

AUSTRALIAN ACCOUNTING STANDARDS BOARD

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MEMORANDUM

To:	AASB Members	Date:	6 March 2007
From:	Robert Keys	Agenda item:	11.1
Subject:	<b>GAAP/GFS Harmonisation</b>	File:	P113
	<b>Whole of government (WoG) and sectors</b>		

**Action**

- Consider AASB 1049 *Financial Reporting of General Government Sectors by Governments* implementation issues identified in agenda paper 11.2 and provide staff with directions on how to deal with each issue, including a response to the HOTARAC Chairman's letter in agenda paper 11.3.
- Consider the first draft of an ED proposing requirements for GAAP/GFS harmonised WoG financial reports, incorporating the GGS, PNFC sector and PFC sector.

**AASB 1049 implementation issues**

**Background**

At its February 2007 meeting, the Board noted that AASB 1049 implementation experience has highlighted some possible areas where AASB 1049 could be improved. The Board agreed that there would be benefit in considering improvements, particularly where they relate to issues that the Board will consider imposing on WoGs. Since the February meeting, a letter from the HOTARAC Chairman has been received (see agenda paper 11.3). That letter also raises some AASB 1049 implementation issues. Where relevant, these have been reflected in agenda paper 11.2.

**Issues and Staff Views**

Agenda paper 11.2 identifies the issues that have been brought to our attention and our views.

The issue of greatest concern to constituents appears to be issue 1, on whether the GGS should recognise deferred tax assets and liabilities to mirror the deferred tax liabilities and assets recognised by PNFCs and PFCs. The staff view is that, consistent with GAAP, GGS should not recognise deferred tax assets and liabilities.

The staff view on some of the other issues is that AASB 1049 should be amended to:

- clarify requirements where the net assets of a PNFC/PFC entity are negative (Issue 2)
- require a reconciliation between 'expenses, excluding losses, included in operating result' and 'expenses from transactions' (Issue 4)
- clarify whether the requirement to disclose the aggregate surplus/deficit of the PNFC/PFC sectors is referring to operating result or comprehensive result (Issue 11(b))
- clarify that the aggregate surplus/deficit of the PNFC/PFC sectors to be disclosed is to be measured in a manner consistent with the amounts consolidated into the WoG financial report before elimination of intersector transactions (Issue 11(c))
- clarify the meaning of the term 'distributions' that is used in AASB 1049.42(e) (Issue 12).

Staff believe that these amendments should be made at the same time as a WoG Standard is made, even though only Issues 2 and 4 would be relevant in a WoG context.

Staff do not believe that any other issues warrant amendment to AASB 1049. However, subject to the Board deliberating its policy on staff articles/guidance, the material in agenda paper 11.2 could form the basis of a staff 'Q&A' article.

## **Draft ED for WoGs**

### ***Background***

At its February 2007 meeting, the Board considered the main issues that need to be resolved in developing a GAAP/GFS WoG harmonised Standard. The Board decided that the manner in which AASB 1049 applies GAAP and accommodates GFS should, where appropriate, be adopted for WoG. The Board therefore decided that the first draft ED should be in the form of a marked-up AASB 1049, highlighting how AASB 1049 would need to be amended to become a Standard applicable only for WoGs. The first draft is attached (agenda paper 11.5). It is written as a stand-alone ED, including the implications of such, for example, paragraph BC8.

The Board also decided that staff should commence work on a draft ED that incorporates WoG requirements into AASB 1049, thereby contemplating a single standard specifying requirements for separate financial reporting by GGSs and WoGs. Staff intend commencing work on this alternative shortly. The Board decided to determine whether the ultimate ED should only focus on WoGs or both GGSs and WoGs at a future meeting.

If at the March meeting the Board decides to continue developing agenda paper 11.5 into a stand-alone ED, the ED could note that it may lead to either a revised AASB 1049 applicable to both GGSs and WoGs or a new stand-alone Standard only applicable to WoGs that complements AASB 1049. Although this approach was not considered by the Board in February, it may be a way of achieving a timely release of the ED by leaving the potential integration work to be done after the ED has been issued.

### ***Issues and Staff Views***

Agenda paper 11.5 reflects the Board's February 2007 technical decisions. Those decisions are listed in Attachment A of agenda paper 1.

Staff believe that material in agenda paper 11.5 forms a sound basis for proceeding to finalise an ED in one of the following forms:

- an ED for WoGs only, but to be converted into an integrated Standard for separate financial reporting by both GGSs and WoGs;
- an ED for WoGs only, to be developed into a Standard for WoGs only; or
- an ED for both GGSs and WoGs, to be developed into a Standard for both GGSs and WoGs.

### **Attachment**

Agenda Paper 11.2: Issues Paper: AASB 1049 Implementation Issues

Agenda Paper 11.3: Letter from HOTARAC Chairman to AASB Chairman dated 14/2/2007

Agenda Paper 11.4: Extracts from emails between Queensland Treasury and AASB staff dated 14/2/2007 relating to deferred tax assets and liabilities

Agenda Paper 11.5: Draft Exposure Draft ED XXX *Financial Reporting by Governments*

Agenda Paper 11.6: AASB 1049 (provided for reference purposes only).