

AASB 1049 Implementation Issues

Background

Although no jurisdictions have yet gone 'live' with AASB 1049 *Financial Reporting of General Government Sectors by Governments*, a number are considering implementation issues. For example, Queensland Treasury has established a project team to identify the impact of AASB 1049 on financial reporting and budgeting. This has included the recast of audited 2005-06 AAS 31 *Financial Reporting by Governments* financial statements into GGS statements as required under AASB 1049.

Jurisdictions have brought to the attention of AASB staff some issues (numbered 1 to 14 in this paper) that the Board might consider with a view to amending AASB 1049 to help clarify its meaning for GGSs and, where relevant, for whole of governments as the Board develops a whole of government harmonised Standard. Issue 15 was raised by the AASB Chairman. Issue 16, being 'other issues' raised in agenda paper 11.3, is included for completeness in acknowledging a recent HOTARAC letter.

The staff view on many of the issues is that it is not necessary to amend AASB 1049. However, given that the issues have been raised by constituents, staff suggest that this paper might form the basis of a staff 'Q&A' article for the issues that do not give rise to an amendment to AASB 1049. This approach should be subject to the Board deliberating (probably in May 2007) its policy on articles/guidance and other materials produced by staff.

Staff note that the following is not necessarily a comprehensive list of implementation issues that might be encountered by jurisdictions when they go 'live'.

The descriptions of the issues that follow are broadly based on the e-mail correspondence with constituents. The descriptions of the issues also note where there is an overlap with issues raised in the letter from HOTARAC.

Issue 1: Should GGS recognise deferred tax assets and liabilities?

Deferred tax equivalents represent material transactions to the Queensland GGS – approximately \$300M in revenue and \$3.6 Billion on the balance sheet. Under GFS, deferred tax equivalents are not recognised as either transactions or other economic flows. In essence they represent a timing difference to the GGS with only income tax expense/revenue and the associated receivable/ payable recognised. Currently under the GAAP framework, in some jurisdictions the GGS has recognised revenue/assets etc to mirror the position reported by PNFCs and PFCs. This is then eliminated on consolidation at the whole of government level. Currently AASB 1049 is silent on the treatment of deferred tax equivalents.

Should GGS recognise revenue/assets etc to mirror the deferred tax position reported by PNFCs and PFCs?

If so, should GGS deferred tax equivalent revenue be treated as an other economic flow similar to bad and doubtful debts expense?

What about deferred tax assets and liabilities on the balance sheet under AASB 1049 – they are not a financial asset within the definition of AASB 132 – are they non-financial and

should they have a separate category ie other? The illustrative example for the Balance Sheet does not indicate any category under non-financial assets other than the GFS categories of produced and non-produced assets.

What disclosures are required from a tax collector's viewpoint for consistency with AASB 112 *Income Taxes*?

This issue is given prominence in the covering letter in agenda paper 11.3. It is also referred to on page 7 of agenda paper 11.3.

Staff Response 1

In relation to GGS recognising deferred tax assets as the counterpart to deferred tax liabilities recognised by PNFC/PFC entities, staff believe the relevant standard is AASB 1004 *Contributions* and not AASB 118 *Revenue*. Staff's interpretation of AASB 1004.9(a) is that the GGS should not recognise the revenue/asset to the extent the tax-equivalent event associated with a PNFC/PFC deferred tax liability has not occurred. From a PNFC/PFC viewpoint, the event is the recognition of the underlying assets/liabilities, but for GGS it is the actual taxable transactions. We acknowledge that the issue is complicated by the fact that the GGS controls the PNFC/PFC and thereby arguably controls the contribution. That issue starts to get into the consolidation question. Therefore, consistent with the principle that GGS does not consolidate PNFC/PFC, we do not believe that it is appropriate for it to recognise revenue/asset as a counter to the PNFC/PFC deferred tax liability.

In relation to the applicability of AASB 112 to GGS, because AASB 112 does not apply to the tax collector, the disclosure requirements of AASB 112 also do not apply.

