ED180 sub 16

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
Direct Phone Enter your phone number
Direct Fax Enter your fax number
www.pwc.com/au

Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Vic 8007

3 December 2009

Dear Kevin

Exposure Draft ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*

We are responding to your request for comment on the above Exposure Draft (ED).

We support the Board's approach of developing proposals to update the accounting requirements for non-exchange transactions based on IPSAS 23. Many entities find the current accounting requirements challenging to interpret and apply and the proposals in the ED will assist the community deal with the challenges facing them in practice and improve the comparability of information reported. We have identified some areas where additional guidance or examples would be useful. These areas are highlighted in our responses to the specific matters for comment included in Appendix A.

We agree with the Board's proposal not to include the requirements for contributions from owners and distributions to owners and restructures of administrative arrangements within the scope of the proposed standard. However, we expect that entities working within this sector and their stakeholders find the requirements presently included in AASB 1004 helpful in ensuring consistency in approach and on this basis we support them being retained.

Our detailed responses to the specific matters for comment are provided in Appendix A.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 86033868 if you would like to discuss this further.

Yours sincerely

Jan McCahey

Jan McCahey
Partner
Assurance

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Appendix A: ED 180 Specific matters for comment

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

We support the Board's approach of developing the proposals based on IPSAS 23 rather than extending the scope of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. IPSAS 23 is more consistent with the conceptual framework and the direction taken in the IASB's revenue project.

While we acknowledge that this approach is not a complete solution, we believe it is the right step for the Board to take to address the existing divergence in practice in accounting for non-exchange transactions. Given the significance of non-exchange income to not-for-profit public and private sector entities, we do not consider it appropriate to defer the issuance of this ED pending the outcome of the IASB projects.

However, the AASB should also continue to monitor the IASB projects on revenue recognition, the measurement of liabilities and the revisions to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and consider their implications for the treatment of non-exchange transactions, to ensure the principles for accounting for non-exchange transactions are in line with IASB developments.

Given IPSAS 23 was developed for public sector entities, the proposed standard largely addresses non-exchange transactions from the perspective of a public sector entity. As the scope of the proposed standard will also apply to not-for-profit entities in the private sector, we think it would be useful if the standard also provided some examples that reflect typical non-exchange transactions that are relevant to these entities.

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

We are not aware of any differences between Australia and New Zealand that would override the Boards desire for converged standards for non-exchange transactions.

(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;

While the ED indicates that transactions can include both an exchange and a non-exchange component, it does not provide any guidance that would assist preparers in identifying circumstances where there are two components to a transaction. This will be an area of significant judgement and we believe it would be helpful to include some examples to guide application of the standard.

Consistent with our comments above, illustrative examples specifically for not-for-profit private sector entities should be included.

Appendix A: ED 180 Specific matters for comment

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

We agree with the proposals in the ED.

(e) the treatment of advance receipts;

We agree with the proposals in the ED. The guidance should make it clear that the measurement of the liability recognised for assets received before a transfer arrangement is binding should be based on the fair value of the assets transferred.

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

We generally do not support 'optional' provisions within accounting standards because they do not promote consistency in accounting approach and can make it more difficult for users to understand and compare financial reports. However, we can accept the Boards proposal on pragmatic grounds for the reasons outlined in the ED.

(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;

We concur with this proposal.

(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;

We understand the Board considers that AASB 139's approach to recognising and measuring financial liabilities does not work effectively for arrangements which embody both performance and return obligations, and that this is the reason for excluding them from the scope of AASB 139. We accept this approach but consider that the rationale should be clearly explained in the Basis for Conclusions.

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

We agree with the measurement proposals in the ED in relation to non-financial assets and liabilities, although it would be useful if the proposed standard included some examples that illustrate the initial measurement of liabilities that arise from conditions on transferred assets.

We also agree that financial assets and financial liabilities should be measured in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* at fair value adjusted for transaction costs.

Appendix A: ED 180 Specific matters for comment

(j) prospective application per the transitional provisions.

We agree with this proposal.

Australian-specific Questions

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

We concur that for-profit government departments should be excluded from the scope of the proposed standard. Other than set out in our answers to questions (l) and (n) below, there is no need for any special requirements for these types of entities.

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

Generally in the for-profit sector this accounting does not apply to transfers of assets among subsidiaries in a group. Thus, in order for it to be allowed for government entities it needs to be specified as an accounting standard. However, we concur with the Board that the requirements do not fit well in a standard on non-exchange transactions.

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

As the recognition requirements for contributions by owners and distributions to owners currently in AASB 1004 are applicable only to local governments, government departments and whole of governments, we agree with the Boards proposal to not include these requirements within the scope of the proposed standard. We expect that entities working within this sector and their stakeholders find the reporting requirements helpful in ensuring consistency in approach and on this basis we support them being retained.

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

In accordance with our response to Question (m) above, we consider there continues to be a need to retain guidance on accounting for contributions from and distributions to owners in order to minimise diversity in accounting practices.

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

We agree with these proposals.

Appendix A: ED 180 Specific matters for comment

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

We agree that the proposals would result in financial statements that would be useful to users, subject to our comments on specific areas above.

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

We agree that the proposals are in the best interests of the Australian economy, subject to our comments on specific areas above.