VICTORIAN AND TASMANIAN UNIVERSITIES SENIOR FINANCE OFFICERS GROUP

26 November 2009

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

Email: standard@aasb.gov.au

Dear Mr Stevenson,

Re: ED 180 - Income from Non-exchange Transactions

Thank you for the opportunity to comment on the Australian Accounting Standards Board (AASB) Exposure Draft (ED) 180 *Income from Non-exchange Transactions (Taxes and Transfers).* This response has been prepared jointly by the Universities listed below, hereafter referred to as "the Universities":

Deakin University
LaTrobe University
Monash University
RMIT University
Swinburne University of Technology
The University of Melbourne
The University of Tasmania
Victoria University

The Universities commend the AASB for the overall direction it has taken in ED 180, recognising that many non-exchange income transactions, including government grants, result in a liability to the transferee. We believe that development of this ED into an accounting standard will improve the consistency and comparability of financial reports presented by all not-for-profit (NFP) entities, and will result in more accurate financial results than currently being presented under AASB 1004 *Contributions*. We are also pleased that this ED will better align the accounting of non-exchange transactions by NFP entities with that of for-profit entities although we believe even closer alignment could be achieved by adopting our suggestions below.

Whilst the Universities' comments to the AASB's Specific Matters for Comment are included in Attachment A, the Universities wish to draw the AASB's attention to these key issues for further consideration:

- *One accounting standard for non-exchange transactions applicable to all entities*
The Universities would like the AASB to consider the feasibility of either broadening the scope of AASB 120 or simplifying the requirements of this ED to bring it into line with AASB 120, so that for-profit and not-for-profit entities are subjected to the same requirements. The requirements to be imposed on NFP entities in this ED are significantly greater and more onerous than those applicable to for-profit entities in AASB 120. We do not see the validity in there being different requirements for for-profit and NFP entities in relation to this issue, and believe if all entities were subject to the same requirements, this would improve the comparability and usefulness of their financial reports.

- *Improved clarity around the use of the term "condition"*
While defined clearly in ED180, the use of the terms "conditions", "restrictions" and "stipulations" is somewhat confusing given the similarities in their meanings (ie the words are interchangeable in a thesaurus). Of particular concern is the use of the word "condition" throughout the standard referring only to a condition requiring return of an asset unless used for the designated purpose. For greater clarity, we recommend using the term "return condition" or similar to better express the nature of the condition being referred to and to distinguish from other conditions that are found within funding agreements.

- *Reduction of onerous disclosure requirements*
The Universities are concerned about some of the onerous disclosure requirements contained within the ED, in particular the following disclosure requirements in paragraph 107:

  b. The amount of receivables recognised in respect of non-exchange income
  c. Liabilities relating to transferred assets subject to conditions
  d. Assets subject to restrictions and the nature of those restrictions
  e. Amounts of advance receipts

  The Universities question whether such detailed disclosures are necessary to meet the general purpose financial reporting objective of providing information that is useful to a wide range of users in making economic decisions. It is our opinion that information of this nature, which is onerous to collate and track, would not be useful to users of NFP entity financial statements for decision-making and governance purposes. The Universities would like the AASB to consider replacing the disclosure requirements proposed in ED 180 with the relevant disclosure requirements in AASB 120.

- *Substance over form*

  The majority of the Universities are concerned that the 'substance over form' requirements in the ED may lead to differences in interpretation and, therefore, application, and ask the AASB to improve clarity through tightened wording and by providing additional examples. In particular, the Universities ask the AASB to consider:

  - changing the applicability of the substance over form clause to allow consideration of past experience of enforced repayment "by funding program" as opposed to "by funding body" or "transferor". The current wording leaves the application of this clause open to differing treatments as funding bodies/transferors may have different repayment practices across their various programs. The question then becomes, if a funding body has enforced the return of funds for a particular program but has never required repayment for several other programs, does the substance over form assessment on the first program apply to all the programs provided by that funding body?
  - providing clarification as to whether a legal condition to repay takes precedence over the 'substance over form' situation. The Universities suggest the inclusion of appropriate examples (see below) that deal specifically with the situation where a funding body provides a significant amount of funding (with repayment conditions), but as a result of compliance with the rules of the funding program the recipients of that funding generally repay only a very small percentage of the original grant. In such a situation does the repayment condition override the 'substance over form' argument?
  - the complexities involved in assessing substance over form, which results in the need for entities to consider and assess each funding agreement separately. Given the large number of agreements the Universities enter into each year, compliance with this requirement will result in a considerable burden on the Universities. Any way in which the substance over form requirements can be clarified and simplified, would be viewed favourably by the Universities.

- *Additional examples*

  While the Universities welcome the examples and guidance provided in the proposed ED, the Universities would like the AASB to consider including additional examples to provide clarity regarding the treatment of some common University transactions, such as:

  - A typical ARC and NHMRC grant
  - A non recurrent capital grant

  The Universities are willing to provide more specific/detailed examples for consideration, at the request of the AASB.

- *Application date and transition arrangements*

The application of this new standard will require varying amounts of work from each University. Some Universities do not require a long lead time and would be ready to adopt the standard sooner than others.

Therefore we welcome the prospective application of the new standard, but ask the AASB to be mindful of the amount of work and effort required to ensure the necessary systems, processes, people and training is in place to comply with the requirements of the new standard.

