

List of Submissions to ED 165 *Proposed Improvements to Australian Accounting Standards*

- 1 Grant Thornton
- 2 HOTARAC



Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204,
Collins Street
WEST VICTORIA 8007
By Email: standard@aasb.com.au

Grant Thornton Australia Limited
ABN 41 127 556 389

Level 17,
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info@gtinsw.com.au
W www.grantthornton.com.au

21 October 2008

Dear David

ED 165 Improvements to Australian Accounting Standards

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on Exposure Draft ED 165 'Improvements to Australian Accounting Standards' which is a re-badged copy of the International Accounting Standards Board's Exposure Draft 'Improvements to IFRS'.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses.

This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its 7 November 2008 deadline, and discussions with key constituents.

We broadly support the proposals contained in the IASB's ED, and we have responded in the attached Appendix on an exception basis, in the few instances where our views differ from the ED's proposals.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

A handwritten signature in black ink, appearing to read "Keith Reilly".

Keith Reilly
National Head of Professional Standards

Appendix 1:

Responses to Exposure Draft Questions

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree that specific disclosures required by other standards should not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations. However, we believe that the vague comment that "Additional disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1" is unhelpful as it could be read as suggesting that additional disclosures are more likely to be required for items covered by IFRS 5 than elsewhere without providing any specific requirements. We suggest that the Board either delete this sentence or amend other requirements where they believe further disclosures are necessary. Deletion would still leave in place the generic IAS 1 requirement, which could be relied upon in exceptional cases.

IFRS 8 Operating Segments

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

As a pragmatic way of dealing with an evident problem of an unintended GAAP difference, we support this proposed amendment. However, we do not, in general, believe that amendments to the Basis for Conclusions for a standard should be seen as a route to changing practice regarding how the standard is applied.

IAS 7 Statement of Cash Flows

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

This change appears to have been proposed to address an issue in a particular area (expenditure on exploration for and evaluation of mineral resources). However, we believe that more consideration should be given to the wider consequences of the proposed amendment and to the treatment of other cash outflows that may hitherto have been classified as investing. For example, it is not clear from IAS 7 how cash outflows relating to contingent consideration in a business combination accounted for under IFRS 3 (Revised 2008) should be dealt with (presumably as financing?). Nor is it clear how the

proposed amendment interacts with IAS 7.35, which indicates that taxation cash flows may in some cases be classified as 'Investing'. We note also that expenditure on inventories is recognised as an asset in the statement of financial position but such expenditure is routinely regarded as being 'Operating' in nature.

IAS 18 Revenue (Appendix)

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

Yes. We believe that it is appropriate to amend the Appendix rather than the text of the Standard itself.

In addition, we note that there are various sources of national guidance in this area which are often referred to under the hierarchy in IAS 8.10-12. Hence, it may be useful for the Basis for Conclusions to note the existence of these sources and identify common principles that are reflected in the proposed amendment to the Appendix to IAS 18.

IAS 38 Intangible Assets

Measuring the fair value of an intangible asset acquired in a business combination

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

Yes, though it is not clear to us why this change is considered to be necessary. We note the use of the word "hypothetical" in the proposed amendments to paragraph 41. We are not convinced that this word is necessary and consider that it may give the impression that there would be no or reduced need for evidence in support of the estimated cost the entity would avoid. We also observe that the "and" at the end of subparagraph (a) (ii) may give rise to unintended interpretative difficulties. We believe that the amendment is intended to mean first do (a) then do (b) ie discount the result of doing (a).

Question 2: Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

No. We believe that to have two different implementation dates six months apart for the amendments to IAS 38 leads to unnecessary complexity. As other changes to IAS 38, arising from the introduction of IFRS 3 (Revised 2008) take effect from 1 July 2009, in our view this change should also apply from that date.

IAS 39 Financial Instruments: Recognition and Measurement

Application of the fair value option

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

Yes, though we do not see why this amendment was considered necessary as the meaning of IAS 39 paragraph 11A was clear to us. In our view, diversity in practice appears to have resulted from not applying the principles of the standard.

Specific AASB Questions

- a whether the proposed guidance on determining whether an entity is acting as a principal or as an agent proposed to be included in AASB 118 has implications for not-for-profit entities, particularly those in the public sector, and whether it might be useful in the context of accounting for non-exchange revenue by not-for-profit entities;

We are not aware of any implications for not-for-profit entities.

- b any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to not-for-profit entities; and

We are not aware of any issues that may effect the implementation of the proposals including not-for-profit entities.

- c whether the proposals are in the best interests of the Australian economy.

