



**Australian Government**

**Australian Accounting  
Standards Board**

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27 June 2011

Ms Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto Ontario M5V 3H2  
CANADA

Dear Stephenie

**IPSASB Exposure Draft 45 *Improvements to IPSASs 2011***

The Australian Accounting Standards Board (AASB) is pleased to submit its comments on the above-named Exposure Draft.

The AASB is particularly concerned about the proposal to remove references to ‘exchanges of assets which lack commercial substance’ and the related guidance from IPSAS 16 *Investment Properties* and IPSAS 17 *Property Plant and Equipment*. The rationale given seems to imply that exchange transactions which lack commercial substance are non-exchange transactions.

The AASB notes that it is not necessarily the case that ‘exchanges of assets which lack commercial substance’ are non-exchange transactions, and there is no public sector specific reason to make such a presumption. In support of this view, the AASB also notes that the IASB’s rationale for including requirements relating to exchanges that lack commercial substance, provided in paragraph BC18 of IAS 16 *Property Plant and Equipment*, is relevant in a public sector context. The IASB’s rationale can be summarised as follows:

- gains should not be recognised on exchanges of assets unless the exchanges represent the culmination of an earning process;
- exchanges of assets of a similar nature and value are not a substantive event warranting the recognition of gains; and
- requiring or permitting the recognition of gains from such exchanges would inappropriately enable entities to ‘manufacture’ gains by attributing inflated values to the assets exchanged, if the assets do not have observable market prices in active markets.


Accordingly, the AASB recommends that the IPSASB retains the references to exchange transactions that lack commercial substance and the related ‘commercial substance’ test.

However, the AASB acknowledges that the IPSAS 16 and IPSAS 17 references to 'exchange transactions' in the context of the discussion about exchanges of assets that lack commercial substance, relative to the references to 'non-exchange transactions' elsewhere in those IPSASs, has the potential to be unclear. The AASB thinks this lack of clarity could be resolved by IPSASB clarifying or re-expressing the references to 'exchange transactions' or 'non-exchange transactions' when used in the context of exchanges of assets that lack commercial substance. For example, consideration could be given to the phrase 'a transaction involving the swapping of an item of property, plant and equipment for a non-monetary asset that lacks commercial substance'.

The AASB would also like to bring to IPSASB's attention the work of the AASB in relation to the IASB's ED/2010/6 *Revenue from Contracts with Customers*. The AASB is developing proposals for accounting for income of not-for-profit entities based on the proposals in IASB ED/2010/6 (as modified for subsequent IASB decisions in its redeliberations of that ED), modified where necessary for not-for-profit specific issues. The AASB's tentative conclusion is that the IASB's revenue recognition model should only need limited modification. A key decision of the AASB is that the accounting for transactions involving income of Not-for-Profit entities should be determined by considering which financial statement elements arise, without being concerned with whether the transactions are 'exchange' or 'non-exchange' or combination of both.

If further information or clarification is required regarding any matters in this submission, please contact Shu In Oei, Project Manager (e-mail: [soei@aab.gov.au](mailto:soei@aab.gov.au)).

Yours sincerely,



Kevin M. Stevenson  
*Chairman and CEO*