

**DEPARTMENT OF TREASURY AND FINANCE**

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The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Melbourne VIC 8007

Dear Mr David Boymal

RE: COMMENTS ON EXPOSURE DRAFTS

The South Australian Government has reviewed the exposure draft ED140 Proposed amendments to *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* and *AASB 119 Employee Benefits* issued for comment by the Australian Accounting Standards Board and in principle, supports most of the changes proposed.

The following comments are provided for your consideration:

Do you agree that AASB 137 should be applied in accounting for all non-financial liabilities that are not within the scope of other Standards?

The feedback received from some South Australian Government agencies has been that the term 'non-financial liabilities' is ambiguous and open to misinterpretation.

It would be better to retain specific accounting standards that deal with specific classes of liabilities, such as provisions, and for the principles and concepts outlined in the AASB framework to be applied to elements of the financial statements that are not covered by a specific pronouncement.

Do you agree with not using 'provision' as a defined term?

No. It is noted that the exposure draft does not prohibit using the term 'provision' in an entity's financial statements and the exposure draft does not prescribe how entities should describe non-financial liabilities in their financial statements.

Given that the term 'provision' is widely accepted and understood as a class of liabilities that is measured using a large degree of estimation or actuarial assessment, it is desirable to retain the term.

Do you agree with eliminating the term 'contingent asset' and 'contingent liability'?

It is acknowledged that, at present, the term 'contingent' is not well understood and perhaps the term 'conditional' liability better describes the substance of the transaction.

The exposure draft outlines that liabilities arise only from unconditional obligations and that conditional obligations by themselves do not give rise to a liability.

SA Government agencies expressed concern about:

- the practicalities of identifying all 'unconditional' obligations, ie the notion that the provision of services includes an unconditional obligation to stand ready to honour a conditional obligation;
- the practicalities of measuring unconditional obligations that relate to individual items; and
- satisfying audit requirements.
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It is strongly suggested that the AASB incorporate some principles to ensure that a too wide definition is not given to the term.

In addition, care will need to be taken with the terms 'conditional' and 'unconditional' as currently, the public sector associate these terms with contributions and the associated recognition principles may differ for recognition of unconditional/conditional contribution and other obligations.

Do you agree that items previously described as contingent assets that satisfy the definition of an asset should be within the scope of the Intangible Asset standard?

Yes, providing the definition outlined in the intangible asset standard is met.

Do you agree with the proposed amendments to the definition of a constructive obligation? Is the additional guidance for determining whether an entity has incurred a constructive obligation appropriate and helpful?

Yes, the exposure draft would benefit from examples, particularly in a government context.

Do you agree with the analysis of the probability recognition criterion and therefore omitting it from the standard?

No. AIFRS are principle based standards, not rule based standards. Specific pronouncements should be consistent with the AASB Framework.

Do you agree with the proposed amendments to the measurement requirements? If not, why not?

SA Government agencies support the standard including a single measurement method rather than measurement options and that the measurement method be an entity specific

measurement (the amount that the entity would rationally pay to settle the present obligation on the balance sheet date) rather than a market determined measurement.

Do you agree with the proposed amendments to the recognition requirements for reimbursements?

Yes.

Restructuring Provisions

The current restructuring clauses included in the exposure draft are not applicable to machinery of government changes, ie restructures of administrative arrangements. It is noted that the notion of control and ownership is different in the public sector compared with the private sector. With the proposed withdrawal of AAS29 and AAS31, the AASB will need to incorporate clauses that facilitate machinery of government changes.

South Australian Government agencies support the proposed changes to AASB 119 Employee Benefits.

If you require further information or clarification, please contact Julie Sinclair, Team Leader Financial Management Team on 8226 9605.



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