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Ms Stephenie Fox
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277 Wellington Street West
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CANADA

Dear Ms Fox

IPSASB Consultation Paper Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the above named Consultation Paper (CP). In formulating its comments, the AASB considered the views received from Australian constituents.

General Comments

Relationship between the IPSASB and IASB Conceptual Framework projects

The AASB supports the IPSASB's development of a conceptual framework for public sector entities as a high priority project. The AASB considers it important that the IPSASB and IASB Conceptual Frameworks are complementary, where differences (if any) exist only to the extent warranted by differences in circumstances. This would support the development of International Public Sector Accounting Standards and International Financial Reporting Standards that differ (if at all) only where necessary to deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. This approach is also likely to assist users of general purpose financial reports who read financial reports across all sectors in the economy.

Such an outcome would foster the achievement of transaction neutrality, under which a given transaction or other event is accounted for the same way, regardless of the nature of the entity (whether for-profit or not-for-profit) and the sector in which the entity operates. The AASB considers that transaction neutrality is important for ensuring information reported by any entity is relevant, representationally faithful and comparable.

The AASB encourages the IPSASB and IASB to work together as closely as possible to achieve complementary Conceptual Frameworks and, in the development process, to leverage off each other's work.

In jurisdictions, such as Australia, that have a single Conceptual Framework for all reporting entities, complementary IPSASB and IASB Conceptual Frameworks would greatly assist with incorporating aspects of the IPSASB Conceptual Framework to address public-sector-specific issues.

In the context of this CP, the AASB recommends that differences between the IPSASB and IASB Conceptual Frameworks in relation to the definitions of, and recognition criteria for, the elements of financial statements should occur (if at all) only when there is a public-sector-specific reason for those differences. This view is reflected in the AASB's comments in this submission.

Due process

The AASB acknowledges that this is a substantial project and that the IPSASB is working towards completion of a final Conceptual Framework in March 2013. However, given the interrelationship of the various phases, it encourages the IPSASB to leave open the possibility of issuing an ED of the full Conceptual Framework once EDs have been issued, and comments thereon reviewed, in respect of all phases of the project.

Specific Comments

The AASB's most significant specific comments regarding the issues in the CP are set out below and elaborated on in Appendix A.

'Asset and liability-led approach'

The AASB supports the 'asset and liability-led approach' for identifying revenues and expenses. The AASB is of the view that assets and liabilities should be defined in relation to economic resources and economic obligations, that revenues and expenses should reflect changes in those economic resources and economic obligations, and that (apart from net assets/equity) the statement of financial position should report only assets and liabilities.

An important reason why the AASB does not support the 'revenue and expense-led approach', as articulated in the CP, is because that approach appears to mix economic phenomena and accounting devices ('deferred outflows' and 'deferred inflows') as elements of the financial statements.

The AASB does not consider the 'revenue and expense-led approach' to be articulated clearly enough to enable proper comparison of the two approaches. Whilst the AASB supports an 'asset and liability-led approach', if the other approach were articulated more clearly, it may be feasible to identify the conceptual differences between the approaches and reduce the risk of disagreements based on misunderstandings about what each approach entails. A 'revenue and expense-led approach', properly developed and in a form the AASB would find acceptable, might complement an 'asset and liability-led approach'.

Generic definitions of assets and liabilities

The AASB suggests defining assets and liabilities generically, without requiring them to have an association with the entity. The AASB considers that it is useful to focus on the nature of economic phenomena (economic benefits and claims to economic benefits) that affect various entities, without restricting definitions of assets and liabilities to only phenomena that affect the reporting entity. It considers that criteria for associating those particular phenomena with the reporting entity should be included in recognition criteria. This approach has the advantages of:

- (a) keeping the definitions relatively simple and readily understandable; and
- (b) helping minimise the risk that standard setters and others will ‘peek ahead’ to consider whether consequences of the definitions for the recognition of assets and liabilities will be desirable and/or consistent with existing conventions. Developing definitions that do not necessarily affect reporting entities should help in focusing on the economic phenomena to be identified as the elements of financial position (and, by derivation, the elements of financial performance).

