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Mr Kevin Stevenson
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Dear Mr ~~Stevenson~~ *Kevin*

ED 180 INCOME FROM NON-EXCHANGE TRANSACTIONS (TAXES AND TRANSFERS)

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to respond to the Australian Accounting Standards Board's Exposure Draft 180 *Income from Non-exchange Transactions (Taxes and Transfers)*.

While HoTARAC strongly supports the AASB's consideration of this very important issue, the majority of HoTARAC members have significant concerns regarding the AASB's approach of issuing an Australian Accounting Standard based on IPSAS 23, for the following reasons:

- it is not desirable to develop an Australian Accounting Standard based on an IPSASB Standard unless the AASB first considers the *Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFPEs*, and whether the underlying principles are appropriate in the Australian context;
- both the AASB and HoTARAC raised significant concerns in previous submissions on IPSASB Exposure Draft 29, the precursor to IPSAS 23, which have not been resolved in ED 180;
- the principle of transaction neutrality requires that more recent IFRS developments be considered before adopting an IPSASB Standard, including the IASB projects on revenue recognition and provisions, which address recognition and measurement of contractual rights and obligations; and
- agencies may be required to change their accounting treatment within a relatively short time frame, once the IASB projects on revenue recognition and provisions are finalised.

In particular, most HoTARAC members disagree with the fundamental principle in ED 180, that a grant with an in-substance condition gives rise to a liability on initial recognition. Instead, HoTARAC strongly believes that a liability in relation to a grant only arises in relation to a condition when it is probable that the condition would be breached and it would be enforced. Conversely, if the IASB Project on IAS 37 *Provisions* proceeds, probability will be included in measurement and, because of the low probability that a grant will be returned, a liability would rarely be recognised or would be immaterial.

HoTARAC is also concerned that the ED 180 requirements are ambiguous and difficult to apply, particularly in regard to the concept of control and when a liability should be recognised. These interpretation difficulties are compounded by the simplistic nature of the illustrative examples in IPSAS 23, which are carried forward to the Exposure Draft and which do not reflect the Australian environment.

For example, there are significant interpretation issues regarding the treatment of time. HoTARAC views time as a separate criteria and believes that grants should be recognised as revenue in the period in which the grant is required to be used and as a liability where money is received prior to that time period. HoTARAC believes that the ED 180 requirements on advance receipts support this view, although this issue is not clearly articulated.

In response to this interpretation issue, the AASB omitted Example 20 to IPSAS 23, which supported HoTARAC's view on the treatment of time. The Board also included words in the Preface and Basis for Conclusions stating that the specification of a time basis is not sufficient for the deferral of income. However, rather than resolve this issue, HoTARAC is concerned that the AASB's response creates greater confusion, as the Basis for Conclusions and Preface may now be viewed as inconsistent with the body of the proposed Standard and the requirements on advance receipts.

Other areas of concern raised by the majority of HoTARAC members include:

- the meaning of the terms binding and enforceable;
- the inconsistent treatment of conditions and other transfers;
- the inconsistent measurement of liabilities and assets, depending on whether they are financial, non financial or advance receipt liabilities;
- the mixing of performance and return obligations in the definition of a condition; and
- excluding non-exchange expenses from the scope of the project.

The issues raised in this letter are addressed in more detail in Attachment 1. If you have any queries regarding this response, please contact Robert Williams from the New South Wales Treasury (02) 9228 3019.

Yours sincerely



D W Challen

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

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Encl

Contact: Amy Huxley
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Comments on AASB ED 180 Income from Non-exchange Transactions (Taxes and Transfers)

Questions for both Australian and New Zealand Constituents

(a) the Boards' approach of developing the proposals based on IPSAS 23

HoTARAC understands that the proposals in ED 180 were intended to be an interim solution only¹, however, it is noted that ED 180 does not refer to the proposals as an interim solution, nor are there any long term projects on this issue on the AASB's current work program. HoTARAC would like confirmation in the Basis for Conclusions as to whether a long term project is still envisaged. The majority of HoTARAC Members have significant concerns regarding the Board's approach of developing the proposals in ED 180 based on IPSAS 23, for the following reasons:

