

Department of Treasury and Finance

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Mr David Boymal
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Dear Mr ~~Boymal~~ *David*

ED 165 – IMPROVEMENTS TO AUSTRALIAN ACCOUNTING STANDARDS

Thank you for the opportunity to comment on Exposure Draft 165 *Improvements to Australian Accounting Standards*.

The Heads of Treasuries Accounting and Reporting Advisory Committee's main comments on the ED relate to the public sector implications of the proposed AASB 118 *Revenue* guidance, on determining if a principal/agent relationship exists. Detailed comments are provided in the Attachment to this letter.

Please contact Peter Gibson from the Australian Department of Finance and Deregulation on 02 6215 3551 if you wish to discuss these matters further.

Yours sincerely

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

27 October 2008

Encl

Attachment

The Heads of Treasuries Accounting and Reporting Advisory Committee's detailed comments on ED 165 - *Improvements to Australian Accounting Standards*

AASB 118 Revenue

Where government departments and agencies do not control an activity, they may act on behalf of:

1. the Crown or the Government in the normal course of business (administered items);
2. other government departments and agencies (as agent); and
3. external parties (as agent, trustee etc).

The Heads of Treasuries Accounting and Reporting Advisory Committee is concerned about the impact the Draft AASB 118 guidance could have on transactions resulting from government departments and agencies acting on behalf of the Crown or the Government, or another government department or agency.

treatment of transactions resulting from government departments acting on behalf of external parties.

HoTARAC is concerned that there may be an inadequate distinction in the proposed guidance between circumstance one (administered items) and circumstance two (agency). The draft AASB 118 guidance could mean that some items may be treated as a transaction by an "agent" under AASB 118, but not as "administered" under AASB 1050 *Administered Items* (or vice versa). HoTARAC believes that this outcome would be inconsistent with the intent of AASB 1050.

Specifically, HoTARAC believes that, pending any further review of administered items and non-exchange transactions, AASB 1050 provides the more appropriate guidance for government departments (and not-for-profit entities) when acting on behalf of the Crown or the Government because:

- in government, many principal/agency relationships concern non-exchange transactions (e.g. taxes, fines and fees); while AASB 118 only provides guidance in relation to exchange transactions (i.e. the sale of goods and services); and
- the overriding determinant of whether or not an item is administered under AASB 1050 is the concept of "control"; while the proposed AASB 118 guidance on the principal/agent relationship focuses on risks and rewards.

While the concept of control can be seen to incorporate risks and rewards, AASB 1050, by adopting the control perspective, provides broader guidance than AASB 118 (e.g. including the capacity to deny or regulate access).

However, in the future, HoTARAC believes that the AASB 118 risks and rewards approach, compared to the control approach in AASB 1050, should be further considered as part of the AASB's projects on administered items and non-exchange transactions. HoTARAC also believes that including a clear definition of administered transactions in AASB 1050 would provide greater clarity regarding agent transactions and administered transactions.

In the interim, HoTARAC believes that the scope of agency under AASB 118 should exclude transactions subject to AASB 1050.

AASB 38 Intangible Assets

With regard to proposed changes to AASB 38 *Intangible Assets*, HoTARAC believes the word "together" in paragraph 36. should be replaced with "when directly associated", to avoid the use of words with a contradictory meaning.

AASB's Proposed requirement:

"An intangible asset acquired in a business combination might be separable, but only together with a related contract, identifiable asset, or liability."

HoTARAC's proposed words:

"An intangible asset acquired in a business combination might be separable, but only when directly associated with a related contract, identifiable asset, or liability."

AASB 39 Financial Instruments: Recognition and Measurement

With regard to AASB 39 *Financial Instruments: Recognition and Measurement* HoTARAC would like two commas to be inserted to enhance the readability of paragraph AG 33 (d). The first comma should be inserted directly after "insurance contract or not a financial instrument" and the second comma to be inserted directly after "related to the host contract".

HoTARAC is not aware of any regulatory impediments to the implementation of the changes. HoTARAC offers no comment about whether the changes are in the best interests of the Australian economy.

In conclusion, whilst the other improvements will have little impact on the Australian public sector, HoTARAC welcomes the clarity these other proposed changes bring to a number of requirements within standards.