



**Australian Government**

**Australian Accounting  
Standards Board**

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14 February 2014

Ms Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2  
CANADA

Dear Stephenie,

***IPSASB Exposure Draft 53 First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)***

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IPSASB Exposure Draft 53 *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* (the ED).

Overall, the AASB is generally supportive of the proposals in the ED. However, the AASB considers a number of aspects of the proposals would benefit from additional clarification. These areas, which are expanded on in the attached Appendix, include:

- whether a three-year transition period provides sufficient time for a first-time adopter to transition fully to accrual basis IPSASs;
- the position of a first-time adopter that fails to transition fully to IPSASs within the transition period;
- whether the relief concerning the recognition of capitalised borrowing costs when using the alternative method should be restricted until the associated qualifying asset is also recognised;
- how an entity would consolidate a Government Business Enterprise (GBE) that does not report on IPSASs; and
- making definitive the restriction of using deemed cost for internally generated assets.

The AASB's comments on the Matters for Comment are set out in the attached Appendix.

If you have any queries regarding any matters in this submission, please contact Joanna Spencer ([jspencer@aasb.gov.au](mailto:jspencer@aasb.gov.au)).

Yours sincerely,

Kevin M. Stevenson  
Chairman and CEO

**AASB's Comments on the IPSASB Exposure Draft 53 *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)***

The AASB's views on the Matters for Comment (MC) in the ED are as follows:

**Matter for Comment 1**

The objective of this Exposure Draft is to provide a comprehensive set of principles that provides relieve to entities that adopt accrual basis IPSASs for the first time.

- (a) Do you agree with the proposed transitional exemptions included in the Exposure Draft: and
- (b) Do you believe that the IPSASB achieved its goal in providing appropriate relief to a first-time adopter in transitioning to accrual basis IPSASs?

Please provide a reason for your response.

*MC 1(a)*

The AASB generally agrees with the transitional exemptions proposed. We recognise that one of the greatest hurdles to adopting an accrual basis accounting framework is the recognition and measurement of assets and liabilities. Therefore, to attract more jurisdictions to adopt accrual IPSASs or move from Cash Basis IPSAS – *Financial Reporting Under the Cash Basis of Accounting*, the AASB acknowledges that concessions need to be made.

However, the AASB queries the transition provisions for IPSAS 5 *Borrowing Costs*. The ED proposes that when a first-time adopter elects to account for borrowing costs using the allowed alternative treatment (capitalisation rather than expensing) it is not required to capitalise borrowing costs until the three-year relief period for recognising and/or measuring assets has expired and/or the relevant assets are recognised and/or measured in accordance with the applicable IPSAS whichever is earlier (paragraphs 42-43). However, the proposals do not preclude an entity from capitalising its borrowing costs before the asset is recognised and/or measured. This approach could result in only the borrowing costs, and not the relevant asset, being recognised in the financial statements.

Therefore, the AASB suggests clarifying that borrowing costs should only be capitalised in relation to a recognised qualifying asset.

*MC 1(b)*

The AASB agrees that the proposals in the ED achieves the goal of providing appropriate relief to a first-time adopter transitioning to accrual basis IPSASs.

**Matter for Comment 2**

The IPSASB agreed that there should be a differentiation between those transitional exemptions that do not affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSASs, and those that do.

- (a) Do you agree with the proposed differentiation and how it is addressed in the Exposure Draft, and
- (b) Do you agree that the individual categorization is appropriate?

If not, please provide a reason for your response and provide an alternative approach.

*MC 2(a) and (b)*

The AASB agrees with the proposed differentiation and how it is addressed in the ED, and also agrees that the individual categorisation is appropriate.

**Matter for Comment 3**

This Exposure Draft proposes a relief period of three years for the recognition and/or measurement of specific assets and/or liabilities in allowing a first-time adopter to transition to accrual basis IPSASs. Do you agree that a relief period of three years is appropriate? If not, please indicate the time frame that, in your view, would be appropriate, supported with the reason for the longer or shorter transitional relief period.

*MC 3*

The AASB considers that the length of an appropriate transition period will depend on how prepared an entity is at the date of adoption of IPSASs. If an entity has not gathered the relevant information, at the date of adoption then the proposed three-year transition period may well not be achievable (for example, because fixed asset registers may take some time to be established and properly populated). However, if at the date of adoption an entity had gathered all the necessary information on assets and liabilities then three years would be ample time. Further, the ED does not state how prepared an entity is expected to be in at the date of adoption to IPSASs. The AASB recommends that this could be articulated in the Basis for Conclusions. The AASB is concerned that entry into the three-year period might present a disincentive to expressing a public commitment to adoption of IPSASs.

Regarding the three-year transition period, the AASB is also concerned that the ED does not address the position of a first-time adopter that fails to transition fully to accrual basis IPSASs within the three-year period. Would such entities still be able to continue to assert that they are in transition? Would a further three-year window be available in the future? Would disclosures need to be made? If entities could still assert that they are in transition, this has the potential to reduce the incentive to transition fully within the given time frame. If not, the concerns we express above may be the issue. The AASB recommends that this issue be addressed in the final IPSAS.

*Other matters for comment*

*Controlled Entities - GBEs*

Paragraph 88 of the ED appears to make the assumption that all controlled entities will at some point, become a first-time adopter of IPSASs. However, it is feasible that a controlled entity may be a GBE and would, therefore, never adopt IPSASs. Consequently, the AASB recommends the final standard recognises that a controlled entity may be a GBE and refer to the appropriate IPSAS regarding consolidating controlled GBEs. Further, thought could be given to articulating whether the requirements in paragraph 88 also apply when a controlled GBE transitions to IFRSs later than the controlling entity.

*Internally Generated Intangible Assets - Deemed Cost*

Paragraph 123 of the ED appears to preclude an entity from using a deemed cost to recognise an internally generated intangible asset; however, the use of the phrase “A deemed cost may not be determined...” may result in some entities concluding that a deemed cost may be able to be determined. The Basis for Conclusions (paragraph BC76) is similarly unclear. Therefore, the AASB considers that if it is the intention to disallow the use of deemed cost for internally generated intangible assets, the final standard should be definitive and state “A deemed cost shall not be used for internally generated intangible assets”.

*Comparative Information*

The AASB is unsure whether paragraph 76 is proposing that comparative information be required for every line item, given the leniency in paragraph 75 to present no comparative information. The AASB considers this issue should be clarified in the final standard.