- it is not desirable to develop an Australian Accounting Standard based on an IPSASB Standard unless the AASB first considers the *Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFPEs*, and whether the underlying principles are appropriate in the Australian context;
- both the AASB and HoTARAC raised significant concerns in previous submissions on IPSAS Exposure Draft 29, the precursor to IPSAS 23, which have not been resolved in ED 180;
- HoTARAC supports the concept of transaction-neutrality. This requires that more recent IFRS developments be considered first before basing an Australian Standard on IPSAS 23, including the IASB Projects on revenue recognition and provisions, which address recognition and measurement of contractual rights and obligations. Counter-arguments relating to transaction-neutrality put forward by the AASB do not adequately explain why a transaction-neutral approach is inappropriate for non-exchange transactions (refer Paragraph BC 6);
- in this regard, under both ED 180 and the IASB Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers* (December 2008), revenue is recognised when the performance obligation is satisfied. The question is whether this is appropriate, given that the IASB Discussion Paper is focussed on exchange transactions, while ED 180 applies to non-exchange transactions. Some argue that, under the Discussion Paper, conditions and restrictions may give rise to performance obligations and a liability. Others argue that performance obligations never arise from non-exchange transactions. This requires at least some consideration of the IASB proposals;

¹ Refer AASB Action Alert, Number 110, 14 December 2007.

- if the IAS 37 *Provisions* Project proceeds, probability will be incorporated into the measurement of the liability (rather than the recognition criteria) and, where there is a low probability that a grant will be returned (as would usually be the case), then the liability is likely to be immaterial and rarely recognised. This outcome would be inconsistent with the intent of the ED 180 proposals. However, if ED 180 proceeds, it may be that agencies will be required to change their accounting treatment within a relatively short time-frame, once the IAS 37 project is finalised; and
- basing a Standard on IPSAS 23 does not take into account the work already undertaken by the AASB as part of Exposure Draft 125 *Financial Reporting by Local Governments* (refer response to Question (d) below), which focused more on whether or not the definition of a liability is satisfied.

Some HoTARAC members prefer, rather than an exchange/non-exchange distinction, an implicit contract approach, similar to the Financial Instruments Standard, whereby assets and liabilities are recognised when an entity becomes party to contractual provisions (or an analogous concept). HoTARAC members argue that this approach will eliminate interpretation issues in relation to the control and condition recognition criteria (refer response to Question (c)).

If the above concerns with ED 180 are not addressed, some HoTARAC members prefer the retention of AASB 1004 in the medium term while other related conceptual work is progressed as part of a longer term solution. Therefore, some HoTARAC members do not support a short term approach. In contrast, some HoTARAC members prefer that the AASB continues to pursue a short term solution. However, only a minority of HoTARAC members support the current ED 180 proposals and believe that the ED 180 proposals better reflect the financial performance of an agency.

(b) whether there are any differences between Australia and New Zealand that would override the Boards' desire for converged Standards for non-exchange transactions

With the exception of GAAP-GFS harmonisation, HoTARAC is not aware of any differences between Australia and New Zealand that would impact on a converged Standard. However, while convergence with New Zealand may be a goal, HoTARAC is of the view that this is secondary to the AASB's objective of developing high quality Accounting Standards in Australia.

(c) whether further guidance or illustrative examples are required in distinguishing exchange and non-exchange transactions or components of transactions, e.g. for local government rates

The majority of HoTARAC members do not support the adoption of ED 180, unless substantial modifications or clarifications are made. Most HoTARAC members are concerned that the ED 180 requirements are ambiguous and difficult to apply, particularly in relation to the concept of control and when a liability should be recognised.

However, if the ED 180 proposals were adopted, to avoid inconsistent application of the proposals, HoTARAC believes that further guidance or illustrative examples are required for two reasons. First, the examples do not provide guidance in relation to the key interpretation issues, such as:

- when control of an asset is obtained and when a liability is recognised, including the meaning of the terms binding and enforceable;
- the appropriate decision points in determining whether income or a liability is recognised;
- how to measure a liability based on IAS 37/AASB 137, including how to measure a partly performed stipulation;
- substance over form considerations;
- the complexities associated with multi-year arrangements and the meaning of enforceability (i.e. control) in this context; and
- how to differentiate between taxes levied on a periodic basis compared to taxes levied on the passing of a date.

Second, the examples provided in ED 180 are too simplistic. For example, assuming that there are no stipulations or that something is binding, without explaining why. These examples are also not tailored to the Australian environment (includes an example on death duties which do not apply in Australia or New Zealand).

