



AUSTRALASIAN
COUNCIL OF
AUDITORS-GENERAL

30 November 2009

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

Dear Mr Stevenson

ED 180 - Income from Non-Exchange Transactions (Taxes and Transfers)

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

ACAG members are pleased that the AASB is addressing, through this Exposure Draft, the high priority public sector issue of accounting for the receipt of taxes, grants and other transfers. As indicated in ACAG's letter of 18 November 2009, we would encourage the AASB to move immediately to address the related issue of accounting by the providers of grants and other transfers, noting that over \$90 billion in grants are paid out annually by Australian governments alone.

The views expressed in this submission represent those of all Australian members of ACAG. The New Zealand Auditor-General will be commenting separately to the New Zealand Financial Reporting Standards Board on this exposure draft.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon O'Neill', is written over a horizontal line.

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

Specific Matters for Comment

Questions for both Australian and New Zealand Constituents

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

ACAG supports the Boards' approach to developing the proposals based on IPSAS 23.

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

ACAG is 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 ACAG believes that the guidance and illustrative examples are useful, there are additional areas that could be covered.

In many jurisdictions, transport authorities receive government subsidies to provide services at less than full cost. Paragraph 12 of ED 180 suggests that payment by a customer for a subsidised service is a non-exchange transaction. We suggest that an illustrative example on this issue be included to clarify whether such a transaction is intended to be accounted for as a non-exchange transaction.

There are often situations where the Australian Government will grant funds to a State or Territory Government or national not-for-profit body specifically for on-passing to other entities, such as local governments and schools. It would be useful to have an illustrative example to clarify the treatment of such grants.

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

ACAG does not agree with the proposed definition and treatment of conditions of transferred assets.

ED 180 proposes that a liability would only be recognised where there are 'conditions' ie only where there is an obligation on the transferee to return the transferred asset if it is not consumed as specified. A liability would not be recognised where there are 'restrictions' even when there is an option to seek a penalty against the recipient.

We believe that this element of ED 180 is inconsistent with the principles in the *Framework for the Preparation and Presentation of Financial Statements* and the requirements of AASB 137, neither of which require an obligation to return funds to be present to recognise a liability. ACAG does not agree with the distinction between conditions and restrictions in ED 180, as an obligation is described broadly in the Framework as "a duty or responsibility to act or perform in a certain way" that can arise from a "normal practice, custom and a desire to...act in an equitable manner" – ie the focus is on a requirement to act that would result in a sacrifice of future economic benefits. In our view, there is no rationale for restricting the interpretation of a present obligation only to obligations to return transferred assets. Accordingly, ACAG recommends that recipients in a non-exchange transaction should be required to recognise a liability for all obligations, whether they are conditions or restrictions, that the entity has no discretion to avoid and that meet the recognition criteria.

ACAG also remains concerned that unconditional grants will continue to be recognised as income in circumstances where a matching approach, as applied by for-profit entities under AASB 120, would arguably result in more meaningful financial statements. However, ACAG sees no way of reconciling a matching approach with the *Framework for the Preparation and Presentation of Financial Statements*.

Also, paragraph 17 of ED 180 states that constructive obligations do not arise from stipulations and refers the reader to AASB 137 in respect of constructive obligations. This presumably means that constructive obligations arising in respect of non-exchange transactions would be recognised and measured under a different standard from legal obligations. We believe this will lead to anomalies. If the intention of the AASB is that constructive obligations cannot be recognised in respect of non-exchange transactions, this should be stated and the last sentence of paragraph 17 should be deleted.

(e) the treatment of advance receipts;

ACAG agrees with the proposed treatment of advance receipts, because we support the concept of recognising taxation revenue when the taxable event occurs.

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

ACAG does not agree with the proposal to permit, but not require, recognition of contributions of services. We believe that recognition should be required whenever the contributed services meet all these criteria: controlled by the entity; reliably measurable; and would have been purchased by the entity if they had not been contributed.

ACAG notes that the last sentence of paragraph 33, which addresses services-in-kind is misplaced, appearing as it does after a discussion about regulatory arrangements.

(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;

Consistent with its view at (f) above, ACAG supports the proposal to require disclosure of the nature and type of major classes of services in-kind received on the grounds that, where material, it provides useful information to users.

(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;

ACAG does not believe that a significant difference is likely to arise in practice. On balance, it believes that benefits of comparability with AASB 139/NZ IAS 39 outweigh the costs.

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

See our answer to question (h).

(j) prospective application per the transitional provisions.

ACAG supports the proposed transitional provisions.

Australian-specific Questions

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

ACAG believes that for-profit government departments need to be included in any requirements for restructures of administrative arrangements.

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

ACAG believes that the requirements for restructures of administrative arrangements, currently part of AASB 1004, should be retained. We believe that these requirements are useful for entities involved in restructures.

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

ACAG believes it would help readers if there were at least a cross-reference to the AASB 101 requirement that contributions from owners and distributions to owners are included in equity.

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

ACAG supports the AASB's intention to review the role of AASB Interpretation 1038 once a Standard based on the ED is issued.

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

With one exception, ACAG supports the proposed amendments to other Australian Accounting Standards.

ACAG does not support the proposed change to AASB 102. That proposed change would create a conflict between paragraph Aus 9.1 and Aus 10.1, the former requiring inventories held for distribution to be measured at cost adjusted for loss of service potential, the latter requiring inventories acquired through a non-exchange transaction to be recognised and initially measured in accordance with the proposed Standard. ACAG supports inventories acquired in a non-exchange transaction being recognised and initially measured in accordance with the proposed Standard, but believes the conflict between the quoted paragraphs should be removed.

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

ACAG believes that, overall, the proposals would result in financial statements that would be useful for users.

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

ACAG has no comment on whether the proposals are in the best interests of the Australian economy.

Other Comments

Structure of ED 180

ACAG members found some repetition in ED 180. For example, very similar statements about advance receipts are made in paragraphs 54, 67 and 106.

Definition of the Public Sector

ACAG notes that the term 'public sector' is used in ED 180 but not defined. While this does not create particular problems in interpreting ED 180, the AASB may wish to use this opportunity to define the term, since it is used in other Standards eg AASB 124 *Related Party Disclosures*.