We believe that the proposals are in the best interests of the Australian economy.

Department of Treasury and Finance

The Treasury Building
21 Murray Street, HOBART, Tas 7000
GPO Box 147, HOBART, Tas 7001 Australia
Telephone: (03) 6233 3100 Facsimile: (03) 6223 2755
Email: secretary@treasury.tas.gov.au Web: www.treasury.tas.gov.au



Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST Vic 8007

Dear Mr ~~Boymal~~ *David*

ED 165 – IMPROVEMENTS TO AUSTRALIAN ACCOUNTING STANDARDS

Thank you for the opportunity to comment on Exposure Draft 165 *Improvements to Australian Accounting Standards*.

The Heads of Treasuries Accounting and Reporting Advisory Committee's main comments on the ED relate to the public sector implications of the proposed AASB 118 *Revenue* guidance, on determining if a principal/agent relationship exists. Detailed comments are provided in the Attachment to this letter.

Please contact Peter Gibson from the Australian Department of Finance and Deregulation on 02 6215 3551 if you wish to discuss these matters further.

Yours sincerely

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

27 October 2008

Encl

Attachment

The Heads of Treasuries Accounting and Reporting Advisory Committee's detailed comments on ED 165 - *Improvements to Australian Accounting Standards*

AASB 118 Revenue

Where government departments and agencies do not control an activity, they may act on behalf of:

1. the Crown or the Government in the normal course of business (administered items);
2. other government departments and agencies (as agent); and
3. external parties (as agent, trustee etc).

The Heads of Treasuries Accounting and Reporting Advisory Committee is concerned about the impact the Draft AASB 118 guidance could have on transactions resulting from government departments and agencies acting on behalf of the Crown or the Government, or another government department or agency.

treatment of transactions resulting from government departments acting on behalf of external parties.

HoTARAC is concerned that there may be an inadequate distinction in the proposed guidance between circumstance one (administered items) and circumstance two (agency). The draft AASB 118 guidance could mean that some items may be treated as a transaction by an "agent" under AASB 118, but not as "administered" under AASB 1050 *Administered Items* (or vice versa). HoTARAC believes that this outcome would be inconsistent with the intent of AASB 1050.

Specifically, HoTARAC believes that, pending any further review of administered items and non-exchange transactions, AASB 1050 provides the more appropriate guidance for government departments (and not-for-profit entities) when acting on behalf of the Crown or the Government because:

- in government, many principal/agency relationships concern non-exchange transactions (e.g. taxes, fines and fees); while AASB 118 only provides guidance in relation to exchange transactions (i.e. the sale of goods and services); and
- the overriding determinant of whether or not an item is administered under AASB 1050 is the concept of "control"; while the proposed AASB 118 guidance on the principal/agent relationship focuses on risks and rewards.

While the concept of control can be seen to incorporate risks and rewards, AASB 1050, by adopting the control perspective, provides broader guidance than AASB 118 (e.g. including the capacity to deny or regulate access).

However, in the future, HoTARAC believes that the AASB 118 risks and rewards approach, compared to the control approach in AASB 1050, should be further considered as part of the AASB's projects on administered items and non-exchange transactions. HoTARAC also believes that including a clear definition of administered transactions in AASB 1050 would provide greater clarity regarding agent transactions and administered transactions.

In the interim, HoTARAC believes that the scope of agency under AASB 118 should exclude transactions subject to AASB 1050.

AASB 38 Intangible Assets

With regard to proposed changes to AASB 38 *Intangible Assets*, HoTARAC believes the word "together" in paragraph 36. should be replaced with "when directly associated", to avoid the use of words with a contradictory meaning.

AASB's Proposed requirement:

"An intangible asset acquired in a business combination might be separable, but only together with a related contract, identifiable asset, or liability."

HoTARAC's proposed words:

"An intangible asset acquired in a business combination might be separable, but only when directly associated with a related contract, identifiable asset, or liability."

AASB 39 Financial Instruments: Recognition and Measurement

With regard to AASB 39 *Financial Instruments: Recognition and Measurement* HoTARAC would like two commas to be inserted to enhance the readability of paragraph AG 33 (d). The first comma should be inserted directly after "insurance contract or not a financial instrument" and the second comma to be inserted directly after "related to the host contract".

HoTARAC is not aware of any regulatory impediments to the implementation of the changes. HoTARAC offers no comment about whether the changes are in the best interests of the Australian economy.

In conclusion, whilst the other improvements will have little impact on the Australian public sector, HoTARAC welcomes the clarity these other proposed changes bring to a number of requirements within standards.