These two issues described above are illustrated in the following examples:

Example 7 – Property Tax – This example illustrates the treatment of property taxes when the taxable event is the passing of the date on which the taxes are levied, but does not illustrate the more difficult scenario of where taxes are levied in respect of a period or the distinction between these two types of taxable events. In addition, it would be useful to include other Australian specific examples of taxes, such as the treatment of stamp duty.

Example 11 – Transfer to a University with Restrictions – This example illustrates a transfer that is a restriction. However, HoTARAC believes that the example should examine the distinction between a restriction and a condition and a situation where it may not be clear whether a stipulation is a restriction or a condition. However, HoTARAC believes that the example given of a transfer of land for a specific purpose, which in all probability will be used for that purpose, should never give rise to a liability. In contrast, the implication of this example is that a condition and a liability could arise, although this is not illustrated. Also, a key issue of when you recognise income if the condition is ongoing and never fully satisfied is not addressed.

Example 12 – Grant to Another Level of Government with Conditions - HoTARAC does not believe that this example gives rise to an in-substance condition (and liability) as the stipulation to spend the funds on a percentage basis in different areas is stated so broadly as to not impose on the recipient a performance obligation. While this is similar to Example 10, regarding *Transfer with Stipulations that do not Satisfy the Definition of a Condition*, the outcome in Example 12 is contrary, as a liability is recognised. HoTARAC believes that this demonstrates that the concept of in-substance conditions runs the risk of misinterpretation and divergence in practice.

Example 20 – External Assistance Recognised - HoTARAC does not agree with this example, as it implies that a Government has control of a multi-year grant agreement up-front. However, in practice, HoTARAC believe that these multi-year agreements typically only become binding on an annual basis, once appropriations are made (after approval of the Budget by Parliament). The example does not explain the key issue of how the conclusion that the agreement is binding is reached.

Omission of IPSAS 23, Example 20 - HoTARAC is also concerned that the AASB has omitted IPSAS 23, Example 20 on *Revenue of Aid Agency*, on the basis that it is in conflict with the other examples. This illustrates that there are some fundamental issues about the application of IPSAS 23. This is further discussed in the response to Question (e) below.

(d) the definition and treatment of conditions on transferred assets

Contrary to the Exposure Draft, the majority of HoTARAC members believe that a liability should only be recognised in relation to a condition, where it is probable that the condition will not be satisfied and the condition would be enforced. This approach is rejected in the Exposure Draft (refer ED 180, Paragraph 18 and IPSASB Basis for Conclusions, Paragraph BC 12). A conditional grant is more in the nature of a contingency; i.e. a potential liability that may arise should an in-substance condition not be satisfied. As a result, HoTARAC believes that the Exposure Draft proposal is conceptually flawed for the following reasons:

- recognition of a liability, where the condition will probably be satisfied, is inconsistent with the probability recognition criteria and distorts the reality or substance of the transaction. That is, a condition does not satisfy the definition of a liability, if an outflow of resources back to the provider is not probable.

Alternatively, if the Exposure Draft on IAS 37 was applied and probability was incorporated in the measurement of the liability, the low probability of return is likely to mean that any liability is immaterial and rarely recognised. This also is inconsistent with the intent of the ED 180 proposals;

- for non-exchange transactions, some HoTARAC members do not believe that it is possible for a performance obligation to arise, as a performance obligation only arises in relation to exchange transactions; i.e. when the recipient is obliged to directly give approximately equal value in exchange to the transferor;
- the Exposure Draft uses the wrong basis for distinguishing between stipulations that give rise to liabilities and those that do not, based on the distinction between restrictions and conditions, which is arbitrary. In contrast, consistent with the Board's previous position on the ED 125 proposals (AASB Action Alert October 2004), it may be argued that the focus should be on whether the stipulation meets the definition of a liability;
- the Exposure Draft definition of a "condition" (Paragraph 8), mixes a return obligation with a performance obligation, such that the nature of the liability is unclear. The Exposure Draft does not explain why a performance obligation gives rise to a liability only when a return obligation exists;

- the Exposure Draft has a view of grant arrangements, based on the distinction between conditions and restrictions, which is not consistent with the environment in Australia. Most HoTARAC members experience of not-for-profit public sector entities is that grant stipulations are not in-substance conditions, as the stipulations:
 - are not adequately specified or acquitted;
 - do not operate in practice; i.e. the stipulation is not satisfied but the money is not returned; and
- the treatment of conditions is inconsistent with other transfers. For example, some non-exchange transfers would not give rise to a liability even though the entity must return the asset if it does not achieve a specified outcome. For example, obtaining a matching contribution (ED 180, Paragraph 25). This difference arises because the definition of a condition requires future economic benefits to be consumed.