Consistent with this view, the AASB recommends that assets and liabilities should not be limited to items that would necessarily be recognised in financial statements. Accordingly, a government’s rights/powers to tax and levy fees and social benefit obligations should be identified as assets and liabilities respectively, although these elements might not qualify for recognition in the financial statements.

This approach also lends itself to coping with developments in accounting thought that result in more types of assets being recognised over time. Assets may exist but accounting methodologies regarding recognition and measurement may change.

‘Exchange’ and ‘non-exchange’ transactions

In various places the CP analyses the implications of transactions for the definition and recognition of elements of financial statements by reference to whether the transactions are ‘exchange’ or ‘non-exchange’. In some of these cases the nature of the transaction potentially determines whether, or when, an element can arise (for example, paragraphs 2.49, 3.33 – 3.34, 3.55 – 3.58, 4.32 and 4.42 – 4.45).

The AASB notes that ‘exchange transactions’ and ‘non-exchange transactions’ are not defined in the CP and that the discussion of these terms presumes that, at a conceptual level, the distinction between exchange and non-exchange transactions is important (without explaining that presumption). The AASB considers that the issue of whether to distinguish exchange and non-exchange transactions is a standards-level issue only, and that the terms ‘exchange’ and ‘non-exchange’ should not (and need not) be used in the IPSASB Conceptual Framework.

The AASB notes that in various other places (for example, paragraphs 3.14, 3.29, 3.35 – 3.36, 3.45, 3.53, 4.13 and 4.28), reference is made to exchange and/or non-exchange transactions apparently as a clarification (for example, to indicate that the classification of a transaction as ‘exchange’ or ‘non-exchange’ is not a significant factor in determining

whether a particular element arises or should be recognised). Because the AASB considers that the distinction between exchange and non-exchange transactions is a standards-level issue only, it also recommends omitting these references to ‘exchange’ and/or ‘non-exchange’ transactions.

The AASB’s responses to the specific matters for comment in the CP are set out in Appendix A.

Other AASB comments on the CP are set out in Appendix B.

If you have any queries regarding matters in this submission, please contact me or Mischa Ginns (mginns@aaasb.gov.au).

Yours sincerely

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive style with a long, sweeping underline.

Kevin Stevenson
Chairman and CEO

APPENDIX A

AASB's response to the Specific Matters for Comment on the CP

Specific Matter for Comment 1

- (a) Should the definition of an asset cover all of the following types of benefits—those in the form of:
 - (i) Service potential;
 - (ii) Net cash inflows; and
 - (iii) Unconditional rights to receive resources?
- (b) What term should be used in the definition of an asset:
 - (i) Economic benefits and service potential; or
 - (ii) Economic benefits?

The AASB supports a definition of an asset that covers all three types of benefits listed in Specific Matter for Comment 1(a). The AASB observes that these types of benefits are not mutually exclusive. Assets held by not-for-profit entities to provide services (and which are explained in paragraph 2.16 as possessing 'service potential') would generally also be held to generate net cash inflows, either directly through user charges (as noted in paragraph 2.19) or indirectly in the form of transfers from government and/or taxes. Sometimes a cash inflow may be in the form of an explicit subsidy of the cost of services provided, or implicit in the raising of revenue at an entity-wide level (for example, in the form of some taxes). The fact that some net cash inflows are more difficult than others to relate to particular assets does not necessarily mean the assets are not cash-generating.

The AASB observes that unconditional rights to receive resources embody service potential and a capacity to generate net cash inflows, as they will be converted into other assets also possessing those benefits or attributes.

In relation to Specific Matter for Comment 1(b), the AASB would prefer using the term 'economic benefits' in the definition of an asset, with clarifying guidance that service potential is a sub-set of economic benefits.

Specific Matter for Comment 2

- (a) Which approach do you believe should be used to associate an asset with a specific entity:
 - (i) Control;
 - (ii) Risks and rewards; or
 - (iii) Access to rights, including the right to restrict or deny others' access to rights?
- (b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?
- (c) Are there additional requirements necessary to establish a link between the entity and an asset?

As noted in the covering letter, the AASB considers that factors associating an element with an entity should be treated as recognition criteria rather than aspects of the element's definition.

