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The Chairman
Australian Accounting Standards Board
PO Box 204
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Dear Chairman

ED 156: Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31

We are pleased to submit our comments in relation to ED 156: *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*.


Our comments on the specific matters for comment outlined in the Exposure Draft are addressed in Appendix A below. Our comments in relation to matters not specifically requested are included as Appendix B.

As a general comment on the exposure draft, we believe that the proposals to relocate the requirements of AAS 27, AAS 29 and AAS 31 into the relevant topic based accounting standards resulting in a significant increase in Aus paragraphs in the existing standards will increase the complexity of the Standards and make them less user friendly to preparers of public sector financial statements and their auditors. We believe that these proposals will make it difficult for users to find the relevant requirements. The AASB needs to revisit the structure and location of the standards.

It is also unclear how the proposals in this exposure draft to relocate the requirements of AAS 31 into the relevant standards will link in with the Board's issue of ED 155: *Financial Reporting by Whole of Governments*. It is our understanding that the proposals in ED 155 were to replace the requirements in AAS 31. However, as both ED 156 and ED 155 have the same proposed application date, it is unclear at this stage what the Board's intentions are in aligning ED 155 with the review of AAS 31.

We would be pleased to discuss our comments further with you. Please contact Annette Kimmitt on (03) 9288 8141 or Georgina Dellaportas on (03) 9288 8621 if you wish to discuss any of the matters raised in this response.

Yours faithfully



Ernst & Young

Appendix A

SPECIFIC MATTERS FOR COMMENT

1. Proposed New Standards

(a) AASB 10XX *Administered Items*:

- (i) *the proposal to continue to limit the requirements relating to administered items to government departments, given the short-term nature of the current review of AASs 27, 29 and 31, rather than extending them to apply to other entities that receive parliamentary appropriations.*

We support this proposal on the basis that this is line with the focus of the Exposure Draft to relocate the existing requirements without substantially amending them.

- (ii) *the proposal to require disclosure of items that a government department collects or distributes on behalf of another entity that are neither controlled nor administered items (see paragraph 13 of proposed AASB 10XX).*

We do not support this proposal for a number of reasons:

- It extends the current requirements in AAS 29 which do not require disclosure of items neither controlled nor administered.
- It is not clear from the requirements of the paragraph which items would fall outside either being controlled or administered. Proposed para 13 refers to “items that the government department **collects or distributes** on behalf of another entity and resources that the government department has legal custody over that are neither controlled nor administered items”. On the other hand, para 10 refers to a government department which **collects** taxes, fines and fees which it is unable to use for its own purposes and refers to these as administered. We can not see how the requirements in para 10 differ to those in para 13.

If the AASB considers that differentiation is possible and disclosures are relevant, such disclosure requirements should be included as a black letter paragraph after para 6 rather than being lost in the grey letter of para 13.

- (iii) *in relation to government department transfers that are not controlled by the government department, the proposal to require disclosure of the broad categories of recipients and the amounts transferred to those recipients by government departments (see paragraph 20 of proposed AASB 10XX).*

We support this proposal on the basis that it is consistent with the current requirements in AAS 29. However we would recommend that such disclosures are included as a black letter paragraph after para 6 rather than being lost in the grey letter of para 20.

- (iv) *the Board intends reviewing the requirements relating to administered items of not-for-profit entities in due course. Please indicate the priority you believe such a review should be given.*

In light of the difficulties in differentiating which items are controlled or administered, it is our view that a project which addresses control vs administered items should be given high priority by the AASB. The issues for not-for-profits entities would be addressed as part of this project.

(b) AASB 10XY Land Under Roads – Transitional Requirements: *the proposed requirements for land under roads.*

We support the requirements for land under roads included in this standard.

(c) AASB 10XZ Disaggregated Disclosures:

- (i) *the proposal to express the requirements in AASs 27 and 29 on disaggregated disclosures separately for local governments and government departments rather than being merged into a single set of generic requirements.*

We support this proposal to keep the differing requirements separate on the basis that these are consistent with the current requirements in AAS 27 and AAS 29 and in line with the focus of the Exposure Draft to relocate the existing requirements without substantially amending them.

- (ii) *the proposal that assets deployed and liabilities incurred in relation to each major activity undertaken by a government department should be required, rather than merely encouraged, to be disclosed (see paragraph 15 of AASB 10XZ). The AASB is particularly interested in the costs/benefits of requiring such information.*

We cannot comment on the costs/benefits or requiring this information. However, if such disclosure is to be required, we recommend that it is included as part of the black letter requirements of para 13 and not hidden away within para 15.

Also note that no disclosure is currently proposed in respect of liabilities for a local government. It may be considered necessary and for consistency with government departments to extend the local government disclosures to liabilities.