(e) the treatment of advance receipts

The majority of HoTARAC members believe that grants should be recognised as:

- income in the period in which the grant is required to be used, provided income can be identified with the time period; and
- a liability where money is received prior to that period.

For example, in a multi-year grant agreement, where funds are received up-front, only funds for the current year would be recognised as income, whereas funds for future years would be recognised as liabilities.

In effect, HoTARAC believes that time is the underlying event or equivalent of the taxable event. HoTARAC believes that this outcome is supported by the advance receipt liability requirements of the Exposure Draft.

However, HoTARAC is concerned that the AASB has included statements in the Preface and Basis for Conclusions that may conflict with the body of the Exposure Draft. In particular, in Paragraph BC 24, the AASB states that:

“...the specification of a time basis for non-exchange transactions such as grants is not sufficient for the deferral of income and the recognition of a liability instead.”

In contrast, Paragraph 106 provides (correctly in the view of HoTARAC) that where an entity receives resources before a transfer arrangement becomes binding, the entity will recognise an asset and an advance receipt liability. Also, the term “binding” is not defined anywhere in the Standard.

HoTARAC is also concerned that the AASB has omitted Example 20 in IPSAS 23, which supported the view that an arrangement may not be binding until the period to which the grant funds have been provided commences. In Example 20, an asset and an advance receipts liability is recognised in relation to funds provided “to meet the expenses of the budget year for which the funds are provided”. The AASB response to this issue, in omitting the example, reinforces the view that the IPSAS 23

requirements, on which ED 180 is based, are difficult to interpret and to apply. The interpretation of the word “binding” is critical to these issues. To prevent varying interpretations, it is essential that this is clarified in the body of the proposed Standard, specifically as this term relates to multi-year grant agreements, operating grants and capital grants.

(f) permitting, but not requiring, the recognition of contributions of services

The majority of HoTARAC members prefer the current approach in AASB 1004 for the contribution of services whereby entities are required to recognise these services where reliably measurable and where the services would be purchased, if not donated. The approach in the Exposure Draft of optional recognition will increase inconsistency. Where possible, HoTARAC believes that the AASB should be reducing rather than increasing the use of options within Standards.

(g) requiring disclosure of the nature and type of major classes of services in-kind received (paragraph 108) – IPSAS 23 encourages but does not require such disclosure

The majority of HoTARAC members do not support this disclosure, except in relation to contributions of services recognised in the financial report. As discussed in the response to question (f) above, HoTARAC prefers the current requirements in AASB 1004 which require the recognition of contributions of services that are reliably measurable and where the services would be purchased if not donated. HoTARAC does not believe disclosures of other contributions of services not recognised in the financial statements are warranted.

One HoTARAC member, however, supports a limited form of disclosure, including a brief description of the nature of services contributed.

(h) the implications of recognising financial assets and financial liabilities that fall within the scope of this ED in accordance with the proposals rather than AASB 139 / NZ IAS 39

The implication of recognising financial assets/liabilities in accordance with the Exposure Draft, is that an asset/liability is recognised at a later point in time, compared to AASB 139. This reflects a different approach to recognition and measurement, whereby AASB 139, unlike the proposed Standard, incorporates probability as part of measurement rather than recognition.

The majority of HoTARAC members believe that applying the recognition principle requirements of one Standard and the measurement requirements of another, when these two Standards are based on inconsistent principles, is problematic as it reflects two different approaches to measurement.

(i) the measurement requirements, particularly in respect of financial assets and financial liabilities

The majority of HoTARAC members do not support the approach in the Exposure Draft, whereby different measurement rules are applied without justification, as follows:

- liabilities are treated inconsistently, depending on whether it is a non-financial liability (i.e. best estimate of amount to settle), financial liability (i.e. fair value plus transaction costs) or advance receipt liability (i.e. same amount as the asset);
- assets are treated inconsistently, depending on whether the asset is a financial asset (i.e. fair value plus transaction costs) or non-financial asset (i.e. fair value); and
- assets and liabilities are treated inconsistently, depending on whether it is a non-financial asset (i.e. fair value) or non-financial liability (i.e. amount required to settle the present obligation).