In relation to Specific Matter for Comment 2(a), it may be difficult, in some circumstances, to associate an asset with an entity without considering the notion of control. Sometimes a resource is only a right (e.g., an amount receivable) and sometimes a resource is an object (e.g., owned property) that gives rise to various rights of its holder. This can cause different interpretations of 'rights' in relation to the identification of assets – for example, some argue that if a resource is a right, there is no obvious reason why it is preferable to say an entity *has access to that right* than to say an entity *controls that right*. In addition, if an asset is a right of access, using 'access to rights' would be confusing, because one would then say an entity has access to a right of access. Here, control would be more understandable. Therefore, the AASB supports an approach that includes either or both of the notions of control and access to rights, including the right to restrict or deny others' access to rights. The AASB also considers that the risks and rewards notion may be a useful indicator of control and access to rights.

In relation to Specific Matter for Comment 2(b), the AASB considers that, depending on the nature of the item, either an enforceable claim to benefits or the ability to deny, restrict or otherwise regulate others' access would be necessary to link an asset with an entity. In this regard, the AASB agrees with the views in paragraphs 2.39 – 2.40 of the CP, but in the context of recognition criteria for an asset rather than the definition of an asset.

Specific Matter for Comment 3

Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

The AASB considers that every asset of a reporting entity that qualifies for recognition is the result of a past transaction or other past event. However, the AASB considers that *identification* of a past transaction or other past event of the reporting entity should not be necessary for an asset to qualify for recognition. This is because the AASB agrees with the argument in paragraph 2.46(b) of the CP, albeit in the context of recognition criteria for an asset rather than the definition of an asset (because a past transaction or other past event would be one way of associating an asset with a particular reporting entity).

Nevertheless, the AASB supports:

- (a) emphasising the importance of a past transaction or other past event of the reporting entity as an indicator that an asset of the reporting entity would, subject to meeting other recognition criteria, qualify for recognition; while
- (b) noting that the existence of a past transaction or other past event does not guarantee that an asset continues to qualify for recognition.

Specific Matter for Comment 4

Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

As mentioned in the covering letter, the AASB's view is that assets should be defined without limiting them to items that would necessarily be recognised in financial statements. In addition, as noted in its comments on Specific Matter for Comment 19, the AASB is of the view that the recognition criteria should be separate from definitions of the elements of financial statements. Accordingly, a government's rights/powers to tax and levy fees should be identified as assets, although assets associated with a government's rights/powers to tax and levy fees might not qualify for recognition in the financial statements until an event (such as the exercise of the rights/powers) occurs. The AASB does not support depicting a right to tax as a 'perpetual asset' because the levying of some taxes constrains the government's ability to levy further taxes—therefore, some of the future economic benefits embodied in the right to tax are consumed by the levying of the tax (and therefore the right is not perpetual).

Specific Matter for Comment 5

- (a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?
- (b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

As indicated in the AASB's submission on the IPSASB CP *Measurement of Assets and Liabilities in Financial Statements*, an idea of the stock of an entity's wealth (or capital) is important for defining the elements of its financial statements. This is because assets and liabilities are stores of wealth and claims to those stores of wealth. This point is reiterated here as a reminder of the link between the measurement and elements components of a Conceptual Framework.

Subject to the comment above, the AASB has not identified any additional characteristics or other relevant issues. The AASB does however recommend that the definitions of assets and liabilities be symmetrical, or at least that any asymmetry is explained.

Specific Matter for Comment 6

- (a) Should the definition of a liability cover all of the following types of obligations?
 - (i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.
 - (ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).
 - (iii) Performance obligations.
 - (iv) Obligations to provide access to or forego future resources.
- (b) Is the requirement for a settlement date an essential characteristic of a liability?

Consistent with its comments on Specific Matter for Comment 4, the AASB supports a broad definition of a liability, whilst noting that some types of liabilities may not meet the recognition criteria. A broad definition of a liability could lead to some hotly debated public-sector-specific ‘obligations’, such as social benefit promises, being identified as liabilities.

In relation to Specific Matter for Comment 6(a), the AASB agrees that the types of obligations described in (a)(i) to (iv) are liabilities. The AASB is concerned that (a)(iv) includes two types of obligations that should be considered separately.

In relation to Specific Matter for Comment 6(b), the AASB does not consider that a particular settlement date is an essential characteristic of a liability. Although a settlement date may be relevant in the context of a contract, it is not always necessary.