Staff do not believe that AASB 1049 needs to be amended in response to this issue.

Subsequent email correspondence between Queensland Treasury and AASB staff on this issue is attached as agenda paper 11.4. Staff are not persuaded by the arguments presented in agenda paper 11.4.

Issue 2: Negative net assets of an entity within the PNFC sector or PFC sector

Under AASB 1049.20, GGS equity investments in other sectors are to be recognised as assets and may be required to be measured at proportional share of net asset value. What if net assets are negative? In particular, how should investments classified as available-for-sale be treated, and what if they are impaired? Victoria has had the situation in the past where a PFC entity had net assets (accumulated losses) in the vicinity of (\$900m).

GFS apparently allows for the investment to become negative with changes in the carrying amount whether positive or negative being treated as an other economic flow. If AASB 1049 does not recognise a negative investment then there is a potential convergence difference (plus a potential interpretation issue with AASB 1049).

This issue is also noted on page 6 of agenda paper 11.3.

Staff Response 2

Should a negative asset be recognised?

AASB 1049.20 requires the GGS to measure investments in unconsolidated government controlled entities at fair value, when it is reliably measurable, or else at the government's proportional share of the net asset value of its investment.

An inability to measure fair value reliably does not necessarily result in classification of the investment as "available-for-sale". GGS must review the conditions of AASB 139.9 to determine whether the investments are to be classified as "fair value through profit or loss" or "available-for-sale".

Literally, AASB 1049 does not preclude the possibility of a negative asset being recognised.

AASB 139.AG66 states that "If a financial instrument that was previously recognised as a financial asset is measured at fair value and its fair value falls below zero, it is a financial liability measured in accordance with paragraph 49." However, this deals with circumstances where fair value is the measurement base. AASB 1049 does not state that net assets is a measurement of fair value.

The AASB did not explicitly discuss the implications of negative net assets while developing AASB 1049. However given the principles of GAAP (e.g. AASB 128 *Investments in Associates*, which prevents negative investment values when using the equity method) it is possible that the Board would have intended AASB 1049.20 to prevent the recognition and measurement of a negative asset in the separate financial statements of the GGS.

AASB 128.30 provides that, where an investor's interest is reduced to zero, additional losses will only be provided for to the extent that the investor has a legal or constructive obligation on behalf of the associate.

Staff believe that AASB 1049 should be amended to explicitly address the negative net assets situation. On balance, because measurement at net assets is an exception to GAAP and a concession to harmonisation with GFS, staff believe that AASB 1049 should be amended to explicitly require an investment in a PNFC or PFC with negative net assets to be recognised as a negative asset.

How should changes in carrying amount be treated?

Regardless of how an investment is measured, AASB 1049.20 requires the changes in carrying amount to be accounted for as if they are changes in fair value, in accordance with the requirements of AASB 139. Accordingly, the accounting for impairment losses for available-for-sale assets must be considered as part of AASB 1049.

AASB 1049.21 specifies that the change in fair value or change in net assets will either be taken to profit and loss or equity, depending on whether the investment is classified as "fair value through profit or loss" or "available-for-sale". AASB 139.9 defines both terms.

AASB 139.55(b) requires gains or losses on available-for-sale assets to be taken to equity (except for impairment losses and foreign exchange gains/losses) until the asset is derecognised. The discussion in AASB 139.15-23 regarding the derecognition of financial assets does not necessarily suggest that zero or negative constitutes derecognition, and it may be interpreted that a negative asset/ liability can be booked. AASB 139 Implementation Guidance example E.4.9 states that, in relation to the impairment of an available-for-sale

financial asset "...subsequent losses...are also recognised in profit or loss until the asset is derecognised."