As discussed above in Question (d), HoTARAC is also concerned that the definition of a condition combines a performance obligation and a return obligation such that it is unclear which liability is being measured. For example:

- if the liability is viewed as a performance obligation, then some may argue that the liability should be recognised and measured based on the amount of the transferred asset. However, this is different to the AASB 137 requirements which are being applied. Under the Exposure Draft, liabilities are measured independently of the related transferred assets, however, this is not made clear; and
- if the liability is viewed as a return obligation, some may argue that the liability should be recognised and measured based on the amount to be returned, but only if it is probable that the return will be required (this is HoTARAC's position). Alternatively, others may argue that the liability should be measured at an amount that reflects the probability that the stipulation will be breached, which is likely to be nil or minimal.

As discussed above, the majority of HoTARAC members do not agree that a condition gives rise to a liability, unless it is probable that the condition will not be satisfied and the condition would be enforced.

Further, HoTARAC members are unclear of the effect of Paragraph BC17, which states that in applying AASB 139 to financial assets/liabilities, the AASB would extend the recognition of day one gains/losses to include any difference between non-exchange amounts and fair value, not just those that include observable inputs. HoTARAC is unsure how AASB 139 can be extended in this way in the Basis for Conclusions.

(j) prospective application per the transitional provisions

If the Exposure Draft proceeds, the majority of HoTARAC members support prospective application per the transitional provisions. However, some HoTARAC members only support the approach in the ED 180 transitional provisions if sufficient time is allowed before the Standard becomes effective to put in place the necessary systems to allow re-casting of comparatives.

Other issues

Reliable measurement of taxes

HoTARAC is concerned that the Exposure Draft may give the impression (Paragraph 69) that measurement uncertainty can always be overcome by statistical models. HoTARAC does not believe that this is the case, and believes that this should be made clear. HoTARAC is of the view that, in practice, reliable measurement of certain tax income is often not possible until some time after the taxable event. This is due to the difficulty of reliably measuring events of which the taxing authority is not aware until returns are received from taxpayers.

Similarly, HoTARAC does not believe that the inability to reliably measure tax income in the same or following periods as the taxable event is exceptional (Paragraph 71), nor do HoTARAC believe that this necessarily occurs because the tax base is volatile (Paragraph 71). Rather, this situation may arise whenever the fair value estimates depend heavily on assumptions about future events.

Definition of non-exchange

The definition of non-exchange transactions in the Exposure Draft does not overcome the existing difficulties in distinguishing between exchange and non-exchange transactions. This is because the proposed and the existing definition depend on whether value is given directly in exchange. There are different interpretations regarding what is meant by the term directly. For example, some commentators argue that the provision of funds on the condition that goods or services are provided to other persons should be viewed as an exchange transaction. To clarify this, other commentators have argued that the word "directly" should be removed.

Non-exchange expenses

HoTARAC believes that the Exposure Draft should address both income and expenses arising from non-exchange transactions. This is particularly important for grants, to ensure symmetry in treatment between grantors and grantees.

Trivial conditions

HoTARAC does not believe that including a condition that in all likelihood will be met gives rise to a liability. For similar reasons, HoTARAC disagrees with the conclusion that, where there is no past experience or evidence whether or not the transferor would enforce a requirement, an entity should assume that the transferor would enforce the condition. The reason for there being no past experience may be that the condition is trivial and/or will in all probability be met.

Australian-specific Questions

(k) the exclusion of for-profit government departments from the scope of the ED – are requirements for such entities still required?

In the view of HoTARAC members, ultimately there should be consistency in accounting treatment of grants for both for-profit and not-for-profit entities, to ensure symmetry in accounting treatment. However, if the AASB project on non-exchange transactions is to proceed, HoTARAC does not object to the exclusion of for-profit government departments, as these would be covered by AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. However, the potential impact on consolidation of the General Government Sector and the whole of government needs to be considered, as part of the AASB project on the consolidation of for-profit entities into not-for-profit groups.

(l) the retention of requirements for restructures of administrative arrangements

HoTARAC supports the retention of the requirements for restructures of administrative arrangements, pending the review of Interpretation 1038.