Specific Matter for Comment 7

- (a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?
- (b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?
- (c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

As noted in the covering letter, the AASB considers that factors associating an element with an entity should be treated as recognition criteria rather than aspects of the element’s definition.

In relation to Specific Matter for Comment 7(a), the AASB is of the view that the definition of a liability should not require the identification of a specific party or parties outside the reporting entity to whom the entity is obligated, for the reason given in the last sentence of paragraph 3.25.

In relation to Specific Matter for Comment 7(b), the AASB considers that the absence of a realistic ability to avoid the obligation should not be identified as an essential characteristic of a liability. The AASB considers that this is a factor associating a liability with an entity, and therefore should be treated as a possible recognition criterion.

In relation to Specific Matter for Comment 7(c):

- (a) the AASB considers that the definition of a liability should be applicable to all types of obligations, with no distinction between obligations arising from exchange and non-exchange transactions (see the comments on exchange and non-exchange transactions in the covering letter); and
- (b) whether a ‘cannot realistically avoid’ principle should be adopted is a recognition issue (because it associates an obligation with an entity). The AASB does not have a view on whether any and, if so, which of the three approaches identified in paragraph 3.28 should be preferred. The AASB notes that there is considerable overlap between the three approaches described in paragraph 3.28 and suggests that, if discussion of those approaches is retained in the IPSASB’s ED on Elements and Recognition, the ED should contrast the approaches more clearly.

Specific Matter for Comment 8

Is it sufficient to state that a liability is a “present” obligation, or must there be a past event that occurs?

Consistent with its comments on Specific Matter for Comment 3, the AASB considers that every liability of a reporting entity that qualifies for recognition is the result of a past transaction or other past event. However, the AASB considers that *identification* of a past transaction or other past event of the reporting entity should not be necessary for a liability to qualify for recognition. This is because the AASB agrees with the arguments in paragraph 3.40(b) and (c) of the CP, albeit in the context of recognition criteria for a liability rather than the definition of a liability (because a past transaction or other past event would be one way of associating a liability with a particular reporting entity).

Nevertheless, the AASB supports:

- (a) emphasising the importance of a past transaction or other past event of the reporting entity as an indicator that a liability of the reporting entity would, subject to meeting other recognition criteria, qualify for recognition; while
- (b) noting that the existence of a past transaction or other past event does not guarantee that a liability continues to qualify for recognition.

Specific Matter for Comment 9

- (a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an event that is more appropriate?
- (b) Is the enforceability of an obligation an essential characteristic of a liability?
- (c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

In relation to Specific Matter for Comment 9(a), the AASB:

- (a) considers that obligations to provide social benefits are liabilities that may qualify for recognition; but
- (b) does not support depicting such obligations as ‘perpetual obligations’ because those obligations are continually settled and replaced with new obligations. Whilst those obligations may appear to be perpetual, in substance they are not. Another example of what might, inappropriately, be termed a perpetual obligation is the balance of employees’ holiday leave entitlements.

In relation to Specific Matter for Comment 9(b), the AASB is of the view that the significance of whether an obligation is enforceable is a recognition issue rather than an issue affecting the definition of a liability.

A similar liability recognition issue the AASB recommends addressing is whether obligations should be unconditional in order to qualify for recognition. Whether an obligation is unconditional is a factor associating a liability with an entity, and therefore the AASB does not consider it to be an issue affecting the definition of a liability.

With regard to Specific Matter for Comment 9(c), the AASB considers that the significance of sovereign powers to cancel or modify obligations to other parties is a recognition issue rather than an issue affecting the definition of a liability. The AASB considers that assessments of whether particular liabilities qualify for recognition should be based on existing legislation.

Specific Matter for Comment 10

- (a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?
- (b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

The AASB has not identified any additional characteristics that are essential to the development of the definition of a liability. Nor has it identified any other issues that need to be considered.

Specific Matter for Comment 11

- (a) Should revenues and expenses be determined by identifying which inflows and outflows are “applicable to” the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, “during” the current period (derived from an asset and liability-led approach)?
- (b) What arguments do you consider most important in coming to your decision on the preferred approach?