An investment classified as available-for-sale will be subject to impairment testing at each reporting date (see AASB 139.58-70). At each reporting date, the GGS would need to determine whether there is objective evidence (see AASB 139.59-61) to suggest that the asset is impaired. If so, a cumulative loss in the equity account relating to the available-for-sale financial asset is required to be removed from equity and recognised in profit and loss even though the asset is not derecognised. In relation to the treatment of credit balances in the equity account of the impaired asset, one interpretation is that any previous net upward revaluations will be reversed first before any additional impairment write-down below the acquisition cost of the asset is taken to profit and loss.

AASB 139.61 states that a "...significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment." Arguably, if AASB 1049 is interpreted as not preventing the recognition of negative assets, then a change in net assets to below zero should be recognised as an impairment loss in profit and loss, where it satisfies the criteria for impairment, which we expect it typically would. However, if it is concluded that the asset cannot be negative, then the additional changes in net assets below zero would presumably only be provided for when there is a separate (albeit probably related) legal or constructive obligation as discussed above.

Staff do not believe that AASB 1049 needs to be amended to address the treatment of impairments of available-for-sale investments with negative net assets.

Issue 3: Measurement of GGS investments in entities within the PNFC/PFC sectors

AASB 1049.20 refers to net asset value of sector entities based on GAAP net assets. For Queensland this measurement is significantly lower than GFS valuation of investments due to PNFCs' GAAP provisions for restoration, deferred tax, provisions for onerous contracts etc. This difference is approximately \$4.2 billion in 2005-06. Should mention be made in the notes of the difference in valuation between the two frameworks?

Agenda paper 11.3 touches on some of the convergence differences noted immediately above (provision for restoration and onerous contracts) and concludes that GAAP treatment of these items is conceptually better than the GGS treatment (see the first item on page 8 of agenda paper 11.3). See also the first item on page 5 of agenda paper 11.3. For a discussion of deferred tax, see issue 1 above.

Staff Response 3

The difference between GAAP and GFS measurement is a reconciling difference that would be required to be disclosed per AASB 1049.42(a) – see for example explanatory notes (h) and (m) in Illustrative Example A.

Staff do not believe that AASB 1049 needs to be amended in response to this issue.

Issue 4: Derivation of “Expenses, excluding losses, included in operating result”

How is the amount for “Expenses, excluding losses, included in operating result” of \$214,281m in the Disaggregated Information note Z in Illustrative Example A of AASB 1049 reconciled with amounts recognised on the face of the illustrative operating statement? It is not helpful to users to have a number in note Z that is not readily apparent on the face of the financial statements. It would be preferable to require a disaggregation of “Expenses from transactions” rather than “Expenses, excluding losses, included in operating result”.

Staff Response 4

“Expenses, excluding losses, included in operating result” of \$214,281 is derived as follows: “Expenses from transactions” of \$214,586m less “Loss on write-off of financial assets at fair value through operating result” of \$380m plus “Amortisation of non-produced assets” of \$75m. The example treats “Doubtful debts” and “Share of net profit/(loss) from associates, excluding dividends” as losses.

Staff believe that, consistent with GAAP, it is appropriate to continue to require disclosure of a disaggregation of “Expenses, excluding losses, included in operating result”. However, staff believe that the Standard should be amended to require disclosure of a reconciliation between the “Expenses, excluding losses, included in operating result” and “Expenses from transactions” because, compared with the latter, the former is not necessarily immediately apparent on the face of the operating statement.

Issue 5: Functional classification of assets leased by the GGS as a lessor

Queensland has substantial Crown land holdings (\$15 billion). This land is subject to both freehold and non-freehold leases and is administered by the Department of Natural Resources on behalf of the State. Revenue on this land takes the form of either land rental or sale of land depending on the conditions in the leasing documents. The land is leased to a range of organisations, for a range of functions. For example, land can be used for pastoral, recreation and cultural purposes, commercial business, industrial, cemeteries, education and environmental.