- (iii) *the Board intends reviewing the requirements relating to disaggregated disclosures by not-for-profit entities in due course. Please indicate the priority you believe such a review should be given.*

It is our view that this project should be given high priority. As part of this review, the Board should consider the usefulness of the disclosure of disaggregated information to the users of public sector financial reports and the most appropriate basis for presenting this information.

2. Proposed Amendments to Existing Standards

(a) AASB 3 Business Combinations: the proposal to amend the definition of reporting entity in AASB 3 to explicitly state that local governments, governments and most, if not all, government departments are reporting entities.

We support this proposal.

(b) AASB 116 Property, Plant and Equipment:

(i) the proposal to include a statement in AASB 116 that 'Examples of property, plant and equipment held by not-for-profit public sector entities include but are not limited to infrastructure, cultural, community and heritage assets'.

While we support the proposal to include such guidance in the standard as this will make it clear that such assets are covered by the requirements of AASB 116, we note that it is inconsistent with the Board's trend to removing Australian Guidance from AIFRS.

We also note that there are for-profit government agencies and GBEs which hold or are required to hold such assets. Therefore, consideration should be given to extending the Aus paragraph to apply to all public sector entities. We do note however that BC 29 states that "in principle, it could apply to all entities".

The Board needs to exercise care in making such statements that provide interpretation on the requirements of the Standard, as this could in principle result in a change to the IFRS standard.

(ii) the proposal to provide Australian Guidance with AASB 116 relating to depreciation and fair valuation of heritage assets.

We support this proposal as it will provide guidance in an area which has caused concern.

(c) AASB 127 Consolidated and Separate Financial Statements:

(i) the proposal to replace Aus paragraphs in AASB 127 with the AAS 31 paragraphs relating to control whilst retaining any aspects of the requirements currently in AASB 127 that remain relevant.

We support this proposal.

(ii) the AASB intends reviewing the requirements relating to control in the public sector in due course. Please indicate the priority you believe such a review should be given.

As the concept of 'control' has caused significant concern, we believe that this project should be given high priority by the Board.

(d) AASB 137 Provisions, Contingent Liabilities and Contingent Assets:

- (i) *the proposal to explicitly scope out of AASB 137, in respect of not-for-profit public sector entities, obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent, and to effectively grandfather current practice in relation to those obligations until further research is undertaken. The Board is particularly interested in comments on whether the scope out is too broad or too narrow.*

We do not support the proposal to scope out of AASB 137, in respect of not-for-profit public sector entities, obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent as it is our view that this scope out could result in a change in current practice. As the definition of a liability in AAS 31 is currently the same as that in AASB 137, the requirement for not-for-profit public sector entities to apply AASB 137 should not result in any different treatment. The Board should include paras 12.1.2 and 12.1.3 of AAS 31 in AASB 137 as commentary for public sector entities.

If the Board does include this scope out, it is our view that it should be extended to for-profit public sector entities or at least for-profit departments.

- (ii) *the AASB intends reviewing the requirements relating to obligations arising from local government and government existing public policies, budget policies, election promises or statements of intent in due course. Please indicate the priority you believe such a review should be given.*

This should be considered longer term project by the Board. The Board should have consideration of the IPSASB's project and consider adopt the resulting standard as an Australian Standard when issued.

(e) AASB 1004 Contributions:

- (i) *the proposal to retain paragraphs 10.5, 10.5.1, 10.5.6, 10.5.7, 10.5.10 and 10.5.17 of AAS 29 on parliamentary appropriations to government departments and whether the material in this section is still needed given government departments' experience with accrual accounting principles and the nature of current arrangements between governments and government departments for parliamentary appropriations (see paragraphs 27 to 33 of the proposed revised AASB 1004).*

We agree with the proposal to retain the paragraphs on parliamentary appropriations in line with the Board's intention to retain existing paragraphs where there are no comparable requirements. These requirements, to the extent that they are no longer relevant, can be re-considered as part of the Board's project on non-exchange revenue.

- (ii) *the proposal to retain paragraphs 8.2, 8.2.1 and 8.2.3-8.2.5 of AAS 29, relating to liabilities assumed by other entities, including the proposal to retain the symmetrical accounting approach adopted in AAS 29 instead of amending the requirements to be consistent with AASB*

139 for derecognition of liabilities (see paragraphs 34 to 38 of the proposed revised AASB 1004).

We support the proposal to retain the current requirements relating to liabilities assumed by other entities in AASB 1004 rather than aligning these with AASB 139 in order to maintain status quo for such transactions and to ensure that liabilities arising from both contract and statute are covered by the requirements (as opposed to AASB 139 which would not apply to derecognition of liabilities arising under statute.

(iii) the proposal to retain paragraphs 10.12, 10.12.6, 10.12.8 and 10.12.9 of AAS 29, relating to contributions of services and the appropriateness of applying the requirements beyond government departments to both local governments and governments (see paragraphs 39 to 42 of the proposed revised AASB 1004).

