting date at its fair value less costs to sell unless its fair value cannot be measured reliably (IPSAS 27, paragraphs 16 – 17); and
 - (b) IPSAS 29 *Financial Instruments: Recognition and Measurement* specifies that all financial assets are initially to be measured at fair value plus, in the case of a financial asset not at fair value through surplus or deficit, transaction costs directly attributable to the acquisition of the financial asset (IPSAS 29, paragraph 45). Paragraph BC10 of the Basis for Conclusions on IPSAS 29 says “The IPSASB concluded that it would be inappropriate for financial assets arising from non-exchange transactions to be measured differently from those arising from exchange transactions.”
5. Similarly, where the IPSAS specifying the subsequent measurement basis for an asset requires the asset’s cost of acquisition to be measured at the asset’s fair value as at the date

⁴ Ernst & Young
⁵ on which ED 180/ED 118 was closely based

of acquisition if the asset is acquired through a non-exchange transaction,⁶ IPSAS 23 conforms to that requirement.

6. AASB staff think that when a Standard (such as AASB 141/NZ IAS 41 *Agriculture*) specifies the same measurement basis for initial and subsequent measurement, it would be illogical for the revised ED succeeding ED 180/ED 118 to propose a different measurement basis on initial recognition. That treatment would result in recognition of a ‘day two’ gain or loss based purely on the asset in question falling within the scope of a different Standard for all subsequent measurements. Such a gain or loss would not represent an economic event affecting the entity, and therefore would not be representationally faithful.⁷
7. Staff observe that the policy adopted in IPSAS 29 (see paragraph 4(b) above) is consistent with the departure from the original text of IPSAS 23 that was proposed in paragraph 43 of ED 180/ED 118.⁸ The measurement of financial assets and financial liabilities is discussed in AASB Agenda Paper 10.4 / FRSB Agenda Paper B7.4.

Staff Recommendation

8. The modified approach adopted by the IPSASB, as described in paragraph 4, is based primarily on fair value (consistent with the proposals in paragraph 43 of ED 180/ED 118). In view of the strong support for that approach in submissions on the ED, AASB staff recommend generally⁹ retaining that basic principle.

⁶ This requirement is set out in IPSAS 12 *Inventories*, IPSAS 16 *Investment Property*, IPSAS 17 *Property, Plant and Equipment*, and IPSAS 31 *Intangible Assets*.

⁷ Unlike the treatment in IPSAS 27 *Agriculture* noted in paragraph 6(a) above, AASB 141 *Agriculture* specifies that “not-for-profit entities recognise government grants related to a biological asset in accordance with AASB 1004” (paragraph Aus38.1). AASB 1004 requires contributions to be measured at fair value, not fair value less costs to sell.

⁸ The latest version of IPSAS 23 has not been amended to explicitly refer to the IPSASB’s policy—set out in IPSAS 29—for the initial measurement of financial assets acquired in a non-exchange transaction. Paragraph BC10 of the Basis for Conclusions on IPSAS 29 says “... the IPSASB agreed that assets acquired in a non-exchange transaction should be measured initially at fair value using the requirements in IPSAS 23, but this Standard should also be considered where transactions costs are incurred to acquire the asset.” This drafting approach is not discussed in this paper, because drafting issues will be addressed in the draft revised ED that would succeed ED 180/ED 118.

⁹ In domestic Standards, an exception to referring to fair value in this context (which the staff does not propose amending) is found in AASB 102 *Inventories* and NZ IAS 2 *Inventories*. Paragraph Aus10.1 of AASB 102 and

9. AASB staff also recommend that, when a Standard specifies the same measurement basis for initial and subsequent measurement, the Standard developed from ED 180/ED 118 should not require a different measurement basis on initial recognition. This policy could be implemented either by cross-referring to the measurement requirements in other applicable Standards, or by including compatible requirements in the Standard developed from ED 180/ED 118. That drafting issue is not the subject of a question in this paper, which is focused only on the principle involved.

Questions for Board members

- Q1** Do you agree that non-financial assets acquired through a non-exchange transaction generally should initially be measured at fair value, with or without adjustment for transaction costs [depending on the requirements of other Standards (see Question 2)]?
- Q2** Do you agree that when a Standard specifies the same measurement basis for initial and subsequent measurement, the Standard developed from ED 180/ED 118 should not require a different measurement basis on initial recognition?

Terminology

10. The staff recommendations above are framed in terms of initial measurement of non-financial assets acquired in *non-exchange transactions*. That terminology is used above in this paper because it is consistent with ED 180/ED 118. However, AASB Agenda Paper 10.2 / FRSB Agenda Paper B7.2 includes a staff recommendation that the scope of the Boards' revised ED should, if possible, not be limited to non-exchange transactions.
11. Staff think the recommendations in Questions 1 and 2 above can be implemented without necessarily limiting the scope of the revised ED to non-exchange transactions. This can be achieved by, for example:
- (a) retaining the notion (and definition) of non-exchange transactions for the purposes of specifying the initial measurement of non-financial assets acquired in such

paragraph NZ 10.1 of NZ IAS 2 say that, in respect of PBEs/NFPs, where inventories are acquired at no cost, or for nominal consideration, the cost shall be the current replacement cost as at the date of acquisition.

transactions, within a Standard that is not limited to such transactions (e.g., it could specify the basis for identifying and recognising liabilities arising from all transactions); or

- (b) abandoning all references to ‘exchange’ and ‘non-exchange’ transactions and specifying that fair value shall be used to measure the cost of acquisition of non-financial assets that are:
 - (i) acquired without cost, or for nominal consideration (as per the expression used in Aus paragraphs for NFPs in various Australian Accounting Standards¹⁰); or
 - (ii) provided for no consideration, or for consideration that is not fair value (as per the expression used in paragraph BC18 of the Basis for Conclusions on IPSAS 29 *Financial Instruments: Recognition and Measurement*).

12. AASB staff prefer the approach in paragraph 11(b). Applying the approach in paragraph 11(a) would partially defeat (and complicate) the aim of removing the exchange/non-exchange distinction.
13. Sub-paragraphs (i) and (ii) in paragraph 11(b) are alternative descriptions of essentially the same transaction type. Staff prefer (ii) to (i) because it seems more robust. That is, it covers circumstances in which consideration is nil or nominal (as per (i)) and circumstances in which consideration is more than a nominal amount but still less than fair value.

Question for Board members

- Q3** Do you agree that non-financial assets acquired through a non-exchange transaction can be required to generally be measured initially at fair value without requiring the scope of the revised ED developed from ED 180/ED 118 to be limited to non-exchange transactions?

¹⁰ AASB 116/NZ IAS 16 *Property, Plant and Equipment* (paragraph Aus15.1/NZ 15.1) and AASB 138 *Intangible Assets* (paragraph Aus24.1) say that, in respect of PBEs/NFPs, 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. AASB 140/NZ IAS 40 *Investment Property* (paragraph Aus20.1/NZ 20.1) uses similar expression.

That is, do you agree that this issue should not affect the Boards' decision about the scope of the revised ED?