AASB 1049.48 requires disclosure of assets by function (based on ABS Government Purpose Classification (GPC)). Should the broad functional classification on these assets be general purpose, or align with the purpose of the organisation leasing the land from the State? (The ABS has stated that they do not believe GPC should be applied to assets other than purchases of non-financial assets).

Staff Response 5

This response assumes that the issue is referring to the GGS leasing to entities outside the GGS.

The issue’s reference to revenue from sale of land under a lease document may mean that the transaction is a deferred sale rather than a lease. Alternatively, it may be a finance lease on the basis that the terms in the lease document mean that ‘title is expected to pass to the lessee by the end of the lease term’. In either of these cases a financial asset exists, and, in accordance with AASB 1049, a decision would need to be made on how to classify it in terms of the GPC. If the payments under the lease document are not ‘economically significant’ (as

that notion is used in GFS¹), then arguably the financial asset should be classified according to the purpose of the organisation using the land. If they are economically significant, arguably they should not be classified according to the organisation's purpose, because the GGS's purpose appears to be in obtaining a commercial return unrelated to a particular policy objective. Therefore, staff believe that the financial asset should be classified to 'other purposes'.

If the issue relates to land that is leased under operating leases, consistent with the comments above, the staff view is to classify the asset to the purpose of the organisation leasing the land from the GGS if the rent is not economically significant and to 'other purposes' if the rent is economically significant. In contrast, ABS has advised that, in practice, the functional classification is applied at the broad 'unit' level and not at the individual 'transaction' level of that unit, irrespective of the significance or otherwise of the lease amounts. An extract from IMF GFSM2001 states "6.96 The items classified should be, in principle, individual transactions. Each purchase of goods and services, wage payment, transfer, or other outlay should be assigned a COFOG code according to the function that the transaction serves. For most outlays, however, it will generally not be possible to use transactions as the classification items. Instead, COFOG codes may have to be assigned to all transactions of agencies, offices, program units, bureaus, and similar units within government departments or ministries."²

Staff do not believe that AASB 1049 needs to be amended in response to this issue.

Issue 6: Examples of prepayments that are not financial assets

AASB 101.75(b) indicates that prepayments are receivables. GFS classifies receivables as financial assets. However, AASB 1049.44(a) states that certain prepaid expenses would not fall under AASB 132. What are some examples of these types of prepaid expenses?

Staff Response 6

The "certain prepaid expenses" referred to in AASB 1049.44(a) relate to those addressed in AASB 132.AG11, which states: "Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets." A specific example would be a pre-paid rent.

Staff do not believe that AASB 1049 needs to be amended in response to this issue.

Issue 7 Classification of prepayments

AASB 1049.44(a) refers to prepayments as non-financial assets but the illustrative example for the Balance Sheet does not have any applicable category under non-financial assets.

- (a) Are we to assume in this Standard that although the format of the financial statements generally aligns with GFS, the definition of financial and non-financial assets is to be in accordance with GAAP – different from GFS.

¹ The ABS GFS Manual defines 'economically significant prices' as "Prices that have a significant influence on the amount producers are willing to supply or purchasers wish to buy." (Glossary, page 255)

² The acronym COFOG is Classification of the Functions of Government.

- (b) Should some statement to this effect be included in the financial statements and the AASB standard? (It is not necessarily clear when reading the Standard which framework the commentary is referring to, however the key terms in the back of the Standard include the AASB 132 definition).

Staff Response 7

- (a) The definition of financial and non-financial assets should be in accordance with GAAP, which is implied by AASB 1049.44(a). Also, AASB 1049.26 specifies AASB 101 for the balance sheet and AASB 1049.11 makes it clear that GAAP classification is required unless otherwise specified in AASB 1049. AASB 1049 does not 'otherwise specify', therefore GAAP classification is adopted. Staff do not believe that AASB 1049 needs to be amended in response to this issue.
- (b) Based on the staff response to (a) above, staff think the Standard is clear. In relation to whether a statement is needed in the financial report, AASB 1049.40(a) requires a statement to be made that the GGS financial report is prepared in accordance with AASB 1049. Staff do not believe that AASB 1049 needs to be amended in response to this issue.