We disagree with the proposal to extend the requirements in relation to contribution of services to local governments and governments. While we acknowledge that this will result in consistency across the three types of entities, we note that this is inconsistent with the Board's approach to ED 156 which is not to change existing requirements.

As such, the disclosures on contributions of services should also be restricted to government departments.

(iv) the proposal to retain paragraphs 63 and 70 of AAS 27, paragraphs 11.1- 11.2.4 of AAS 29 and 14.1.12 and 14.1.13 of AAS 31, relating to contributions by owners, and relocate them into a separate new section of AASB 1004 under 'Contributions by Owners and Distributions to Owners of Local Governments, Government Departments and Governments' (see paragraphs 43 to 49 of the proposed revised AASB 1004).

We agree with this proposal.

(v) in relation to a restructure of administrative arrangements (see paragraphs 50- 55 of the proposed revised AASB 1004), the proposals to:

1. define restructures of administrative arrangements and to specify that they are in the nature of transactions with owners to be recognised on a net basis. The AASB notes that the definition affects a broader range of entities than government departments, and includes all government controlled not-for-profit entities. The AASB is particularly interested in comments on whether the proposals are suitable for all government controlled not-for-profit entities. The AASB is also interested in whether it is necessary to explicitly refer to for-profit government departments in the context of restructures of administrative arrangements (and therefore also refer to them in paragraph Aus14.2 of AASB 101).

While we support this proposal, we note the following:

- The definition of a "restructure of administrative arrangements" refers to the reallocation or reorganization of a **government's** assets, liabilities and activities and responsibilities". It therefore implies that these assets and liabilities are those of the government – however as each government department/agency is a reporting entity, such assets and liabilities and

activities are those of the department or entity in which they are recognised. We therefore recommend that the definition is amended as follows:

"The reallocation or reorganisation of ~~a government's~~ assets, liabilities ~~and~~ activities and responsibilities amongst the entities that the government controls that occurs as a consequence of a rearrangement in the way in which ~~a government's~~ the activities and responsibilities as prescribed under legislation or other authority are allocated between the government's controlled entities.

2. *require a transferee to disclose, where practicable, the expenses and income attributable to transferred activities for the reporting period, showing separately those expenses and income recognised by the transferor during the reporting period.*

We support this proposal.

3. *not specify a measurement basis for assets and liabilities transferred as a consequence of a restructure of administrative arrangements. The AASB is particularly interested in whether there are any anticipated adverse implications of the proposed non-specification of a measurement basis.*

We support this proposal. As the Standard will allow a choice, it will be the responsibility of Treasuries to specify the basis to be adopted for each State/Territory/Commonwealth level.

General comment: It would be considered worthwhile to include some grey letter paragraphs in this section. For example, it would be useful to include the requirements in para 10.9.1 of AAS 29 and the content of BC 55 relating to the choice of measurement basis here.

- (vi) *the proposal to incorporate the requirements from paragraphs 12.2(b)-(d) of AAS 29 relating to government department disclosure requirements, into AASB 1004 with:*

1. *the requirement from paragraph 12.2(d) of AAS 29 relating to disclosure of the fair value of goods and services received free of charge (or for nominal consideration) and recognised, being extended to both local governments and governments (see paragraph 58 of the proposed amendments to AASB 1004).*

While we agree with the extension of the requirement to disclose the fair value of goods received free of charge to local governments and governments, as noted above the disclosures on contributions of services should be restricted to government departments only.

2. *the requirements from paragraphs 12.2(b) and (c) of AAS 29 limited to government departments (see paragraph 59 of the proposed amendments to AASB 1004).*

We agree with this proposal.

- (vii) *the proposal to place the requirements to be retained from AASs 27, 29 and 31 at the end of AASB 1004 rather than integrating them with the current AASB 1004 requirements. The AASB notes that the integration approach would be more likely to raise the controversial revenue recognition issues for all not-for-profit entities that the AASB intends to deal with in the longer*

term. The AASB is particularly interested in whether, with the more general requirements already in AASB 1004, the inclusion of the AASs 27, 29 and 31 requirements would create implementation problems, including problems for entities that are not local governments, government departments or governments. For example, does the inclusion of specific requirements for contributions of services in the new section of AASB 1004, vis-a-vis the absence of such specific requirements in the old section of AASB 1004, create implementation issues for not-for-profit private sector entities?

We agree with the proposal to place the requirements to be retained from AASs 27, 29 and 31 at the end of AASB 1004 rather than integrating them with the current AASB 1004 requirements. The scoping of each of the new sections should avoid any implementation issues for not-for-profit private sector entities.