In addition, some HoTARAC members believe that pending this review, the AASB should also clarify the meaning of the term “restructure of administrative arrangements”. In particular, HoTARAC notes that the use of that term in the public sector is much wider than the definition in AASB 1004, which is limited to the transfer of a business, and that this has caused misunderstandings.

(m) whether recognition requirements are needed in respect of contributions from owners and distributions to owners generally

HoTARAC believes that the existing requirements regarding contributions from owners and distribution to owners should be retained pending the review of Interpretation 1038, but should be in a separate Standard to the ED 180 proposals. This is because the focus of the Exposure Draft is on income recognition and not on the treatment and recognition of contribution by owners. For similar reasons, HoTARAC would prefer that Paragraphs 38 and 39 and Example 23 of the Exposure Draft regarding contributions by owners are omitted, as they duplicate Interpretation 1038.

(n) the role of AASB Interpretation 1038 once a Standard based on the ED is issued

Pending the review of Interpretation 1038, HoTARAC supports retaining the Interpretation, as it has a wider scope than the proposed Standard; i.e. it also applies to for-profit public sector entities.

(o) the proposed amendments to other Australian Accounting Standards, as set out in Appendix A

If this Exposure Draft proceeds, HoTARAC supports the amendments to the other Australian Accounting Standards. However, in regard to AASB 102 *Inventories*, the majority of HoTARAC members support including an additional clarification in AASB 102 to state that the reference in the Non-exchange Exposure Draft to fair value is taken to be a reference to current replacement cost in AASB 102, which is consistent with the concept of fair value.

(p) whether, overall, the proposals would result in financial statements that would be useful to users

Given HoTARAC's comments on the previous questions, the majority of HoTARAC members do not believe that the proposed Standard will improve the usefulness of financial statements. HoTARAC is particularly concerned that the proposed Standard will result in many interpretation and application difficulties and may result in inconsistent treatments.

However, a minority of HOTALARAC members believe that the proposals would be useful to users, and represent an improvement on the current AASB 1004 requirements, which they argue distort agencies' financial statements.

(q) whether the proposals are in the best interests of the Australian economy

No comment.

Other comments

GAAP- GFS harmonisation

The AASB also needs to consider the GFS treatment of non-exchange transactions and whether or not a convergence difference will arise under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Under GFS, "...flows are recorded when economic value is created, transformed, exchanged, transferred or extinguished..." (Paragraph 2.76). The ABS GFS Manual also states at Paragraph 2.80:

"Grants and other voluntary transfers often have requirements or eligibility conditions attached to them. Examples are the prior incurrence of expenses for a specific purpose, the passage of legislation to authorise participation in a program, or the beginning of a period such as the start of a new financial year. These transfers should be recorded when all requirements and conditions are satisfied. In Australia, recipients of grants generally do not record them until they have control over the funds granted".

The meaning of the above paragraph is far from clear, but may be construed as having three elements, in terms of income recognition:

- pre-conditions for transfers; for example entitlement conditions, which may be similar to the concept of advance receipts or multi-year grant agreements (first and second sentence);
- conditions, possibly in terms of performance obligations (third sentence); and
- control (final sentence).

Arguably, the first two dot points may be taken to be consistent with the ED 180 proposals (regarding the treatment of advance receipts and conditions). In contrast, the third dot point regarding control seems more consistent with AASB 1004 than with the ED 180 proposals. For example, under AASB 1004, income is recognised when a grant is controlled, while under ED 180 a grant may be controlled and recognised as an asset, but income recognition may be delayed until the conditions are satisfied. It is also noted that in the past, the GFS treatment of grants has generally been consistent with AASB 1004 and ED 180 will represent a change to the AASB 1004 requirements.

Given this, it is possible that the ED 180 proposals could give rise to GAAP-GFS convergence differences. However, this is far from clear given the difficulties in interpreting both ED 180 and the GFS requirements. HoTARAC suggests that this needs to be clarified by the AASB, through consultation with the ABS.

Appropriations

HoTARAC is concerned that the guidance material in AASB 1004 on appropriations will be omitted. Apart from including appropriations within the scope of the requirements, there is no guidance or examples included about how the proposed Standard may apply. For example, HoTARAC believes that the Exposure Draft should clarify:

- when an appropriation becomes enforceable (controlled); e.g. when Parliament has passed an Act or an earlier or later point; and
- the treatment of appropriations under purchaser-provider models.