The AASB is of the view that assets and liabilities should be defined in relation to economic resources and economic obligations, that revenues and expenses should reflect changes in those economic resources and economic obligations, and that (apart from net assets/equity) the statement of financial position should report only assets and liabilities. It therefore supports the ‘asset and liability-led approach’ for identifying the elements of the statement of financial position and for determining the amounts of revenues and expenses, and endorses the comments in paragraphs 4.24 – 4.25 of the CP. Assets and liabilities are economic phenomena that have a dimension that is external to the entity. Deferred outflows and deferred inflows do not possess that quality.

An important reason why the AASB does not support the ‘revenue and expense-led approach’, as articulated in the CP, is because that approach appears to mix economic phenomena and accounting devices (‘deferred outflows’ and ‘deferred inflows’) as elements of the financial statements.

The AASB is concerned that the discussion in paragraphs 4.4, 4.6 and 4.22 of the CP about the ‘revenue and expense-led approach’ implies it is the only approach concerned with reporting current period financial performance. That approach defines revenues and expenses as “flows that relate to efforts of the current period” (paragraph 4.6). The logical implication is that the ‘asset and liability-led approach’ is concerned predominantly with reporting financial position, with reported financial performance being a by-product of that emphasis. However, the AASB considers that revenues and expenses comprise the financial effects of an entity’s current period accomplishments and that the ‘asset and liability-led approach’ gives equal importance to the reporting of financial position and financial performance.

The AASB is also concerned with the focus of the ‘revenue and expense-led approach’ on achieving ‘inter-period equity’, and its adoption of the view that “the principle that taxpayers pay only for the services they receive, and not pass on obligations to future taxpayers, should underlie any measure of financial performance” (paragraph 4.21). The AASB is particularly concerned that this approach is based on a value judgement about who should pay for services rendered in a particular period and its direct link between funding decisions and recognition. If a decision were made that taxpayers of a different period should pay for current period services, should the recognition principles change

accordingly? The AASB thinks the recognition principles should not change, but is concerned that adopting the ‘inter-period equity concept’ may create a precedent for public policy decisions to determine recognition principles.

Whilst the AASB does not support the ‘revenue and expense-led approach’, as articulated in the CP, it does not consider the ‘revenue and expense-led approach’ to be articulated clearly enough to enable proper comparison of the two approaches. Whilst the AASB supports an ‘asset and liability-led approach’, if the other approach were articulated more clearly, it may be feasible to identify the conceptual differences between the approaches and reduce the risk of disagreements based on misunderstandings about what each approach entails. A ‘revenue and expense-led approach’, properly developed and in a form the AASB would find acceptable, might complement an ‘asset and liability-led approach’.

The AASB notes that the main objectives of the ‘revenue and expense-led approach’ are described as:

- (a) attributing the costs of services to the period in which the services are provided; and
- (b) attributing tax and other revenue to the period in which they were intended to finance the related costs (paragraph 4.8).

However, the AASB notes other unrelated notions are implicit in the CP’s discussion of the ‘revenue and expense-led approach’. For example, a ‘likely realisation’ notion seems to be applied to the recognition of gains and losses on assets [paragraph 4.31(d)].

When inflows of resources are not stipulated to be used to finance particular costs of services, attributing those inflows to particular costs of services would involve arbitrary allocations. For example, inflows of resources from general purpose taxes and grants without stipulations can be applied to meet costs of current period services, repay debts incurred in providing services in previous periods or meet the costs of providing services in future periods. Because cash is fungible, any allocation of those inflows to particular outflows would be arbitrary and intent-driven. Another illustration of this concern is Example 1 in paragraphs 4.13 – 4.15 of the CP. In that example, retention of the grant is conditional on construction of the library—that is, the inflow is required to finance an expenditure rather than an expense. However, under the revenue and expense-led approach, the grant revenue is recognised when the library is depreciated. Furthermore, it is unclear how the revenue and expense-led approach would be applied if a grant were stipulated as financing the purchase of a non-depreciable asset (e.g., land) or was in the form of ‘seed money’ for the acquisition of an asset that must be maintained and refurbished for an indefinite period. In these cases, would a deferred inflow be recognised indefinitely?