To the extent that the Board is concerned, it is recommended that wording similar to that included in BC 52 is included in the beginning of the standard or in the Basis for Conclusions.

“...It is not intended that the proposed amended requirements for restructures of administrative arrangements necessarily apply in analogous circumstances. For example, it is not intended that the proposed amended requirements apply in the accounting for restructures of commonly controlled private sector entities.”

(viii) *the Board intends reviewing the requirements relating to contributions in due course. Please indicate the priority you believe such a review should be given.*

These should be considered as part of the Board’s project on non-exchange revenue.

3. Requirements/Guidance Adequately Addressed in other Standards

(a) *Cash flows from government-controlled financial institutions: the proposal to not retain the requirement from paragraph 15.11 of AAS 31 relating to cash flows from government controlled financial institutions. The AASB is particularly interested in views on whether this proposal would lead to a loss of useful information.*

We do not support the proposal to remove the current requirement for separate disclosure of cash flows from public financial corporations (PFCs). Such information is relevant to enable users of the general purpose financial report of a government to separately assess the volume and nature of cash flows generated from activities other than those undertaken by the PFCs.

We recommend such disclosures are retained as Aus paragraphs in AASB 107.

(b) *Restricted assets: the proposal to not retain material from paragraphs 90 and 91 of AAS 27 and paragraphs 12.3 and 12.3.1 of AAS 29 relating to disclosures about restricted assets, given that other Standards cover the matters addressed for different types of assets.*

We support this proposal as such requirements are adequately covered in existing standards.

- (c) ***Restructures of local governments:*** the proposal to effectively replace the current requirements for restructures of local governments with the general principles expressed in AASB 3 or AASB 1004, as applicable, for a transferee and AASB 5 or other relevant Standards for a transferor.

We do not support this proposal as it will result in a significant change to current requirements and is therefore not in line with the focus of the Exposure Draft which is to relocate the existing requirements without substantially amending them. We recommend that the Board include the requirements of paras 71-75 of AAS 27 into AASB 1004 substantially unchanged for now.

4. Requirements/Guidance that would no longer be Addressed in Standards

- (a) ***Net cost of services format of the income statement:*** the proposal to not retain the explicit guidance on the validity of the net cost of services format of the operating statement currently provided in AAS 29.

We support the proposal not to retain the net cost of services format of the income statement.

(b) ***Performance indicators:***

- (i) *the proposal to not retain guidance on performance indicators.*

We support this proposal as we believe that non-mandatory disclosures/guidance should not be included in the standards and in light on the longer term project on the topic.

- (ii) *the Board intends reviewing the requirements relating to performance indicators in due course. Please indicate the priority you believe such a review should be given.*

It is our view that this should be a longer term project.

5. General Issues

- (a) ***Encouragements in Standards:*** the proposal to remove each encouragement currently specified in AAS 29, unless there is justification for making it explicitly mandatory, on the basis that an encouragement in a Standard can be interpreted by constituents as an indicator of 'best practice' and that in practice encouragements might be treated by some as if they are requirements.

We agree with the proposals to remove encouragements currently included in the Standards, except to the extent that such encouragements are considered mandatory. These have been addressed individually in our comments above.

- (b) ***Definition of government departments:*** the proposal that, where applicable, the scope of the Exposure Draft should include government departments, as currently defined in AAS 29. The AASB is particularly interested in whether that definition is considered appropriate and

whether the definition has implications for financial reporting by agencies that are not formally designated as government departments.

We support this proposal.

(c) *Regulatory or other issues:* *are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?*

We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

(d) *Best interests of the Australian economy:* *are the proposals in the best interests of the Australian economy?*

No comment.

APPENDIX B**OTHER COMMENTS ON ED 156****AASB 10XX: Administered Items**

- While this is a new Standard which is intended to address requirements for administered items, the main focus of most of the grey letter paragraphs is to provide guidance as to which items would be controlled items. While this by default would enable preparers of financial statements to determine items which are not administered, it is our view that the general focus of the standard should be on determining items which are administered. We therefore recommend that the term “administered” is used more liberally in the Standard than is currently the case, to the extent practicable.
- First sentence of para 22 should be expanded to also refer to facilitating assessment of assets and liabilities managed or incurred in an agency capacity, and not just costs recovered and costs incurred.

Requirements removed

We do not agree with the proposal to remove the disclosures by government departments relating to user charges, fines and fees by class under para 12.2(a) of AAS 29 on the basis that these disclosures are not adequately dealt with by AASB 118 as is currently stated in the exposure draft. We recommend that Aus paras are included in AASB 118 to continue to require such information to be disclosed.

Amendments to AASB 5

Proposed Aus paragraph 2.1 refers to restructuring or administrative activities which is not defined. How is this different to restructuring of administrative arrangements? Note that the proposed definition of the later in AASB I004 includes a reference to activities.