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Dear Kevin

Exposure Draft – Income from Non-exchange transactions

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on the International Accounting Standards Board's Exposure Draft ED 180/ED 118 Income from Non-Exchange Transactions (Taxes and Transfers)..

Grant Thornton's response reflects our position as auditors and business advisers to many public benefit entities. This submission reflects both input from our clients and also from Grant Thornton New Zealand Ltd., which will be lodging a separate and consistent Submission to the New Zealand Financial Reporting Standards Board.

Support for the project

We support the Board's objectives for this project to:

- establish a single source of guidance for the treatment of income from non-exchange transactions
- clarify the definition and related guidance
- enhance disclosures about non-exchange transactions

We agree with the proposed treatment of non-exchange transactions and with much of the supporting guidance. However, we do have certain concerns with the application of the proposed definition and with some aspects of the detailed guidance. Our main concerns are summarised in the following paragraphs.

Scope of the standard

The scope of the standard appears to be appropriate providing specifically for the treatment of non-exchange transactions (recognition and measurement). However assets and liabilities arising from non-exchange transaction are treated in accordance with existing standards if those recognition and measurement criteria are met.

Our Ref: DOCUMENT1.DOC

Definitions
The definitions are detailed and provide the reader with sufficient information in preparation for the body of the standard.

We do recommend that the Board includes the definition of a binding agreement. A binding agreement could often times be confused with a restriction. Restrictions are put forward in an agreement signed by both the transferor and receiving entity and thus could be confused with a binding agreement.

All questions which may arise when reading the definitions are clearly answered in the body of the standard as well as in the guidance provided.

Body of the standard
The standard is very detailed, providing descriptions for each concept and definition.

We do however find that the descriptions and explanations in some areas are complex and too detailed. This is the case specifically for the detail given in paragraph 15 -20.

We recommend that the various criteria are discussed lightly with the basic requirements and guidelines for recognising a condition or restriction. Furthermore we recommend that a more detailed discussion of the different situations with corresponding examples be inserted in the application guidance, rather than in the body of the standard.

We also recommend that Substance over form per paragraph 21 -26, be reduced to a simpler description with detail to be found in the application guidance.

Paragraph 25 could be read as being a contradiction of what has been previously stated regarding stipulations resulting in conditions. Once again, perhaps such a situation is better explained in an example in the application guidance rather than in the body of the standard.

On reading paragraph 26, felt it to be out of place under the heading of substance over form. Perhaps it is more appropriate to include this separately when dealing with Advance receipts.

We also recommend that the flow chart on page 27 be removed and be included as an Appendix or in the guidance rather than appearing as part of the actual standard.

We agree with the separate detail given for each type of non-exchange transaction, and appreciate the detail given in the application guidance. This will prove to be very useful.

Overall we recommend that the basic guidelines be provided in the body of the standard and detailed examples and explanations given in the guidance. The amount of detail provided in the body of the standard could prove to be too complex and confusing at times for the reader.

Guidance

The application guidance is complete and has a variety of examples which are easily understandable and relevant to the type of industry.

The only recommendation is that the body of the standard be simplified, with more detail being included in the application guidance.

Please see comments above.

Appendix 1 contains our responses to the AASB's and FRSB's specific questions.

If you have any questions on our response, or wish us to amplify our comments, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

Appendix 1

Exposure Draft questions

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

Response

We agree with the Boards approach in using IPSAS 23 as a basis of developing the proposal.

b Whether there are any differences between Australia and New Zealand that would override the Board's desire to converged Standards for non-exchange transactions.

Response

We are not aware of such differences.

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

Response

We are of the opinion that sufficient guidance and examples are provided in the current standard.

d the definition and treatment of conditions on transferred assets

Response

As noted in our previous comments, the draft does create some confusion as to what stipulations result in a condition and the treatment of the various conditions. As noted previously we recommend that a basic definition and explanation be given in the body of the standard for the various types of conditions, with more detail examples and explanation given in the guidance.

e The treatment of advance receipts

Response

A separate paragraph specific to advance receipts should be included earlier in the standard, perhaps after paragraph 39. In practice such receipts occur frequently and placing information on advance receipts at the end of the standard just before disclosure makes it look like an afterthought. As noted above, perhaps paragraph 26 should be included when providing treatment on advance receipts, rather than under substance over form.

More examples are required in the application guidelines.

We are of the opinion that the treatment is reasonable and it can by assimilated with AASB 118 stage of completion revenue recognition

f permitting, but not requiring, the recognition of contribution of services

Response
We are of the opinion that the standard should not provide the option.

If the recognition criteria are met, disclosure is required.

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.

Response
We are of the opinion that the standard should not provide the option. It should be clear cut, either you need to disclose or not. Even if services in kind cannot be reasonably estimated (as per example 22 in the application guidance) disclosure should still be made.

By providing the option, it creates room for non-compliance and structural changes to agreements to ensure non-disclosure.

If the recognition criteria are met, disclosure is required.

h The implications of recognizing financial assets and financial liabilities that fall within the scope of the ED in accordance with proposals rather than AASB 139.

Response
We are of the opinion, that paragraph 43 and 58 are misleading to the reader and not clearly communicated. We recommend that an additional paragraph be added which would clarify the use of *AASB 139 Financial Instruments: Recognition and measurement* compared to the proposal as per the ED.

We propose that financial assets and liabilities that originate due to non-exchange transactions are recognized in term of *AASB 139 Financial Instruments: Recognition and measurement.*

i The measurement requirements, particularly in respect of financial assets and financial liabilities

Response

As mentioned above, from paragraph 43 and 58 it is not clear as to the treatment of the asset or liability when the non-exchange transactions results in a financial asset or financial liability.

Once the recognition criteria in terms of the ED are met, and an asset or liability is identified, the asset needs to be measured at fair value.

Fair value being the value which is attributable to the asset/liability as indicated by the already existing standard once that asset or liability meets the applicable definition.

i.e. if a non-exchange transaction results in an entity acquiring a vehicle, this vehicle is measured at its fair value. As there is a market for vehicles a fair value is easily determined. Once this is done, the vehicles must then be treated in line with *AASB 116 PPE*.

The same applies for financial assets. If a non-exchange transaction results in an entity acquiring cash, this cash should be measured at its fair value according to the ED. We need to then look at which standards are already in place that deal with the measurement of financial assets. The ED provides readers with recognition and measurement guidelines and allows readers to identify whether or not an asset/liability will arise as a result of the non-exchange transaction.

Once the asset/liability has been identified, it needs to be measured in accordance with existing standards. If there is no existing standard then the fair value as suggested by the ED should be adopted.

However existing standards should take precedence.

j Prospective application per the transitional provision

Response

We are of the opinion that retrospective application should be provided for in the transitional provisions.

The effect on both the statement of financial performance and statement of comprehensive income in some cases may be significant. If a prospective approach is taken, and a significant adjustment is made, we believe that the readers of the financial statements would want to see the impact on the comparative figure.

We recommend retrospective application.

Australian-specific Questions

The AASB would also particularly value comments on the following aspects:

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

l the retention of requirements for restructures of administrative arrangements;

m whether recognition requirements are needed in respect of contributions from owners and distributions to owners generally; the role of AASB Interpretation 1038 once a Standard based on the ED is issued;

n the proposed amendments to other Australian Accounting Standards, as set out in Appendix A;

Response
We are in agreement with the amendments to other Australian Accounting Standards.

o whether, overall, the proposals would result in financial statements that would be useful to users; and

Response
Yes, subject to our comments noted in the cover letter.

p whether the proposals are in the best interests of the Australian economy.

Response
Yes, subject to our comments noted in the cover letter.