Issue 8: Subdivision of certain assets

AASB 101.68 requires Balance Sheets to present on the face – investment property, biological assets, liabilities and assets for current tax and deferred tax under AASB 112, and assets held for sale. These categories were not included in Illustrative Example A of AASB 1049. As AASB 1049 requires compliance with AASB 101, is it correct that, for example, the category 'non-financial produced/non-produced assets – buildings and land' would require further subdivision on the face of the balance sheet to include assets held for sale, investment properties and assets for use in the provision of services?

Staff Response 8

Yes.

AASB 1049.47 may be relevant here. It addresses disclosure of components of aggregate numbers on the face. It states "Paragraph 103 of AASB 101 requires additional information to be provided in notes that is not presented on the face of the financial statements but is relevant to an understanding of them. Consistent with this, the components of aggregate numbers presented on the face of the GGS financial statements, including key fiscal aggregates, are disclosed in the notes where relevant."

In relation to investment property, staff would treat it as a separate class of asset, but, for consistency with GFS without breaking GAAP, we think it should be split between produced and non-produced components on the face.

In relation to assets held for sale, AASB 5.3 requires them to be classified as current assets. AASB 5.38 is also relevant – it says major classes of assets classified as held for sale shall be separately disclosed either on the face of the balance sheet or in the notes. Again, staff would argue that if held for sale assets comprise produced and non-produced components, they should be shown separately per GFS to the extent it does not conflict with GAAP.

Staff do not believe that AASB 1049 needs to be amended in response to this issue.

Issue 9: Disclosure of Finance Lease Assets

Under GFS, finance lease liabilities are treated as borrowings. GFS is, however, silent on the treatment of finance lease assets. For consistency in Queensland, GFS reports have classified finance lease assets as loan assets whereas GAAP reporting has these assets classified as finance lease receivables. Does the AASB have any view on the classification of these assets?

Staff Response 9

This response assumes the issue relating to finance lease assets is from a lessor's perspective. In interpreting GFS, staff think that it is reasonable to extrapolate from para 7.115 of the ABS GFS Manual, which states "Acquisition of non-financial assets under finance leases is treated in the GFS system and accounting standards in the same way where the finance lease is recognised as such under AAS 17 'Leases'. A capital expenditure is recorded, and the asset acquired is added to the balance sheet, as is the lease liability. ..." From a GAAP perspective, AASB 117.36 makes it clear that assets held under a finance lease and recognised in the balance sheet of a lessor are to be presented as receivables.

Staff do not believe that AASB 1049 needs to be amended in response to this issue.

Issue 10: Disclosure of a list of GGS investments in PNFCs and PFCs

AASB 1049.42(d) requires disclosure of a list of significant investments in PNFCs and PFCs – does this include all of the subsidiaries and joint ventures held by individual PNFCs and PFCs?

Staff Response 10

AASB 1049.BC31(b) throws some light on the background to the requirement. The requirement is akin to the requirement in AASB 127.42(b), which is unclear on whether significant subsidiaries of subsidiaries are required to be disclosed. The staff preliminary view is that significant subsidiaries of subsidiaries should be included in the list.

We note that AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures* specify disclosure requirements for significant associates and joint ventures. We also note that ED 151 *Australian Additions to, and Deletions from, IFRSs* proposes deletion of AASB 127.Aus42.1.

Staff do not believe that AASB 1049 needs to be amended in response to this issue.

