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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
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7 July 2011

Dear Stephenie

Re: Exposure Draft 45 *Improvements to IPSASs 2011*

1. I am writing to set out the views of staff of the ASB in response to the above Exposure Draft (ED). The comments expressed in this letter have not been discussed by the ASB.

   Objective and Introduction paragraphs

2. We agree with the insertion of Objective paragraphs in IPSAS 6 *Consolidated and Separate Financial Statements*, IPSAS 7 *Investments in Associates*, IPSAS 8 *Interests in Joint Ventures* and IPSAS 10 *Financial Reporting in Hyperinflationary Economies*.

3. We further agree with the deletion of the Introduction Paragraphs from the standards outlined in the ED, but only if the addition of the objective paragraphs (see above) proceeds. On an editorial matter, we note that the relevant paragraphs in IPSAS 12 *Inventories* are IN1-IN14 and not IN1-IN13 as indicated in the ED.

   Transactions that lack commercial substance

4. We disagree with the removal of the reference to exchange transactions that lack commercial substance in IPSAS 16 *Investment Property* and IPSAS 17 *Property, Plant, and Equipment*. Removing this reference may result in entities that carry assets at cost who decide to swap 'like' assets having to revalue those assets and report a gain although in substance nothing has changed regarding their cash flows and/or service potential.

5. We note that this would be a departure from IFRS requirements in IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property* for no convincing reason. In our view, it is not relevant that the standards contain requirements for non-exchange transactions. Exchanges which lack commercial substance are not non-exchange transactions – rather they are not treated as transactions at all.

6. We also do not consider that the rationale provided in ED 45 that 'The equivalent paragraphs in IPSAS 31, *Intangible Assets* were omitted when IPSAS 31 was developed' to be a persuasive argument to make this amendment because we note that IAS 38 *Intangible Assets* also makes reference to transactions which lack commercial substance in the same way as IAS 16 and IAS 40.

7. In contrast, we consider the IASB's Basis for Conclusions paragraph BC 18 to IAS 16 does provide compelling arguments why exchange transactions without commercial substance should not be measured at fair value. These are as follows:

    a. gains should not be recognised on exchanges of assets unless the exchanges represent the culmination of an earnings process;

    b. exchanges of assets of a similar nature and value are not a substantive event warranting the recognition of gains; and

    c. requiring or permitting the recognition of gains from such exchanges enables entities to 'manufacture' gains by attributing inflated values to the assets exchanged, if the assets do not have observable market prices in active markets.

Use of the term 'revenue'

8. We further disagree with the deletion of the final sentence in paragraph 83 of IPSAS 17. Whilst we aware that IPSASs use the term 'revenue' in a broader sense than the IASB, we commented in our response to the Consultation Paper on *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* that 'revenue' is commonly used to refer to inflows from ordinary activities (as by the IASB).

9. Because the IPSAS definition of revenue refers to 'gross' inflows, we consider that deletion of this sentence may result in the gross amount received on the sale of an asset being recognised in revenue, which is essentially the amount which reflects the 'turnover' or 'sales' in the private sector. We consider this could be misleading for users of the accounts as these may not be part of the operations of the entity and therefore they should not be portrayed as such.

10. If the amendment were to proceed, consequential amendments to IAS 1*Presentation of Financial Statements* (including perhaps the examples) would be desirable to ensure consistency of the treatments adopted in practice.

Other proposed amendments

11. Finally, we agree with the remaining amendments made to IPSAS 17, IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, and IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

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12. If you require any further information please contact me or Joanna Spencer (j.spencer@frc-asb.org.uk or telephone +44 (0) 20 7492 2428).

Yours sincerely

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