The Universities therefore request that the AASB, when setting the application date and transitional provisions for the new standard, be conscious of the varying compliance 'workloads' and provide sufficient time for such resources to be implemented (and applied before the comparative reporting period), whilst at the same time allowing voluntary early adoption of the standard.

If you have any questions regarding this submission, please do not hesitate to contact either Paul Healey (Director – Financial and Business Services Division, Deakin University) on (03) 9246 8129 or John Demagistris (Manager – Corporate Reporting, The University of Melbourne) on (03) 8344 2903.

Yours sincerely,

Mr Barry Telford
Chairman of the Victorian and Tasmanian Senior Finance Officer's Group (VTUSFOG)
Chief Financial Officer – Swinburne University of Technology

Attachment A

Response to ED 180 Specific Matters for Comment

(a) **the Board's approach of developing the proposals based on IPSAS 23**
The Universities agree with the intention of the Board's approach of basing the ED on IPSAS 23, bringing Australian requirements into line with the International Standards, which is consistent with the AASB's plan towards adoption of International Financial Reporting Standards. However, the Universities would strongly encourage the AASB and the International Accounting Standard-setting bodies to consider simplifying this ED and all future standards. The ED includes a number of onerous requirements which are not practical or cost effective for entities to meet, and which, in our opinion do not enhance the usefulness of financial reports for users.

(b) **whether there are any differences between Australia and New Zealand that would override the Board's desire for converged Standards for non-exchange transactions**
We are not aware of any differences that would prevent the success of a converged standard.

(c) **whether further guidance or illustrative examples are required in distinguishing exchange and non-exchange transactions or components of transactions**
While we welcome the examples and guidance provided in the proposed ED, we would like the AASB to consider including additional examples more relevant to the University/TAFE sector, such as:

- A typical ARC and NHMRC grant
- A non recurrent capital grant

We are willing to provide more specific/detailed examples for consideration, at the request of the AASB.

(d) **the definition and treatment of conditions on transferred assets**
The Universities request the AASB consider broadening the scope of the ED to be consistent with AASB 120 in terms of the definition and treatment of conditions. AASB 120 allows for-profit entities to recognise a liability when there are unmet grant conditions other than a return obligation. The Universities do not see any reason for different requirements to be imposed on for-profit and NFP entities in relation to this issue.

As commented previously, the Universities believe that the term "condition" used throughout the standard when referring specifically to a condition which requires a return of the asset if not used as specified may be confusing, as most agreements contain a number of other terms which are also referred to as conditions. We recommend clarifying this by using a term such as "return condition" instead.

(e) **the treatment of advance receipts**

We are happy with the treatment of advance receipts except for the disclosure requirements. We do not agree that separate disclosure of advance receipts is useful for users of NFP entity financial reports and is therefore unnecessary.

(f) **permitting, but not requiring, the recognition of contributions of services**
The Universities agree that recognition of contributions of services in-kind should be optional given the inherent difficulties in identifying and valuing such services, with consideration given to materiality.

(g) **requiring disclosure of the nature and type of major classes of services in-kind received – IPSAS 23 encourages but does not require such disclosure**
The Universities consider it reasonable to require disclosure of material classes or items of services in-kind and suggests the word "major" be replaced with "material" for greater clarity.

(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 AASB139**
We believe that any requirements in this ED need to be consistent with existing standards to prevent confusion.

(i) **the measurement requirements, particularly in respect of financial assets and financial liabilities**
We agree that financial assets and liabilities should be measured in accordance with AASB 139.

(j) **prospective application per the transitional provisions**
We agree with prospective application of the new standard. However, we would like the AASB to set an application date and transitional provisions that will allow sufficient time for the necessary resources to be implemented and applied as of the beginning of the comparative reporting period.

(k) **the exclusion of for-profit government departments from the scope of the ED – are requirements for such entities still required?**
The Universities are of the opinion that ideally one standard would exist for all entities rather than differing requirements for for-profit and NFP entities.

(l) **the retention of requirements for restructures of administrative requirements**
This issue has not been considered by the Universities as it is not applicable.

(m) **whether recognition requirements are needed in respect of contributions from owners and distributions to owners generally**
This issue has not been considered by the Universities as it is not applicable.

(n) **the role of AASB Interpretation 1038 once a Standard based on the ED is issued**
This issue has not been considered by the Universities as it is not applicable.

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

We have not identified any issues relating to the proposed amendments to other standards warranting comment.

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

The Universities strongly believe that adoption of the proposals in this ED will result in improved accuracy and consistency of NFP entity financial reports, providing more useful information to users for decision-making and governance purposes. Once the definition issues raised above are clarified we believe the ED will provide good guidance for the recognition of grant income and liabilities, which will reduce the interpretation and application differences that currently exist between NFP entity financial reports thereby improving comparability. The ED enables entities to recognise income as it is earned which better reflects the shift to accrual accounting than the current AASB 1004 cash basis recognition requirements, and will remove significant distortions from NFP entity financial results.

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

In times of financial and economic uncertainty it is imperative that users of financial reports are provided a true and accurate presentation of an entity's financial performance and position. As discussed above under item (p), the proposals in this ED will result in an improvement in the consistency and accuracy of financial reporting and therefore are in the best interests of the Australian economy.