Specific Matter for Comment 12

- (a) Should transactions with residual/equity interests be excluded from revenues and expenses?
- (b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

In relation to Specific Matter for Comment 12(a), the AASB considers that transactions with residual/equity interests should be excluded from revenues and expenses.

In relation to Specific Matter for Comment 12(b), the AASB does not support restricting the definitions of revenues and expenses to specific types of activities associated with operations. Instead, the definitions of revenues and expenses should include inflows from all transactions and events other than transactions with residual/equity interests.

The AASB considers that the desire of some to limit the definitions of revenues and expenses to specific types of entity activities or events has more to do with display of financial information about components of broadly defined revenues and expenses than with the breadth of the definitions *per se*. Accordingly, the AASB considers that this issue should be considered more fully by the IPSASB, within the context of broad definitions, when it develops further the Presentation and Disclosure phase of its Conceptual Framework project.

Specific Matter for Comment 13

- (a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?
- (b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

The AASB has not identified any other characteristics that are essential to the development of the definitions of revenues and expenses. Nor has it identified any other issues that need to be considered.

Specific Matter for Comment 14

- (a) Do deferrals need to be identified on the statement of financial position in some way?
- (b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:
 - (i) Defined as separate elements;
 - (ii) Included as sub-components of assets and liabilities; or
 - (iii) Included as sub-components of net assets/net liabilities.
- (c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

In relation to Specific Matter for Comment 14(a), the AASB does not consider it appropriate to identify deferrals in the statement of financial position, for the reasons noted in the AASB's comments on Specific Matter for Comment 11.

Specific Matter for Comment 15

- (a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?
- (b) Should the concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, be incorporated in the element definition?
- (c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

In relation to Specific Matter for Comment 15(a), the AASB would prefer that net assets/net liabilities were described as a residual interest rather than a residual amount. The AASB does not support treating net assets/net liabilities as necessarily being an ownership interest because, in some cases, such as local governments in Australia, there may not be an ownership interest in a public sector entity.

In relation to Specific Matter for Comment 15(b), the AASB supports the approach set out in paragraph 5.25(a) of the CP that defines net assets/net liabilities and treats any specific ownership interest as a sub-classification of net assets/net liabilities.

In relation to Specific Matter for Comment 15(c), the AASB has not identified any other issues or unique public sector considerations to address in relation to the concept of net assets/net liabilities.

Specific Matter for Comment 16

- (a) Should transactions with residual/equity interests be defined as separate elements?
- (b) If defined as separate elements, what characteristics would you consider essential to their definition?

In relation to Specific Matter for Comment 16(a), the AASB is of the view that transactions with residual interest holders could, but would not necessarily, be defined as separate elements. This would depend on the wording of the definitions. However, it is important to define transactions with residual interest holders because reference is made to those transactions in existing definitions of revenues and expenses.

Specific Matter for Comment 17

- (a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgment whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?
- (b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

As reflected in comments throughout this submission, the AASB is of the view that the recognition criteria should be:

- (a) separate from definitions of the elements of financial statements; and
- (b) neutral, both in requiring a neutral judgement of whether an element exists at the reporting date and in specifying the same recognition threshold for all assets and liabilities.

Specific Matter for Comment 18

Do you support the use of the same criteria for derecognition as for initial recognition?

The AASB supports the use of the same criteria for derecognition as for initial recognition. A corollary of the AASB's view that recognition criteria should be neutral (see comment above on Specific Matter for Comment 17) is that recognition criteria should apply equally to the initial recognition and subsequent recognition of an element. Derecognition is synonymous with treating an element as failing criteria for subsequent recognition.

Specific Matter for Comment 19

Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

The AASB considers that recognition criteria should be separate and distinct requirements from the definitions of the elements of financial statements. This is consistent with the AASB's response to Specific Matters for Comment 4 and 9.

APPENDIX B

Other AASB Comments on the CP

Paragraphs	Comment
2.51(a)	The combination of ‘right’ and ‘power’ in this sentence is confusing. The AASB recommends that the IPSASB elaborates the distinction.
2.53	The AASB suggests rewording the last sentence of paragraph 2.53 to say “as with any assets, they would be subject to recognition criteria to determine whether they are recognised in the financial statements” instead of saying that “these rights would still have measurement hurdles to overcome”.