



Accounting Standards Board

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The Technical Director
International Public Sector Accounting
Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
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UNITED STATES OF AMERICA

20 June 2006

Dear Sir

EXPOSURE DRAFT 29 - Revenue from Non-exchange Transactions (Including Taxes and Transfers)

The UK Accounting Standards Board (ASB) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board's proposals for the recognition and measurement of revenue from non-exchange transactions in the general purpose financial statement of public sector entities. This is a significant financial reporting issue for these entities.

The IPSASB proposals are also particularly welcome in view of the fact the IASB's project on revenue recognition is specifically excluding revenue from non-exchange transactions.

The ASB strongly supports the "principles based" approach being taken in the ED and agrees with the majority of the proposals being made. These proposals are largely consistent with the Board's own Framework as set out in its Statement of Principles and the Exposure Draft of a proposed Interpretation for Public Benefit Entities which was published in August 2005. The proposed Interpretation has yet to be finalised, with future work focusing particularly on liabilities and grants. We shall ensure that IPSASB are informed of our progress with this work.

The attached Appendix addresses each of the questions raised in ED29. The main points we would emphasise are:

- Whilst we agree with the proposal that assets acquired in a non-exchange transaction should be measured at "fair value" we believe that further guidance on the interpretation of "fair value" is required (see our answer to question g) ; and

- The ED is more “permissive” than our proposed Interpretation in terms of services-in-kind. It is our view that recognition of these services, where it is possible to measure their economic impact with sufficient reliability, should be “required” (see our answer to question m).

We would also suggest that the ED is reviewed before issue as a standard as there are several areas where we feel the clarity could be improved, for example:

- Tax expenses vs tax expenditures (see answer to question c);
- The use of the terms “stipulations”, “conditions” and “restrictions”; and
- The Implementation Guidance which is entitled “Measurement” but is largely about recognition (see answer to question g).

If you would like any further information on the comments made above or in the Appendix, then please contact Alan O’Connor (+44 (0)20 7492 2421) or myself on +44 (0) 7492 2440.

Yours faithfully



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Specific matters for comment

Scope of the proposed Standard (questions a and b)

We agree with the proposal that entity combinations that are non-exchange transactions should be excluded from the scope of the Standard.

We agree with the proposal that compulsory contributions to social security schemes should be included within the scope of the Standard. We also accept that because specific arrangements for these schemes will be highly jurisdiction dependent, it is not feasible to provide more detailed guidance within the proposed Standard.

Definitions (question c)

We are content with the defined terms as set out in paragraph 8 of the ED. We would however suggest IPSASB consider further the terminology used and definitions provided for “tax expenses” and “tax expenditures”. The wording currently used in the ED is very confusing.

Distinguishing between exchange and non-exchange components of non-exchange transactions (question d)

We agree with the proposal that in principle the exchange and non-exchange components of non-exchange transactions should be distinguished and, where feasible, recognised separately. However, we also recognise the practical difficulties in adopting such an approach.

Restrictions on initial recognition of a transferred asset (question e)

We agree with the proposal that restrictions do not give rise to the recognition of a liability on the initial recognition of a transferred asset.

Control of transferred resources (question f)

We agree with the proposal that assets should only be recognised when resources are transferred or when the reporting entity has an enforceable claim to the resources that are to be transferred.

Measurement at “fair value” (question g)

We agree with the proposal that assets acquired in a non-exchange transaction should be measured at their “fair value”, but note that the interpretation of that concept is not without difficulty and controversy, as is shown by the IASB’s current work on the subject. We hope IPSASB will clarify its application either in the context of non-exchange transactions or, perhaps, as a separate project.

In our response to the ITC, we expressed the view that the most relevant measure of current value for public benefit entities would be one that reflects the loss that the entity would suffer if it were deprived of the asset.

Conditions on transferred assets (question h)

We agree with the proposal that conditions on transferred assets may give rise to a liability upon initial recognition of a transferred asset.

We consider that the requirements relating to the recognition of a liability in respect of a condition applies equally to depreciable and non-depreciable assets.

Finally, we find the use of the terms “stipulations”, “conditions” and “restrictions” confusing, in particular we would suggest IPSASB review whether there is a need for the term “stipulation”.

Measurement of liabilities – relating to inflows of resources (question i)

We agree that it is plausible that the amount recognised as a liability should be the best estimate of the amount required to settle the present obligation at the reporting date, ie in accordance with IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets”.

However we suggest that this approach is tested by reference to the circumstances that are likely to arise in practice in order to ensure it will not give rise to the premature recognition of income.

Recognition of an asset and revenue (question j)

We agree with the proposal that to the extent that a non-exchange transaction gives rise to the recognition of an asset, it should also give rise to the recognition of revenue to the extent that a liability is not recognised.

We can think of no examples where it would be appropriate to recognise the gross inflow of economic benefits or service potential represented by the asset as revenue and, at the same time, recognise a liability.

Advance receipts (question k)

We agree with the proposal that any advance receipts relating to taxes or transfers should be recognised as a liability.

Reporting of Tax Expenses (question l)

We agree with the proposal that expenses paid through the tax system should not be netted off against tax revenues. We understand this is inconsistent with the Organisation for Economic Co-operation and Development's guidelines on tax credits (Revenue Statistics 1965-2002, dated 2003) and would hope that in due course these guidelines will be amended to align with the treatment proposed.

Recognition of Services-in-kind (question m)

We agree that services-in-kind are events that, in principle, have an economic impact on a reporting entity and should therefore be reflected in financial statements. We also recognise that it will not be possible to measure with sufficient reliability the economic value of some gifts of services and that where this is the case recognition will not be appropriate.

Our view is that recognition should be required (rather than permitted) where the economic benefit to the entity is reasonably quantifiable. The value placed upon these resources should be the estimated value to the entity of the services received (see our response to question g above).

We also agree with the proposal that, in the absence of recognition, there is a need for the notes to the accounts to provide sufficient disclosures to provide the user of the accounts with an understanding of the nature and type of services-in-kind received during the reporting period.

Transitional provisions (question n)

We acknowledge that transitional provisions will be required for taxation revenues but would hope similar provisions will not be required for other non-exchange revenue transactions (subject of course to an effective date that is considered by constituents to be reasonable).

Donated assets

Although not raised as a specific matter for comment, we agree with the proposed approach for recognising gifts and donations, including gifts in kind, as assets and, where no conditions are attached, as revenue.