Issue 11: AASB 1049.42(e) Disclosure of the aggregate surplus/deficit of the PNFC/PFC sectors

- (a) Is this to be on a GFS or GAAP basis?
- (b) If this is on the GAAP basis, should it be the net result from transactions, the operating result or the comprehensive result?
- (c) Is it the raw or adjusted PNFC/PFC surplus/deficit? The sum of individually published PNFCs and PFCs would not equal the Whole of Government - PNFC and

PFC sector result as adjustments are made to individual results to accord with whole of government policies. A significant fluctuation each year is the book to market adjustments made to borrowings to reflect the market value of debt. The dividends distributed to GGS does not include Whole of Government adjustments and as such the correlation between surplus/deficit (if this means operating result) and dividends will differ significantly from year to year. In particular for Queensland the net operating result after tax (GAAP) for PNFC in 2004-05 was \$364M with dividend distributions of \$665M. Dividends exceeded operating results for the sector as a result of a \$213M adjustment for book to market and \$91M adjustment for the adoption of IFRS – this is not clear if net operating result is the measurement. However the disclosure of net result from transactions would provide a better reflection of the performance of the sector and the dividends returning to GGS on a year to year basis.

Staff Response 11

- (a) It should be on a GAAP basis, consistent with the principle in AASB 1049.10. Staff do not believe that AASB 1049 needs to be amended in response to this issue.
- (b) AASB 1049.BC31(c) does not particularly help in answering the issue, although staff think that ‘net result from transactions’ would not be a valid interpretation. Staff think that AASB 1049 should be made clearer. We believe that, in context, it is referring to the operating result, but maybe it would be better if it referred to the comprehensive result.
- (c) This also is unclear from AASB 1049. Consistent with the principle in AASB 1049.20(b) that refers to amounts “that are consolidated into the government’s whole of government financial report before elimination of intersector balances”, we believe that AASB 1049.42(e) is referring to what the issue describes as the adjusted amount. Staff suggest that AASB 1049 is amended accordingly.

Issue 12: Distributions

AASB 1049.42(e) requires disclosure of the aggregate amount of dividends and distributions from PNFC sector and PFC sector entities to the GGS. What does ‘distributions’ include? In particular, these sectors pay payroll tax, gaming tax, interest and fees in the ordinary course of business. They also pay community service obligation payments, tax equivalents and competitive neutrality fees. Para 2.124 of the ABS GFS Manual refers to distributions paid as dividends and other returns to owners and shareholders made by public corporations.

Staff Response 12

AASB 1049 is unclear. In context, staff interpret ‘distributions’ as referring to amounts that are in the nature of distributions to owners as owners other than dividends. In particular, we would not regard payroll tax, gaming tax, interest and fees in the ordinary course of business as distributions. A return of capital would be a distribution. Staff suggest that commentary along those lines be added to AASB 1049.

Issue 13: Contributions

Following on from Issue 12, should contributions from GGS to PNFC and PFC, in particular community service obligation payments and grants, also be disclosed – thereby enabling derivation of the net distributions between PNFC/PFC and GGS?

Staff Response 13

AASB 1049 does not require such disclosure, but nor does it prohibit it. Staff do not believe that such disclosure should be made mandatory. If the disclosure were to be required, consistent with the staff response to Issue 12, staff would prefer to limit it to contributions by owners as owners, rather than contributions more broadly.

Issue 14: Status of net debt

Illustrative Example A on pages 60 to 63 of AASB 1049 lists key technical terms. It does not include net debt. However, AASB 1049.46 explicitly lists net debt as a key technical term within the Standard.

Staff Response 14

Net debt is not a concept referred to in the ABS GFS Manual. It was referred to in AASB 1049.46 in acknowledgement of the fact that many jurisdictions would elect to disclose it in their financial reports. Staff believe that it is sufficient to acknowledge the term in AASB 1049.46. We do not believe that it is necessary to include ‘net debt’ in the illustration to AASB 1049.

Issue 15: IPSASs 22 & 24

Does compliance with AASB 1049 automatically cause compliance with IPSAS 22 *Disclosure of Financial Information About the General Government Sector* and IPSAS 24 *Presentation of Budget Information in Financial Statements*?

If yes, should we be saying this in AASB 1049 and/or should preparers (governments) be required to state compliance?

If not, what differences cause non compliance with IPSASs 22 & 24, and should we consider removing such differences in AASB 1049?

Another way of looking at the question is to distinguish between what IPSASs 22 & 24 require and what IPSASs 22 & 24 allow.

I have in mind the benefits of a statement in AASB 1049 that compliance with that standard will result in compliance with IPSASs 22 & 24.

Staff Response 15

If we were to update the “comparison with international pronouncements” section of AASB 1049, we would need to reflect the fact that IPSASs 22 & 24 have now been issued.

We don’t normally require governments to state compliance with IPSASs – the IPSASB does not have that kind of status yet in Australia, particularly because it is still playing catch-up with the IASB.

Compliance with AASB 1049 does not result in compliance with IPSAS 22. For example, IPSAS 22 only contemplates a government electing to disclose GGS information doing so in the whole of government report (AASB 1049 contemplates GGS reports being presented separately from the whole of government report). Furthermore, IPSAS 22 requires the GGS to measure investment in PNFC/PFC sectors at net assets, whereas AASB 1049 requires it to be measured at fair value where fair value can be reliably determined.

Compliance with AASB 1049 also does not result in compliance with IPSAS 24. IPSAS 24:

- would prevent presentation of the budget on the accounting basis rather than on the budgeting basis (but if the two coincided, there wouldn't be an issue);
- requires the original and final budget to be disclosed (but if an entity elects to disclose the final budget under AASB 1049, it might be in compliance with IPSAS 24);
- comparisons with original and final budgets (AASB 1049 only requires comparisons with the original budget); and
- contemplates explanations of variances being disclosed outside the financial report (although it does not prevent the explanation of variances being included in the financial report).

At a broader level, IPSAS 24 only contemplates (and therefore would require) the budget information being disclosed in the whole of government financial report. If that is the case, compliance with AASB 1049 in the form of a separate GGS financial report would not comply with IPSAS 24.

Staff do not believe that AASB 1049 needs to be amended in response to this issue.

Issue 16: Other issues raised by HOTARAC

See agenda paper 11.3.

Certain GGS issues have been identified by HOTARAC as:

- being subject to consideration by the ABS or the ANAO, rather than by the AASB;
- to be resolved as a practice issue among the various jurisdictions, rather than by the AASB; or
- acceptable as convergence/reconciling differences, on the basis that the issues are treated appropriately under GAAP, and therefore not needing further AASB consideration.

These issues are (page references are to agenda paper 11.3):

- defence weapons and platform systems, depreciation and revaluation (page 1)
- International Development Association (IDA)/Asian Development Fund (ADF) Subscriptions (page 1)
- Special Drawing Rights (SDRs) (page 1)
- Currency on issue (notes and coins) (page 2)
- Education grants (page 3)
- Concessional loans (page 4)
- Provisions for bad and doubtful debts (although depending on the review to be undertaken by the HOTARAC Working Group, the AASB may be approached to consider further issues) (page 4)

- Superannuation discount rate (page 5)
- Financial guarantee contract liability (page 5)
- Treatment of biological assets (page 8).

Certain non-GGS issues are also identified in the letter from HOTARAC. These were addressed at the Board's February 2007 meeting in the context of addressing GAAP/GFS harmonisation in a whole of government and PNFC/PFC sector context and were resolved in a manner consistent with HOTARAC's view. They are (see page 9 of agenda paper 11.3):

- Distributions payable to owners (dividends, etc)
- Shares and other contributed capital
- Off-shore subsidiaries

Staff response 16

Unless identified elsewhere in this paper, staff do not believe that any of the above issues warrant further consideration by the AASB at this stage. However, staff note that some of HOTARAC's conclusions are predicated on its assessment of GAAP. The AASB has not necessarily formally opined on the GAAP treatment described by HOTARAC. For example, staff have some reservations about the treatment of currency on issue. However, such issues are outside the scope of the GAAP/GFS Harmonisation project and should be addressed, as resources permit, as part of the review of public sector issues.